Old Mutual plc Annual Report and Accounts 2011

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ANNUAL REPORT
AND ACCOUNTS 2011

OLD MUTUAL

INSURANCE • INVESTMENT • SAVINGS • BANKING

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

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RISK AND RESPONSIBILITY

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WHAT'S ONLINE

Annual Report
www.oldmutual.com/ar2011

Corporate website
www.oldmutual.com

Reporting centre
www.oldmutual.com/reportingcentre

If each shareholder elected to read the Annual Report online, a thousandth of a tonne of paper would have been saved per shareholder. Sign up for electronic communications at *www.oldmutual.com/ecomms*

Cover picture: Tavaziva Madzinga, Managing Director, Old Mutual Kenya.

WELCOME

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

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

OUR VALUES:

- INTEGRITY
- RESPECT
- ACCOUNTABILITY
- PUSHING BEYOND BOUNDARIES

For more information on how we are embedding our values across the business **please go to page 86**

OUR BUSINESS AT A GLANCE

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

GROUP

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

Adjusted operating profit (AOP) 2011

£1,515m

2010: £1,371m

Funds under management (FUM) 2011

£267.2bn

2010: £295.2bn

Number employed[1] 2011

57,430

2010: 55,730

Primary locations

- LTS – Southern Africa, Europe, Colombia, Mexico, India and China
- US Asset Management – US
- Banking – Southern Africa
- Short-term insurance – Southern Africa

Operational highlights

- AOP per share up 10% to 15.7p
- Full dividend for the year increased 25% to 5.0p
- Financial Groups Directive (FGD) surplus of £2.0 billion
- Well on track to deliver 2012 financial targets

LONG-TERM SAVINGS (LTS)

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

Our brands

OLD MUTUAL skandia

Adjusted operating profit (AOP) 2011

£793m

2010: £787m

Funds under management (FUM) 2011

£108.5bn

2010: £117.9bn

Number employed 2011

22,851

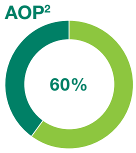
2010: 21,729

Operational highlights

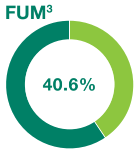
- Net client cash inflows of £3.2 billion, despite worsening European sentiment in H2
- Non-covered sales, up 14% on a constant currency basis, to £12,836 million
- Life sales (annual premium equivalent (APE) basis) decreased by 6% to £1,207 million, with reduced Legacy sales in Wealth Management
- APE margins increased to 15%, with improved margins in Wealth Management and Emerging Markets

Contribution to Group

AOP[2]



FUM[3]



[1] Includes Group Head Office, Bermuda, Nordic and US Life.

[2] % of total operating business unit's AOP after tax and non-controlling interests.

[3] % of FUM in Group core operations.

[4] Excluding operating results from affiliates held for sale or disposed of at 31 December 2011 and adding back $12 million of restructuring costs.

BANKING

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

Our brand

NEDBANK

Adjusted operating profit (AOP) 2011

£755m

2010: £601m

Core tier 1 ratio

11.0%

2010: 10.1%

Number employed 2011

28,494

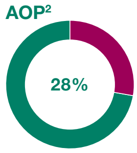
2010: 27,525

Operational highlights

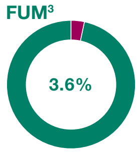
- Strong headline earnings growth of 26% on a constant currency basis
- Non-interest revenues up 17% and net interest income up 9%, on a constant currency basis
- Credit loss ratio improved to 1.14% from 1.36% in 2010
- Core tier 1 ratio 11.0%, up from 10.1% in 2010

Contribution to Group

AOP[2]



FUM[3]



SHORT-TERM INSURANCE

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

Our brands

MUTUAL & FEDERAL

iwyze

Adjusted operating profit (AOP) 2011

£89m

2010: £103m

Underwriting margin

5.0%

2010: 7.6%

Number employed 2011

2,390

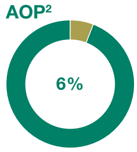
2010: 2,222

Operational highlights

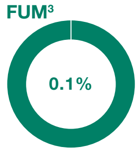
- Underwriting result reduced to £30 million, reflecting softening rates and the expected normalisation in claims patterns
- Gross premiums increased by 5%
- iWyze progressed well and continued to meet premium growth targets
- Mutual & Federal remains well capitalised, with a 66% international solvency margin

Contribution to Group

AOP[2]



FUM[3]



US ASSET MANAGEMENT

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

Some of our brands*

ROGGE

ACADIAN

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.

(*See full list of affiliates on page 50)

Adjusted operating profit (AOP) 2011

£67m

2010: £72m

Funds under management (FUM) 2011

£148.8bn

2010: £166.4m

Number employed 2011

1,564

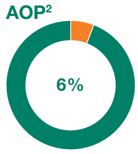
2010: 1,537

Operational highlights

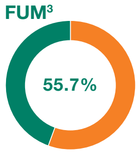
- Investment performance continued to improve
- The new USAM management team are in the process of divesting several affiliate firms to improve USAM's longer term financial performance
- AOP was up 16% (constant currency) to £82 million in USAM's continuing operations[4]
- Net client cash outflows in USAM's continuing operations[4] reduced to £4.2 billion from £7.9 billion (on a constant currency basis)

Contribution to Group

AOP[2]



FUM[3]



DELIVERING ON OUR STRATEGY

Old Mutual's vision is to become our customers' most trusted partner – passionate about helping them achieve their lifetime financial goals.

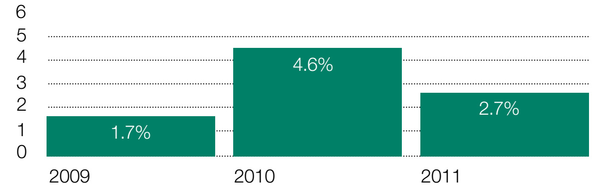
Our five strategic priorities	Progress during 2011
1. Develop the customer proposition and experience Since 2009, we have made a concerted effort across the Group to put the customer first in everything we do. We will continue to deepen our understanding of our customers' needs and accordingly improve the product offering, the customer experience and the channels through which they are served.	■ Good progress on expanding and improving the product proposition across the Group, with a number of new product launches ■ The dedicated customer team has made progress towards improving the customer proposition and experience across the Long-Term Savings (LTS) business ■ Improvement in reporting of customer information
2. Deliver high performance in all business units To ensure that we provide value to shareholders and customers, we will continue to drive high performance in our businesses by delivering profitable growth and operational efficiency, and by optimising risk and return.	■ 2011 business plan exceeded and RoE targets delivered ■ Circa £600m of debt repaid by January 2012 ■ Good progress in transformation of Nedbank Retail and Nordic ■ iCRaFT delivered to time, quality and budget
3. Share skills and experience across the Group We will continue to drive revenue and cost improvements across the Group, by leveraging and sharing our capabilities in South Africa and around the world.	■ Improvement in our international mobility ■ Significant strengthening of functional communities across the Group ■ Launch of a Group Intranet ■ Improved knowledge-sharing across LTS businesses, supported by dual reporting in new functions ■ Commenced implementation of LTS IT plan ■ South African *Greenlight* product launched in Mexico and plans to launch in other markets
4. Build a culture of excellence We will continue to embed our ACT NOW! Leadership behaviours across the Group and measure our progress through the Barrett Culture Survey.	■ Significant progress in building a strong management team ■ Consistent and improved executive performance management processes implemented ■ Application of pool-based approach to reward implemented in LTS, Head Office and Mutual & Federal (M&F) ■ Culture Survey implemented successfully and strong focus on actions to address survey results
5. Simplify our structure to unlock value To deliver the full value of the Group to shareholders we will continue to optimise our structure.	■ Sale of US Life completed ■ Sale of Nordic business agreed ■ Sale of Skandia Finland agreed ■ Preparation of US Asset Management (USAM) for Initial Public Offering (IPO) ■ Continued progress of the run-off process at Bermuda

To see Glossary terms
please go to page 290

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

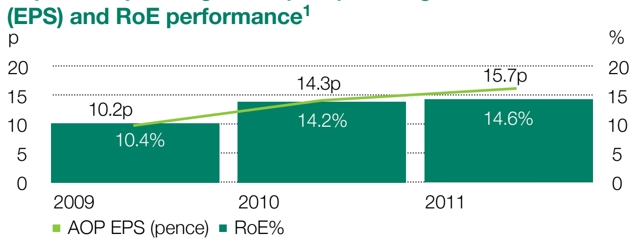
2011 Trend | Priorities for 2012

LTS Net Client Cash Flow (NCCF) % (NCCF/Opening FUM)[1]



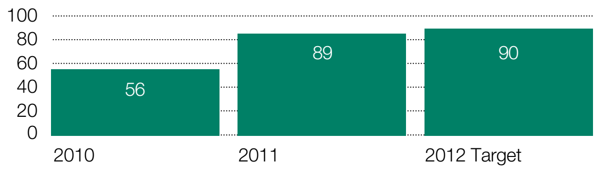
- Be customer-focused in everything we do
- Ensure a positive customer experience across the Group
- Improve customer insight and segmentation to serve customer needs better
- Improve Skandia UK and Skandia International's product offering and platform functionality
- Develop our investment management capability to support key customer segments and attract platform flows

Adjusted Operating Profit (AOP) Earnings Per Share (EPS) and RoE performance[1]



- Deliver or exceed the 2012 business plan
- Improve USAM business flows and margin
- Deliver M&F step change targets
- Continue Nedbank Retail repositioning and focus on growing Non-Interest Revenue (NIR)
- Invest to improve LTS businesses in UK, International and South Africa
- Develop Luxembourg hub for European affluent business
- Leverage iCRaFT to drive a risk-adjusted approach to profitability

Cost savings (£m) run-rate achieved and 2012 target[1]



- Collaboratively explore and pursue African growth opportunities (Nedbank, M&F and Old Mutual Emerging Markets (OMEM))
- Develop our Global Distribution capability to attract incremental asset flows
- Encourage and support mobility between businesses
- Leverage core capabilities across Group (eg in the areas of IT, back-office processing and product knowhow)

Cultural entropy and engagement

11%-27%

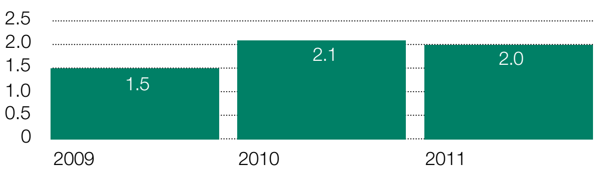
The range of Cultural Entropy scores across the Group businesses. This is a new measure from the Culture Survey: the lower the score, the healthier the culture.

42%-66%

The range of Employment Engagement scores across the Group businesses. This revised metric gauges employee commitment and discretionary effort.

- Embed ACT NOW! behaviours across the Group and measure progress through the annual Culture Survey
- Develop the leadership pipeline and invest in the next generation of leaders
- Improve diversity of senior teams

Financial Groups Directive (FGD) surplus £bn

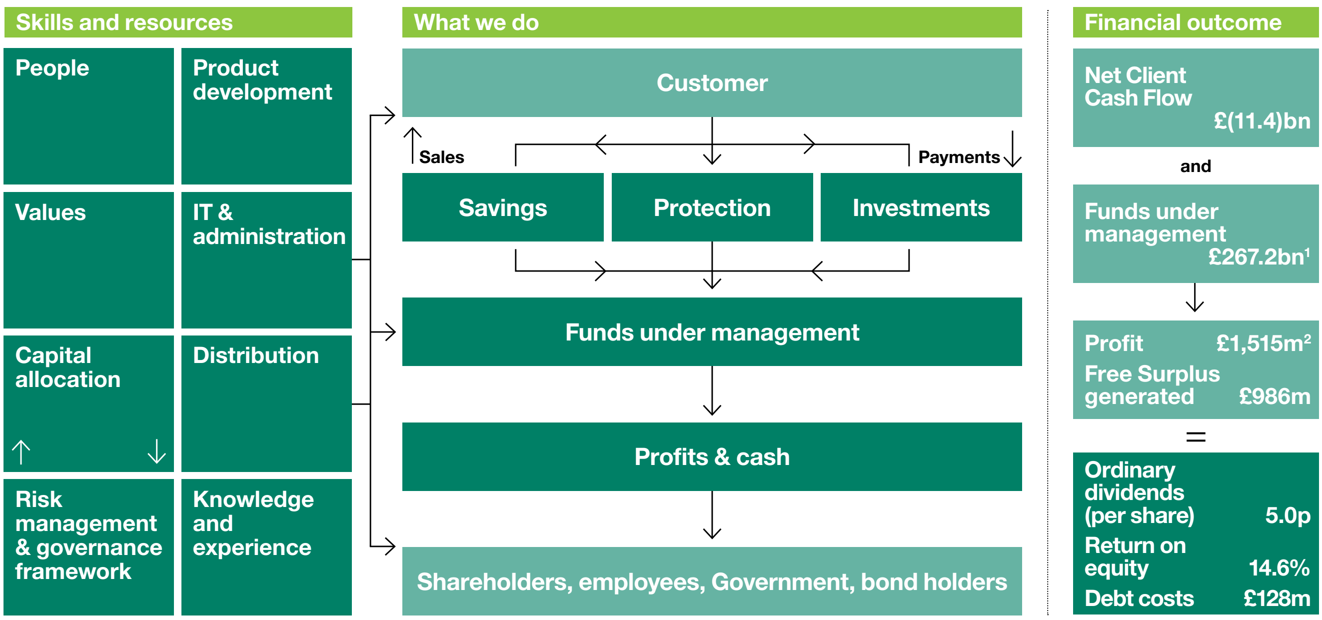


- Take actions to meet £1.7bn enhanced debt reduction target
- Complete the sale of the Nordic and Finnish businesses and return capital to shareholders
- Continue to explore options for an IPO of USAM
- Actively manage Bermuda to mitigate risks
- Optimise Group balance sheet and capital structure
- Ensure corporate functions are fit for purpose and cost-effective

[1] Numbers restated for discontinued operations

BUSINESS MODEL

We bring a range of resources, expertise, people and processes together across our businesses in order to develop the customer proposition and experience, thereby driving value for shareholders, employees and bond holders.



1. Group Core operations
2. AOP before tax and non-controlling operations

Our five strategic priorities

1 Develop the customer proposition and experience

2 Deliver high performance in all business units

3 Share skills and experience across the Group

4 Build a culture of excellence

5 Simplify our structure to unlock value

To see Glossary terms
please go to page 290

Our business model is simple – driving value for shareholders by harnessing the resources and skills we have across the Group into Savings, Protection and Investments.

Meeting customer needs

In our long-term savings, protection and investment business we look after and grow our customers' money, offering financial security against single or multiple events.

For example, we provide for them in retirement through pensions and annuities and help them to save for their children's education.

We provide them with appropriate and tax-efficient investment products, and protection products offering life assurance and disability benefits. In emerging markets we also provide products to help them save for their own and their family's funerals – these have particular cultural importance in many of the countries we serve.

Multiple customer interactions

Customers buy our products either directly or through an intermediary such as an independent financial adviser. This generates inflows of cash.

At the same time we also make payments to our customers – returning their money in line with our promise. This generates outflows of cash.

Our aim is that, in any period, our net flow – ie inflows less outflows – should be positive. This increases our overall funds under management.

Investment dynamics

We invest customers' funds, and their value rises or falls with the underlying markets.

We earn fees on the funds we manage. This, combined with tight expense management, generates profits and cash. Cash generated is used both to invest in future growth and to reward our shareholders.

Long-term need for our products

Our markets are characterised by resilience and stability. Whatever happens in the world economy or the equity and currency markets, the basic need of consumers around the world to save for critical life events and for retirement, against a background of declining state and corporate support, does not change.

KEY PERFORMANCE INDICATORS (KPIs)

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

To see Glossary terms
please go to page 290

Financial KPI definition | **Relevance**

Return on Equity (RoE)%

A relative measure expressed as a percentage, calculated by dividing IFRS[2] Adjusted Operating Profit (AOP) (post-tax and minority interests) by the average capital tied up in the business, where capital is defined as shareholders' equity excluding hybrid capital.

Return on Equity is an indicator of our profitability and efficiency, demonstrating how much profit has been generated from the resources provided by our shareholders.

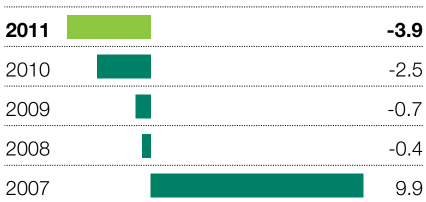
Return on equity (RoE)[1]
(%)

Net Client Cash Flow (NCCF)/ Opening Funds under Management %

This measure indicates the extent to which client funds are either retained or lost during the year. Inflows are driven by premiums, deposits and investments, whereas outflows are driven by claims, surrenders, withdrawals, benefits and maturities.

NCCF/Opening Funds Under Management (FUM) measures our success in attracting new business and retaining existing customers, and provides a good indication of investor confidence in our ability to manage their funds effectively.

NCCF/Opening Funds under Management[1,3]
(%)

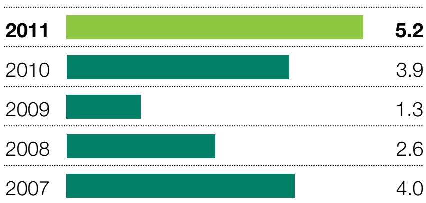


Group Value Creation % (Long-Term Savings only)

Calculated as the Market Consistent Embedded Value (MCEV) value of new business plus MCEV experience variances divided by the opening MCEV balance, expressed as a percentage.

Group Value Creation for the Long-Term Savings covered business measures the contribution to Return on Embedded Value from management actions of writing profitable new business, and managing expense, persistency, risk and other experience compared with that which was assumed.

Group Value Creation (LTS only)[1]
(%)



Financial KPI definition	Relevance

IFRS Operating Profit Margin (basis points)

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

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

IFRS Operating Profit Margin[1] (basis points)

2011	**46.0**
2010	42.0
2009	38.7
2008	33.4
2007	55.2

Adjusted Operating Earnings per Share (pence)

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

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

Adjusted Operating Earnings per Share[1] (pence)

2011	**15.7**
2010	14.3
2009	11.6
2008	14.9
2007	16.9

Non-financial KPI definition	Relevance

Customer numbers

Measured by the total number of customers of the Long-Term Savings division.

The size of the customer base is an indication of the scale of the business. Growth in the number of customers indicates that we have an attractive proposition for new customers and are satisfying the needs of our existing customers.

Customer numbers[4] (millions)

2011	**7.0**

[1] Numbers are as reported and historical figures have not been restated to make consistent with 2011/2010.
[2] IFRS – International Financial Reporting Standards.
[3] The core continuing business (excluding Dwight, Lincluden and OMCAP, which were held for sale at 31 December 2011) showed an improvement from -1.1% in 2010 to -0.1% in 2011.
[4] Customer numbers are reported for the first time in 2011. Customer numbers prior to 2011 are not available.

CHAIRMAN'S STATEMENT

It is very satisfying to report to you that, having committed ourselves to a significant re-shaping of our Group and improved financial performance, 2011 marks a milestone in the achievement of those goals.

Our asset disposal programme not only allows us to restructure and substantially strengthen our balance sheet, but also to deliver real shareholder value through the proposed special dividend to be paid once the sale of our Nordic business has been completed. Reflecting the progress that has been made, particularly during the last year, your company was, as the year began, the best performing insurance stock in the FTSE 100 Index in terms of total shareholder return over the past three years.

During 2011, we completed the sale of our US Life operation and the closure of our Swiss business, in line with the commitments to simplify the Group that we gave to shareholders and our wider stakeholder interest group in 2010. We are on track to complete the disposal of our Nordic businesses later this month. We have recently announced the sale of our business in Finland and of Dwight, one of our US Asset Management affiliates. We have also repaid £0.6 billion of debt to date as we move to complete our £1.5 billion debt repayment programme by the end of the current year.

While AOP IFRS earnings per share grew to 15.7p from 14.3p (after taking account of our Nordic operations being treated as discontinued), our net result after tax and minorities recorded a profit of £667 million following a loss of £282 million in 2010. With the benefit of the forthcoming receipt of the proceeds of sale from our Nordic operations, we have indicated our intention to increase our overall debt repayment target by a further £200 million beyond the previously-targeted figure of £1.5 billion in due course.

The Company's recovery and progress during the past three years are reflected in the remuneration of senior management, as described in more detail in the Remuneration Report, showing that we have successfully aligned management incentives with the delivery of shareholder value. I am pleased to note that the value created will also benefit the many participants around the Group in our various employee share schemes.

Board

We have continued the process of refreshing the Board, with the retirements of Rudi Bogni and Nigel Andrews at last year's AGM and the recruitment, announced today, of Nku Nyembezi-Heita. We believe that her experience of the South African business world will be directly relevant to our strategy to grow our emerging markets businesses and I welcome her to the Board. Her appointment, along with that of Eva Castillo which I reported last year, has helped us already to achieve our 2013 year-end target for gender diversity on the Board.

Dividends and share consolidation

As well as the 18p per share special dividend that is to be paid following the completion of the Nordic sale, we have announced a significantly increased final dividend for the year of 3.5p per existing share, equivalent to 4.0p per new ordinary share once our shares have been consolidated. The final dividend will be paid on 7 June 2012 at the same time as the special dividend and I would draw to your attention the full timetable for the final and special dividends and the share consolidation, which is set out in the Shareholder Information section of this document. We anticipate further progression in our ordinary dividends over the coming years. In light of the complexity involved in our share consolidation, we have decided not to offer a scrip dividend alternative for this year's final dividend and the Board will decide later this year whether to offer such an alternative for the 2012 interim dividend.

Annual General Meeting

Our AGM will be held in London on 10 May 2012 and will again be webcast. There will also be an opportunity for shareholders to submit questions to be dealt with at the meeting. The shareholder circular relating to the AGM includes further details of these matters.

Shareholder communications

We are seeking to improve the efficiency with which we communicate with shareholders and to reduce our environmental footprint. To this end, we will be moving, later in 2012, towards using electronic communications to a greater extent than currently. Over 50,000 of our shareholders already use electronic communications and we anticipate that significant savings can be achieved through a more general migration to electronic communications as the default option. Further details of what is involved (including an option to continue to receive physical documents) will be sent to shareholders later this year.

Other matters

I am conscious of the role that companies like ours need to play in the wider communities in which we operate. I am

therefore particularly pleased to see the success of our Infrastructure, Housing and Agricultural funds in Africa and the real difference these are making to local people.

I would like to express my and the Board's appreciation for the exceptional work that employees of the Group have done during the year. Our recovery and current strength are due to the continuing efforts of all of our staff around the world.

Future

The Group enjoys a much stronger balance sheet and greater strategic focus as a result of the achievements of the past year. The strength of our businesses in South Africa encourages the Group to explore new African markets selectively, while we are also aiming to improve our wealth management businesses so that they will succeed in the ever more demanding developed markets driven by regulatory changes. As we complete our three-year turnaround plan this year, we look to the future with confidence that we will continue to grow value for shareholders, while meeting our obligations to all our stakeholders.

Patrick O'Sullivan
Chairman
9 March 2012

As we complete our three-year turnaround plan this year, we look to the future with confidence that we will continue to grow value for shareholders, while meeting our obligations to all our stakeholders.

GROUP CHIEF EXECUTIVE'S STATEMENT

Introduction

A year of delivery

This has been a year of both operational and strategic delivery for Old Mutual, including the imminent sale of our Nordic operations, which are therefore not included in the Group's adjusted operating results for 2011. Our IFRS basis adjusted operating profit (IFRS AOP or AOP) was up 14% due to improved trading and the operational improvements implemented by management over the last few years. Group return on equity (RoE) was up 40 basis points at 14.6%.

This excellent performance was delivered against a backdrop of testing macro-economic conditions and continued economic uncertainty in a number of our markets. We have continued to focus on delivering our strategy and remain on track to meet, and in some cases exceed, our 2012 targets.

The Group is in a strong financial position. At 31 December 2011, our FGD surplus was £2.0 billion and we had total liquidity headroom of £1.5 billion. On 21 March 2012 we expect to receive £2.1 billion in cash from the disposal of the Nordic business.

Streamlining and simplifying the business

In 2011, we made significant progress in delivering our strategy: to build a long-term savings, protection and investment group by leveraging the strength of our people and capabilities in South Africa and the rest of the world, which will enhance value for both our customers and shareholders, and enhance our overall RoE.

When we announced this strategy in March 2010, we undertook to create value for both shareholders and policyholders. In 2011, we have made significant progress in this regard. We continued to streamline and simplify our business:

- Concluded the sale of US Life for $350 million
- Closed Switzerland to new business
- Agreed the sale of our Nordic business to Skandia Liv for £2.1 billion
- Announced the sale of our Finnish business to OP-Pohjola Group
- Decided to consolidate our other European businesses under one management team.

We continue to explore a partial IPO of our US Asset Management (USAM) business in line with our stated strategy, but we remain focused on building margins, improving investment performance and driving growth in the business.

While we have already taken considerable steps in restructuring the Group, we will continue to evaluate the optimum shape of the business and will consider all options in the pursuit of creating value for shareholders and policyholders alike. We will continue to be guided by our strict criteria for keeping businesses within the Group.

Meeting our targets

In March 2010, we set ourselves challenging targets: two thirds of the way through our three-year strategy, we have either met, exceeded or are well on track to achieve these goals. We set ourselves a target of reducing £100 million of costs across the Group and at the 2011 year end had delivered £111 million in run-rate savings. Our Long-Term Savings (LTS) business was tasked with improving its RoE to between 16% and 18%; in 2011, it achieved an RoE of 20% (18% including Nordic). We said we would reduce our Group net debt by £1.5 billion by the end of 2012 and, with the proposed disposal of the Nordic business, we will achieve this target and now intend to repay debt of £1.7 billion, having achieved a £0.6 billion reduction so far.

We set ourselves challenging targets: two thirds of the way through our three-year strategy, we have either met, exceeded or are well on track to achieve these goals.

Focusing the business

Our strategic imperative is to become more customer-focused and to leverage our strengths across our businesses. We have refocused our LTS businesses to ensure that they are aligned with customer needs and have identified four key customer segments which we will serve: the Retail Mass market in Emerging Markets; the Retail Affluent market, primarily in Europe and South Africa; the International Affluent; and the Institutional market.

We are rolling out a measure of customer advocacy, the Net Promoter Score, across our Group to monitor how satisfied our customers are with our service. Our businesses in South Africa, the UK, Sweden and the Skandia International business all won various awards in 2011 for superior customer service. Nedbank successfully launched mobile banking in South Africa, with 652,000 customers already signed up.

We have continued to seek ways of leveraging our strengths across our businesses. We are looking to roll out our *Greenlight* protection product into more territories this year, following its successful launch into Mexico in 2011. Our tied agency force in Mexico has benefited from the expertise we have in South Africa. We launched a new product into Colombia, with South Africa providing the back office servicing, information technology (IT) and product support.

IT is an area where we see significant scope to gain efficiencies by using our combined Group purchasing power, and we have undertaken two initiatives in this area. We outsourced the South African IT, voice and data infrastructure network services of Old Mutual, Nedbank and Mutual & Federal (M&F) to Dimension Data, and we expect to generate significant local savings for the operating businesses over the next five years. In addition, we have a seven-year deal with T-Systems for them to provide IT support services for Old Mutual South Africa and M&F. We will look at rolling out this agreement to other Emerging Markets businesses, including Rest of Africa, Colombia and Mexico. We have plans for further IT efficiencies and operational improvements as we apply best practice techniques, remove duplication and improve delivery standards and customer service.

We will continue our restructuring programme with USAM, working to achieve the required operating margin and net client cash flow (NCCF) targets and we will invest in M&F to strengthen its franchise.

£1,515m

Adjusted Operating Profit

We have further strengthened our operational management team across the Group. Ian Gladman, previously Co-Head of Financial Institutions, EMEA for UBS Investment Bank, was appointed Group Strategy Director and a member of the Group Executive Committee (GEC). As part of the strategy portfolio handover, Don Hope has now stepped down from the GEC and will retire at the end of 2012. Sue Kean was appointed Group Risk Officer and has joined the GEC; Ralph Mupita has been appointed Chief Executive of LTS's Emerging Markets business; Paul Feeney, formerly head of distribution of BNY Mellon, has been appointed Chief Executive of LTS's Asset Management business; and Peter Todd has been appointed Managing Director of M&F.

GROUP CHIEF EXECUTIVE'S STATEMENT
CONTINUED

Looking forward
We now have an attractive and resilient business portfolio. We have three excellent businesses in South Africa: the life and savings business of Old Mutual; Nedbank; and M&F. We have significant presence in selected emerging markets which have sizeable populations, under-penetrated financial services markets and strong gross domestic product (GDP) growth. We also have specialist, low-risk businesses in European markets, which include the leading platform in the UK. The new management team at USAM is addressing the issues of margin, investment performance and growth.

While there has been a significant amount of change over the past two years, we remain committed to building a long-term savings, protection and investment Group and to drive and support Nedbank to become Africa's most admired bank. We will continue to put the customer at the centre of the business and provide them with innovative, transparent and flexible products. We will maintain tight control on costs; a disciplined approach to risk management, governance and allocation of capital; we will seek to ensure that everything we do improves the businesses we own and will provide value to our shareholders and our customers.

Our vision, strategy and strategic priorities remain unchanged. We will continue to deliver shareholder value by putting the customer first in everything we do, building high performance businesses, sharing our core competencies across the Group, embedding our culture of excellence and simplifying the Group's structure to unlock shareholder value.

Dividend
Given the continued progress in achieving our debt repayment programme, the Board has considered the position in respect of a final dividend for 2011, and is recommending the payment of a final 2011 dividend of 3.5p per share (or its equivalent in other applicable currencies). In February 2012, we announced we would pay a £1.0 billion special dividend, 18p per share, subject to shareholder approval of the Nordic disposal and its completion, and shareholder approval of the related share consolidation.

The Board intends to pursue a progressive dividend policy consistent with our strategy, having regard to overall capital requirements, liquidity and profitability, and targeting dividend cover of at least 2.5 times IFRS AOP earnings over time. In future, we expect to set interim dividends routinely as 30% of the prior year's full dividend.

Review of Operations
Long-Term Savings
Our LTS division delivered strong results for the year with operating profits of £793 million, up 3% on a constant currency basis. This was driven by strong profit growth in our Emerging Markets business. We have strengthened the capabilities of these businesses and are seeing cohesion in the management of business units across geographies.

> We will continue to deliver shareholder value by putting the customer first in everything we do.

Emerging Markets
This has been another good year for Emerging Markets, with the business continuing its growth momentum and showing an increasing breadth across its geographic and customer footprints. Local currency sales were up and NCCF showed a particularly good uplift from the prior year.

In 2011 South Africa delivered another good performance, with AOP growing by 5%. The Mass Foundation Cluster, which sits within the Retail Mass customer segment and is a key area of growth for us, has had another excellent year and we expect this strong growth to continue. In Retail Affluent, we saw double-digit profit growth in the year. This market grew in excess of 15% from 2007 to 2010, with the growth skewed to the younger age group and previously disadvantaged communities. We believe that the retail affluent market in South Africa will continue to show good growth potential for us. Our South African Corporate business had an excellent second half.

Our South African business is managing the issue of regulatory examinations very carefully, and we have extensive training plans and other measures to help our representatives pass their exams ahead of the 30 June 2012 deadline. Additionally, the Group created more than 1,500 jobs in 2011.

We see exciting growth opportunities for Old Mutual across sub-Saharan Africa and we are actively exploring means for organic and inorganic growth on the continent. As part of this growth plan, and as we announced in February 2012, our non-binding offer has been accepted by Ecobank Transnational Incorporated (ETI) for the purchase of Oceanic Life, a Nigerian life assurance company acquired by ETI when it bought the Oceanic Group in November 2011. Oceanic Life has a Net Asset Value of $16 million and approximately 2% of the Nigerian life assurance market. ETI, with whom Nedbank has a strategic alliance, is the leading independent regional banking group in Africa, with operations in 32 countries across the continent. We have signed a 10-year agreement with ETI in Nigeria to distribute our products through their branch network.

We already have a management team in Nigeria and Nigeria will act as a hub for our expansion into West Africa. Similarly we plan to expand into East Africa from our established base in Kenya and into other African countries where we see value-creating opportunities. This expansion will be via our 'business in a box' model which uses common products, IT, systems and processes that can be replicated across markets, after allowing for local market requirements, with limited customisation. This approach increases the speed to market, while reducing costs and in-country risk. We are on track to meet our target of the Rest of Africa recording profits equal to 10% of South Africa's profits by the end of 2012 and 15% by the end of 2015.

Wealth Management

Wealth Management performed well, building on 2010's momentum, despite the effects of the eurozone crisis, which squeezed incomes and lowered investment confidence, particularly in the final quarter of the year. In the UK, we saw a continuation of the trend of Independent Financial Advisers (IFAs) transferring their business to platforms. We now have around 9,000 IFAs using our platform, with our assets increasing by 13% to approximately £19 billion and NCCF of a pleasing £3.3 billion. Over the last three years, assets held on UK platforms have more than doubled to over £170 billion and, while currently around 33% of the UK's retail long-term savings are conducted via platforms, we expect that to become more than two thirds by the end of the decade.

We see a number of areas of growth for our platform which we are actively addressing, including increasing decumulation options, alternative investment options and passive investments. It is apparent that our platform customers would like to have more online access to their investments on our platform, and we are working with IFAs to determine the level of demand for them to be able to authorise wider access to the platform for their customers. We are excited about the opportunities we believe that the Retail Distribution Review (RDR) will present to our business and we are confident that we are well placed to succeed through: our size, as the platform with the most funds under management (FUM); our financial strength and stability; and our effective technology. Skandia International is also developing a market-leading end-to-end wealth management service called 'Wealth Interactive', which will also be RDR-compliant for UK clients.

We are combining our Wealth Management Continental Europe business, which comprises France and Italy, with Skandia Retail Europe (Germany, Austria, Poland and Switzerland) to create Wealth Management Europe. This new business unit will increasingly focus on the Retail Affluent market, which encompasses 30 million households, holding €2.3 trillion of assets, growing at 5% per annum and is a market we believe is currently underserved. These customers are active and highly demanding: they are seeking transparent, flexible and modern products and are increasingly looking to e-channels to service them. The new business unit brings together 736,000 customers, over €11 billion of FUM and 800 employees. The integration will continue throughout 2012 and we will be implementing further plans to improve our product offering and customer service. Wealth Management Europe will be reported as part of Wealth Management in future.

5.0p

Total dividend for 2011 (4.0p in 2010)

Asset Management

We have appointed Paul Feeney as Chief Executive of the LTS Asset Management business, which primarily comprises Old Mutual Investment Group South Africa (OMIGSA) and Skandia Investment Group (SIG). In line with our client-centric business philosophy, OMIGSA is splitting its central research team to align the research analysts better with specific equity boutiques and their unique philosophies. This means that two equity boutiques, Toros and Value, fall away, and the remaining equity boutiques now comprise complete investment teams, each with substantial experience and appropriate investment skills, in order to achieve even better equity returns for our clients.

During the period, OMIGSA raised R9.3 billion for its Housing Impact fund, which aims to provide 120,000 new low-cost houses, and a further R1.2 billion for a schools and education fund in South Africa. In total across Old Mutual, we had £2.8 billion of FUM in social, environmental and transformation-related investments, including OMIGSA's Housing Impact fund, the South African Schools and Education fund, *Futuregrowth's* Agri fund in South Africa and the African Infrastructure Investment Managers fund.

GROUP CHIEF EXECUTIVE'S STATEMENT

CONTINUED

Nedbank

Nedbank performed well for the year ended 31 December 2011, reflecting the benefits of disciplined execution of its business plans and excellent progress with key strategic initiatives. Headline earnings grew strongly, by 26.2%, to R6,184 million for the year (2010: R4,900 million), driven primarily by 16.6% growth in non-interest revenue (NIR), net interest margin expansion and continued improvement in Nedbank Retail's credit loss ratio.

These results were underpinned by continued delivery on our key strategic focus areas of repositioning Nedbank Retail, growing NIR and implementing the portfolio tilt strategy. In the Rest of Africa we deepened our strategic alliance with ETI by providing a facility in support of ETI's corporate development programmes, including its transformational banking acquisition in Nigeria, and as a result secured rights to acquire up to 20% of ETI within two to three years.

Mutual & Federal

M&F delivered a sound underwriting result in 2011, with results reflecting a more normalised year compared to the very favourable trading conditions and benign claims environment in 2010. Management is focused on managing its expense base and on driving premium growth through alternative distribution channels including: direct through iWyze; underwriting management agencies; and niche businesses. iWyze continues to meet its targets for growth in premiums and is performing in line with our expectations.

As part of the Group's ongoing capital management programme, M&F restructured its capital base and paid nearly R1 billion in ordinary and special dividends in 2011.

13%

EPS up 13% (constant currency basis)

We now have an attractive and resilient business portfolio.

US Asset Management

The new management team at USAM are focused on building the multi-boutique business around long-term, institutionally-driven, active asset management to generate alpha for our clients. This focus has led to the announcement of the disposal of the Dwight, Old Mutual Capital (OMCAP) and Lincluden affiliates. Building our global distribution capability is key for USAM's future growth and we have appointed Julian Ide, who was previously Head of Institutional Business at BBVA Asset Management, to lead OMAM UK and the global distribution effort. We have also appointed Olivier Lebleu as Head of non-US Distribution. Olivier was previously a partner and member of the investment advisory committee at Stenham (Montier & Partners).

In USAM's continuing operations we are seeing improving margins and an improvement in investment performance at the affiliates. For the year ended 31 December 2011, 62% of assets outperformed benchmarks, compared to 57% at 31 December 2010. Over the three- and five-year periods to 31 December 2011, 68% and 67% of assets outperformed benchmarks, compared to 49% and 65% at 31 December 2010. The increase was driven by improving performance in International Equity and Global Fixed Income. There are early signs of an improvement in NCCF and we believe that this trend will continue, providing we maintain good investment performance.

Board changes

We are pleased to welcome Nku Nyembezi-Heita to the Board as an independent non-executive director. Ms Nyembezi-Heita is CEO of ArcelorMittal South Africa. She is currently an independent non-executive director of Old Mutual's wholly-owned life subsidiary, Old Mutual Life Assurance Company (South Africa) Limited (OMLACSA), but will be stepping down from the latter position as part of her arrangements for joining the Old Mutual Board.

Following the Annual General Meeting on 12 May 2011, the following changes to the Board came into effect:

- Rudi Bogni and Nigel Andrews, who had both served on the Board as non-executive directors for nine years, retired from the Board
- Alan Gillespie succeeded Rudi Bogni as the Company's Senior Independent Director
- Russell Edey succeeded Rudi Bogni as Chairman of the Remuneration Committee.

South African Empowerment

In South Africa in 2011, OMSA and Nedbank maintained a Level 2 rating status and M&F a Level 3 rating status as Broad-Based Black Economic Empowerment contributors.

Outlook

While we remain cautious over the timing of any end to the current uncertain and volatile economic climate, we are confident that our unique mix of businesses, and our financial strength and flexibility, will allow us to continue to deliver value to our shareholders.

Julian Roberts
Group Chief Executive
9 March 2012

GROUP CHIEF EXECUTIVE'S Q&A

Julian Roberts answers questions on Old Mutual's achievements in 2011 and what lies ahead for the Group.

1. What do you see as the Company's key achievements over the course of 2011?

This has been a year of significant delivery both operationally and strategically for Old Mutual. We have seen good growth across the Group and a particularly pleasing performance from our Emerging Markets business, and I am delighted the Board was able to declare a total dividend for the year of 5p per share, 25% up on 2010 and in line with our progressive dividend policy. This is in addition to the planned special dividend of 18p per share following the sale of our Nordic operation.

We have remained focused on delivering the strategy that we announced in March 2010 and on creating sustainable, long-term shareholder value.

We said we would streamline and simplify the Group and have taken significant steps towards doing this. We have sold our Nordic business for a cash consideration of £2.1 billion subject to shareholder approval; we have agreed the sale of our Finnish business; we have closed Switzerland to new business; and we have completed the sale of US Life. Furthermore, we are consolidating our mainland European businesses – Retail Europe and the Italian and French businesses – under a new entity to be managed within the Wealth Management unit.

In March 2010, we set out a number of targets to achieve by the end of 2012 and, two years into this three-year programme, we are well on the way to meeting our aims. Excluding Nordic, we have delivered £89 million of run-rate savings versus our target of £90 million a year, the target having been adjusted for the Nordic sale. For our Long-Term Savings business, we set a return on equity target of 16% to 18%, and in 2011 it achieved an RoE of 20%.

We are making good progress in achieving our £1.5 billion debt-reduction target for the end of 2012, with £600 million already repaid by March 2012. Following the sale of our Nordic business, we have decided to look to repay an additional £200 million of debt in due course.

2. Now you have sold the Nordic business, what is next for Old Mutual in 2012?

Our vision and strategy remain unchanged. We are focused on building a long-term savings, protection and investment business group.

We will continue to put our customers first. We believe that for us to be successful, understanding what our customers want, and providing it in a transparent and flexible manner will be key to our future growth.

In 2012, we must ensure that we keep building value in the Long-Term Savings businesses.

Our Emerging Markets business has grown very well over the past two years, and we will aim to maintain this level of growth. In the UK, this is a vital year as the Retail Distribution Review will be implemented from 1 January 2013. While we have the largest market share of assets under management amongst UK platforms, a key focus will be to broaden customer choice by offering more of our own products that customers can elect to include on the platform and therefore capture more margin. At US Asset Management, the volatile markets in 2011 made it a challenging year for our asset managers, but we have seen our investment performance continue to improve. It is critical that we maintain this improvement in 2012 as better investment performance should lead to improved net inflows.

While we did not actively try to sell the Nordic business, we have always said that we will look to create shareholder value where we can. In our view this deal creates value for both Old Mutual shareholders and Skandia policyholders.

3. How are you developing the Group's footprint in both developed and emerging markets?

In emerging markets, our focus is very much on sub-Saharan Africa, where we are already the largest life insurance and asset management company and where we plan to become a dominant financial services company.

These are markets that are demonstrating very attractive growth levels and have a rapidly growing population that is increasing its wealth, has limited Government provision of welfare and is currently underserved by financial services companies.

We have more than 165 years of experience of operating in Africa. We will look to build on our existing capabilities and technical expertise in South Africa to drive our growth. We know how to design and distribute products in emerging markets. We are experienced in running tied agency forces which we believe are key to distribution in Africa, but we are also harnessing new distribution channels such as cell phones. We can use a world-class and low-cost administrative base in South Africa.

We have stated our objective that Africa's profit contribution to the Group will be 15% of South Africa's by 2015. We will look to expand our footprint in the Rest of Africa through infill acquisitions and/or new business investment.

In developed markets, financial services are evolving rapidly, driven by regulatory developments, changing customer demand and reduced state support for people in retirement. The business models that will succeed in these markets are capital-efficient and offer transparency, choice and flexibility to consumers. We have the business model to thrive in this environment.

4. How are you leveraging the strengths of your operations in different regions across the globe?

This is one of the cornerstones of our strategy and I am pleased to say that we are making significant progress, although we still have more to achieve.

Our greatest asset is the deep and broad experience of our people and to this end we have substantially improved international mobility and opportunities. I am very pleased with how this has gone and provided role models for others.

We have used our expertise of running a tied agency in South Africa to help improve the productivity of our Mexican agency force. We believe this agency expertise will be vital when it comes to building our franchise in sub-Saharan Africa where we see using agents to distribute our products as key to growth.

In terms of product-sharing, we have launched the South African *Greenlight* product into Mexico and have already sold 1,534 policies. We see further opportunities to roll out *Greenlight* into other markets we operate in, for example in the UK. The joint venture between Old Mutual South Africa and Mutual & Federal to provide a direct offering, iWyze, is meeting our internal targets and Old Mutual Finance is interacting with our Mass Foundation customers in a way that they value and that leads to better service and lower costs.

We are able to benefit from leveraging our strength as a Group in our deployment of Information Technology and we have already taken some significant steps to achieve cost synergies in this area. These include outsourcing of voice and data infrastructure network services for our three South African businesses to Dimension Data and a seven-year deal with T-Systems for IT support services for Old Mutual South Africa and Mutual & Federal. We have set ambitious targets for further IT savings as we apply best practice techniques, remove duplication and redundancy, and improve delivery standards and customer service.

MARKET REVIEW

Old Mutual works across a wide range of markets, products and services. But our offer is driven by ensuring our strategy fits with the wider macro-market place. Here we give a high-level overview of the drivers in our key markets – in South Africa, the UK and across the globe.

Demographics

In most developed markets, average life expectancy is increasing. For example, in the UK average life expectancy was 71 years in 1970, but had risen to 80 years in 2010 – and continues to rise. In South Africa, average life expectancy was 53 years in 1970, but had fallen to 52 years in 2009.

At the same time, living standards and expectations have also increased. In general, people will spend longer in retirement and, as a result, will need a higher level of pension savings to fund their desired standard of living.

In emerging markets, growing economic empowerment is driving demand for a broad range of protection, savings and investment products.

Global macro-economics

Emerging economies are experiencing higher GDP growth rates than developed economies. Morgan Stanley forecast that emerging markets will generate 80% of global GDP growth in 2011 and 2012.

As emerging markets develop, average incomes rise and the requirement for financial services evolves from simple funding and transactional products to more sophisticated protection and savings products.

Government and public sector support

Ageing populations and rising expectations of health are reducing the extent to which governments can afford to meet their social commitments, specifically on pensions and healthcare. Increasingly, individuals will need to fund their own provision.

These three themes all provide opportunities for Old Mutual. We are well positioned in our markets, have the products that consumers need, and have built effective distribution channels for those products.

Regulatory change

Within financial services, we have seen increased regulatory intervention over the past few years and we expect this to continue.

We have anticipated and prepared for many of the regulatory changes ahead, including Solvency II in Europe and Solvency Assessment and Management in South Africa, and the changes in the UK arising from the Retail Distribution Review. We believe that some of our competitors are finding these developments more challenging.

Our two biggest markets in terms of profits are Africa and Emerging Markets and the Affluent markets of the Wealth Management business.

Old Mutual in Africa[1]

South Africa

51m population

Target market	13.0m
Customers[2]	3.3m
M&F market position	#3

Swaziland

1m population

Market position	Life: #1
Customers	18,000
M&F market position	#1

Namibia

2m population

Market position	Life: #1, AM: #1
Customers	238,000
M&F market position	#2

Malawi

14m population

Market position	Life: #1, AM: #1
Customers	114,000

Zimbabwe

10m population

Market position	Life: #1, AM: #1
Customers	782,000
M&F market position	#3

Botswana

2m population

M&F market position	#3

Kenya

45m population

Market position	Life: #8, AM: #1
Customers	27,000

[1] All data based on Old Mutual estimates
[2] OMSA retail customers

Old Mutual in Africa

There are some 1 billion people in Africa – around 200 million households – and this population is increasingly urbanised, as happened in Asia in the recent past.

McKinsey has forecast a 50% increase in the number of households with discretionary income between 2008 and 2020. This represents a considerable opportunity and our aim is to find ways of driving a proportion of that income into savings. The work we are doing on financial education and literacy in the region supports this goal.

The powerhouse of our African business is South Africa, where we have a long heritage, a sizeable customer base of over 3 million, and a strong and trusted brand.

The demographics of South Africa are very favourable for future growth in financial services. Large numbers of people are coming into the economic system and the retail pool is growing rapidly. We have identified a target market of some 13 million customers and we currently have around a 25% share of that market. We offer both our Retail Affluent and Mass Foundation customers a comprehensive range of savings, protection and investment products, and we have a strong share of both segments.

We also have a substantial Corporate segment and are the largest asset manager in South Africa. We manage approximately 2.7% of the South African equity market.

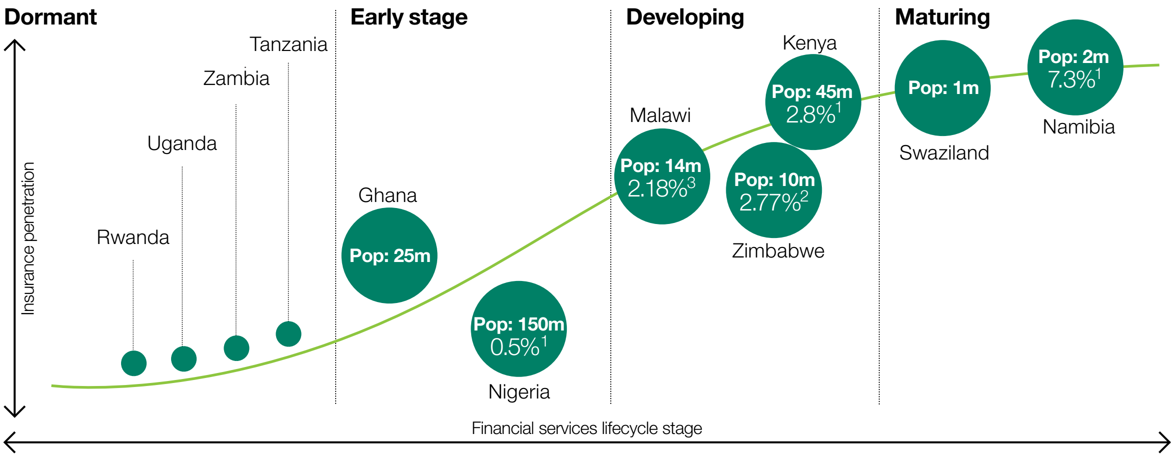
South Africa represents 50% of our total value of new business, 40% of MCEV (covered business), 81% IFRS AOP profits from operating units and 20% of funds under management.

Elsewhere in Africa our operations are based in countries with relatively high per capita GNP, but relatively low penetration of the insurance markets.

We currently have more than 300,000 customers in these countries – and in most cases are the market leader. We believe these markets offer significant growth opportunities which we are well placed to capture.

MARKET REVIEW

African financial markets are at different stages in their lifecycles



Nominal GDP/capita (USD):
South Africa $8,506; Namibia $5,783; Swaziland $3,544; Nigeria $1,630; Kenya $769

1. Insurance penetration 2010 (Swiss Re Sigma report) – includes Life and Non-Life business
2. Source: AXCO Insurance Market Report, March 2011, 2007 data presented
3. Source: AXCO Insurance Market Report, March 2011, 2008 data presented

Affluent markets of Wealth Management International

Our Wealth Management business services the International 'offshore' customers of the UK, South Africa and the Rest of the World. Clients are typically internationally mobile professionals who seek investment security and choice. It also services the UK Affluent segment.

The international markets served by Skandia International show strong growth, with good potential for further expansion.

The capitalised annual growth rate of offshore assets held by high-net-worth individuals is expected to increase at good rates in the future.

Our current business is focused on the Far East, Middle East, Latin America, South Africa and Europe. We see potential for increasing our capabilities in these markets and also for venturing into new markets. We have plans for product development using new technology such as tablet devices.

The Skandia International business model allows us to generate strong revenue flows from the assets we manage. This results in attractive profitability and returns on equity: historically, margins have been high compared with onshore models, where margins have been constrained by greater competition and regulation.

We are now seeing increased margin pressure from other providers, and regulators are intervening more in this segment of the market. Nevertheless, we believe it will remain an attractive part of our overall business proposition.

We are seeking to enhance this part of the business. We are refreshing the systems infrastructure and expect to roll this out across the business in 2012.

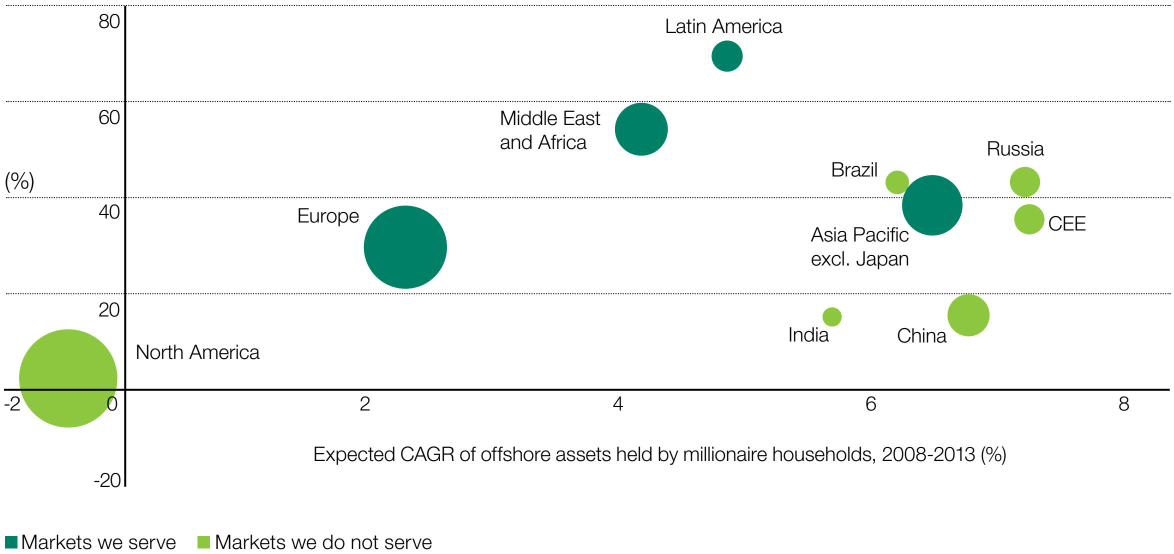
UK

A decade ago, the investment market for UK retail customers was predominantly served by with-profits products. These were difficult for customers to understand and charges were opaque. They offered customers a limited form of guarantee, but, in general, sub-optimal investment performance. Unlike most of our UK peers, we do not have a with-profits business.

Moving on from with-profits, the market has evolved through unit-linked products – offering some transparency and some investment choice – to multi-manager solutions offering a wider range of investment options from a broader choice of providers. However, all of these are still essentially product-driven.

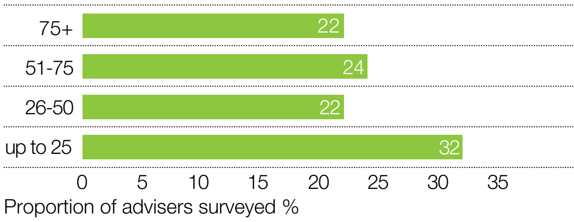
The current Old Mutual model is fundamentally different. An increasing number of consumers are seeking the help of independent financial advisers (IFAs), who are evolving from simply selling products to becoming professionally-trained financial planners, helping customers to make the right investment choices for their personal circumstances and financial goals.

Share of assets held offshore (millionaire households only) 2008



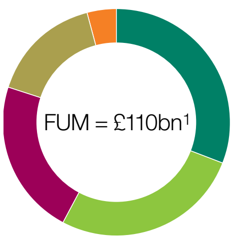
Source: BCG Global Wealth Market Sizing Database 2009; expert interviews.

Proportion of adviser business currently transacted via a platform %



Source: Research conducted by Skandia.

Current size of platform market



Skandia	**31**
Funds Network	**27**
Co Funds	**22**
Hargreaves Lansdown	**16**
Next six companies	**4**

Source: Navigant – Platforms Lessons learnt & looking forward – December 2008.

Source: Navigant Consulting Research – July 2008.

[1.] Lipper Q2 2010.

Our proposition is to aid this shift towards a financial-planning focus by providing appropriate tools and support. The mechanism we use to provide this service is the 'platform' – which is also the conduit through which we bring a variety of investment products to IFAs and their clients.

The platform market is growing and we are sharing in that growth. In the past three years, we have more than doubled the assets under management on our platform. We have now recorded eight successive quarters with positive net client cash flows on to the platform, and we retain the highest market share, of around 30%.

There are currently around 20 platforms in the UK market: the three largest account for around three-quarters of total platform assets. We expect consolidation in the future as some smaller players leave the market and the remaining participants potentially capture a disproportionate share of market growth.

The UK continues to be a market in transition, largely as a result of the Retail Distribution Review. From the end of 2012 this will force a move to greater choice and transparency, including fundamental changes to charging structures. Our model is designed to work in this new world and we have already withdrawn some products that were not totally compliant. As a result, we can focus on providing capital-light products that meet customer needs without being distracted by the regulatory changes.

LONG-TERM SAVINGS

Key financial highlights

Adjusted operating profit (pre-tax)

£793m

2010: £787m

Funds under management

£108.5bn

2010: £117.9bn

Number of employees

22,851

2010: 21,729

Return on equity (RoE)
(%)

2011	**20**
2010	20

APE sales
(£m)

2011	**1,207**
2010	1,290

NCCF
(£bn)

2011	**3.2**
2010	4.3

MCEV (covered business)
(£m)

2011	**5,713**
2010	5,913

Non-covered sales
(£m)

2011	**12,836**
2010	11,492

Value creation – (VNB+experience variance)/MCEV
(%)

2011	**5.2**
2010	3.9

Our brands

OLD MUTUAL skandia

Long-Term Savings CEO and new members of the LTS Executive Committee

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

2 Ralph Mupita
Chief Executive Officer, Emerging Markets, LTS

3 Rose Keanly
Director LTS Customer Services and Administration

4 Paul Feeney
Chief Executive Officer, Asset Management, LTS

5. Carlton Hood
LTS Strategic Marketing Director

6. Bryce Johns
LTS Products & Proposition Director

The Long-Term Savings (LTS) division offers life assurance, pensions and investment products and operates in southern Africa, Europe, Asia and Latin America.

Overview

In each of our LTS markets, our vision is to be our customers' most trusted partner, passionate about helping them achieve their lifetime financial goals. We continue to develop LTS-wide management roles to ensure we exploit synergies and establish centres of excellence. These roles – covering IT, product, LEAN methodology, asset management and strategic marketing – are helping us to gain competitive advantage by delivering appropriate products and services efficiently. During 2011 we made continued progress in implementing this strategy, creating a centralised LTS Asset Management team and an LTS Strategic Marketing team.

The customer – at the heart of everything we do

Successful financial services businesses are those that understand their customers and put them at the very heart of the business. We aim to help them achieve their lifetime financial goals by providing these services through our life assurance, pensions and investment products:

- Advice (financial planning and investment)
- Savings solutions (for shorter-term goals)
- Investments (for long-term goals including retirement)
- Decumulation (post-retirement)
- Protection (life assurance and personal lines).

As highlighted in the Group Chief Executive's review we offer these services to four customer segments. We have provided more detail of these segments opposite:

- **Retail Mass:** customers with limited income, who need a broad range of financial services including protection and savings products associated with critical life events and, in time, their retirement. This group of customers needs simple, affordable and value-for-money solutions – and also financial education. It is a large and fast-growing market in South Africa, sub-Saharan Africa and our other emerging markets.
- **Retail Affluent:** customers with middle to high incomes, who need flexible and tax-efficient investment products, together with protection products, to achieve their financial goals and protect and grow their wealth. While these customers are financially literate, they do need access to advice and tools that will help them make informed investment choices. This market is relatively mature in South Africa, but there are good growth opportunities in Europe, China and India.
- **International Affluent:** customers with significant investible assets, who need flexible, tax-efficient solutions that build or protect their wealth. The main markets for these customers are Europe, the Middle and Far East, Latin America and South Africa.
- **Institutional:** customers who are looking for differentiated, active asset management and employers who are looking for solutions for the pensions they manage on behalf of their employees.

To help us put the customer at the heart of everything we do we are structuring the business around these customer segments. In future annual reports we will also review the LTS results using these customer segments.

Our current customer segments are split across the business units for which we disclose results in this report: Emerging Markets, Nordic, Retail Europe and Wealth Management. But following the corporate actions in Nordic and in Retail Europe referred to in the Group Chief Executive's review for 2011, we will operate LTS in two main business units in future, serving their own distinct territories:

- Emerging Markets will serve South Africa, sub-Saharan Africa and new emerging markets
- Wealth Management will serve the UK, International and Continental Europe.

These are described in more detail on the following page.

Find further details of the operational results of the business within the Financial Disclosure Supplements on: **www.oldmutual.com/ir**

LONG-TERM SAVINGS
CONTINUED

LTS provides high returns combined with high growth

High RoE and cash generation	High revenue growth potential	Opportunities to grow
■ South Africa Retail Affluent ■ South Africa Corporate ■ Namibia ■ Colombia	■ Wealth Management ■ South Africa Mass Foundation	■ Rest of Africa ■ Asia ■ Mexico
■ Slower growth ■ Large market share ■ Generate high cash returns that fund new business, allow for acquisitions and support Group dividend	■ Lower profit generation relative to enterprise value ■ Higher cost bases ■ Potential for rapid profit growth on restructuring/efficiency gains ■ New business and growth largely self-funded ■ New business tends to be cash-intensive where we pay for distribution	■ Require funding, at least until break-even ■ Rapid sales growth ■ New business tends to be capital-intensive ■ Potential to grow embedded/enterprise value rapidly ■ Cash generation in the medium term

Emerging Markets: Old Mutual South Africa (OMSA) is one of the largest and longest-established financial services providers in South Africa – providing individuals, businesses, corporates and institutions with long-term savings, protection and investment solutions. Because we are now leveraging the business into other high-growth economies, we have combined it with our Latin American, Asian and African businesses. In Latin America we operate in Mexico and Colombia. In sub-Saharan Africa we operate across a broad range of countries including Swaziland, Namibia, Zimbabwe, Malawi, Kenya and Nigeria. In Asia we operate joint ventures with Kotak Mahindra in India and Guodian Corporation in China.

Wealth Management: Operating mainly under the Skandia brand we serve customers in the UK, across our offshore International bases and in selected European markets. Our offer is based on open and guided architecture accessed through unit-linked life insurance, pensions and mutual funds.

During 2011 we made continued progress in streamlining our structure – announcing the sale of our US Life, Nordic and Finnish business units and the closure to new business of Skandia Switzerland. In the results disclosed in this report, Nordic has been treated as a discontinued business. In early 2012, we announced that we would be consolidating our Retail Europe business with Skandia France and Skandia Italy into Wealth Management Europe, within our Wealth Management business and alongside the UK and International businesses. This will allow us to serve our customer segments better in these countries, while giving shareholders an improved RoE.

Strategy

Our strategy aims to:

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

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

For the next three years we have five strategic priorities:

- Build stronger relationships with our end customers across LTS
- Invest to build leading businesses in each of our chosen geographical areas
- Invest in core competencies to strengthen business performance
- Standardise and industrialise core systems and processes
- Build a single LTS organisation and culture.

Achieving our LTS targets

	Implementation	Measures
Driving revenue growth	■ Exploit growth opportunities in emerging markets ■ Position to those product areas and geographies that have optimal long-term growth rates such as pensions and structured investment solutions	■ (VNB + experience variance)/MCEV ■ NCCF/FUM
Reducing cost	■ Specific efficiency programmes in each business	■ Administration expenses
Synergies	■ Adopt LEAN methodology across all businesses ■ Potential IT synergies, particularly in outsourcing ■ Product lines extended to other markets	■ Expenses ■ APE
Capital efficiency	■ Focus on capital-light products ■ Diversification benefits	■ Equity

These five core competencies will be key to our success as an integrated division:

- Advice-led distribution
- Insurance and investment solutions
- Superior investment returns
- Customer insight
- Digital connectivity.

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

Our Skandia businesses have built excellent market positions as capital-efficient businesses in the UK and offshore providers in many other international markets. They have a history of innovation, and the customer value that they deliver presents opportunities to take market share from more traditional, less customer-oriented competitors. As our customers move online, we are investing in the ability to provide world-class IT tailored for local markets while achieving international economies of scale. We aim to grow revenues while constraining costs and ultimately driving up operating performance through LEAN methodology.

As we leverage our capabilities in South Africa into emerging markets and improve the operational performance of our European businesses, we see opportunities to achieve synergies between them. Our businesses connect at a capital level and are well placed to benefit from the implementation of Solvency II expected in 2013. There are opportunities for both cost and revenue synergies. The cost synergies lie primarily in IT and in outsourcing some work to South Africa. The revenue opportunities lie in sharing product knowledge and ideas as well as what we know about building distribution channels.

Achieving our targets

To create shareholder value by rationing capital in an appropriate and sustainable way, we focus on four main areas. Each has associated measures to track performance, with targets clearly linked to management incentives:

- Driving revenue growth
- Reducing cost
- Synergies
- Capital efficiency.

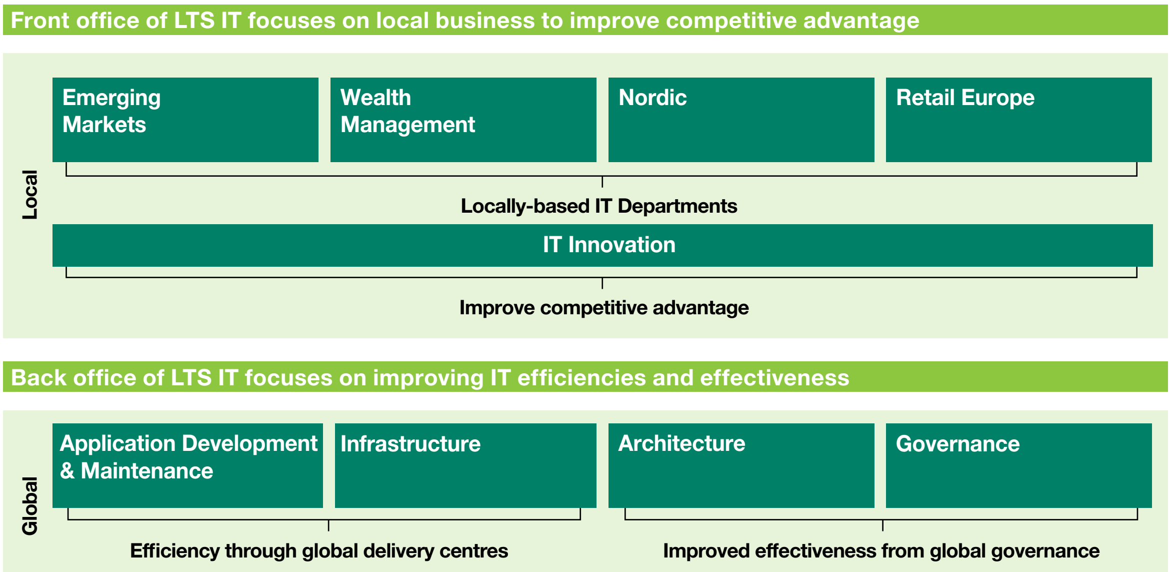
Customer services and administration

Each LTS regional organisation currently has its own administration and IT structure, but these share many common products, processes, IT platforms and customer/intermediary interfaces. In line with our aim of putting the customer at the heart of everything we do, we have decided to operate customer service and administration across LTS in a more integrated manner in future. In December 2011 we announced that Rose Keanly had been appointed Director LTS Customer Services and Administration, with responsibility for customer service and administration in South Africa and all other LTS businesses.

Her immediate priorities are:

- Improving customers' service experience across the lifetime of their relationships with LTS
- Driving down unit costs
- Reducing operational risks
- Enabling faster entry into new markets, and launch of new products into existing markets, by maximising re-use
- Leveraging our South African capability and other areas of expertise more actively across the whole of LTS.

LONG-TERM SAVINGS
CONTINUED



To underpin these priorities we will continue to exploit the LEAN philosophy and practices that have been key to transforming the South African service and administration operation over the past five years. We have now completed our project to move processes and IT from Germany, Poland and Austria to South Africa, giving us a capability that we can exploit further.

Strategic marketing and brand

In December 2011 we announced the creation of a new centralised LTS strategic marketing team, headed by Carlton Hood, who joins the LTS Executive Committee.

The strategic marketing function will be responsible for co-ordinating five key initiatives across LTS, which together make up the core of our customer strategy:

- **LTS strategy** – continued development of our business strategy based on customers and core competencies
- **Customer culture and experience** – increased focus on improving our customer experience and creating a culture focused on serving customers better
- **Marketing, brand and insight** – a single brand strategy for the Group and a shared customer insight capability and best practice in our marketing disciplines
- **Project Connect** – shared approach, infrastructure and capability for our e-commerce proposition across LTS
- **Customer relationship management (CRM)** – shared approach, infrastructure and capability to leverage our CRM capabilities across LTS.

While existing business unit teams have many of the resources and capabilities that we need to deliver these projects, a team at the LTS level will support and co-ordinate efforts across LTS.

Information technology

As our customers and their advisers conduct more of their research and activity online, our IT services need to be highly responsive, cost-effective, and well governed without sacrificing the speed-to-market and innovation needed in our local markets.

Richard Boynett, LTS Chief Information Officer (CIO), is now into the second year of a programme to enable business efficiency and innovation for both local and international competitive advantage.

His change and consolidation agenda has exceeded expectations and the following changes have been implemented:

- 18 IT departments have been consolidated into a cross-business unit IT function
- Local CIOs are part of the consolidated IT management structure, while remaining fully accountable for IT services into their locally regulated entities
- IT governance has improved sharply, with £300 million of annual spend under centralised control, audit items reduced by 80% and a formal policy in place across all LTS business units.

This base, established early in 2011, has allowed us to:

- Reduce annual IT costs by £15 million in 2011 compared with 2010 (in addition to £15 million of savings the previous year)

- Move from adversarial IT outsource contracts with poor service level agreements to a mutually-beneficial partnership model – first with Dimension Data and Vodacom for our network and communication services in South Africa, and more recently with the renewal of our relationship and infrastructure services outsource contract with T-Systems
- Create the underlying international technology infrastructure that all our local operations now use to work, collaborate and share information, products and platforms
- Deliver an ambitious portfolio of business investment projects in local markets while maintaining international alignment.

In 2012 we are continuing to transform IT into a world-class function. Our priority areas are:

- Reducing annual IT costs by further material amounts
- Deploying the hybrid local/international operating model into our development centres, and reconfiguring them into centres of excellence to support directly the quality of customer experience
- Finalising the partnership model across our international infrastructure to improve employee productivity and remove any remaining technology barriers between countries
- Further leveraging South Africa as our IT hub, sharing expertise and systems across LTS to enable rapid market entry and online capabilities.

This ambitious IT strategy will have transformed our IT cost base and effectiveness to world-class standards within 24 months, leaving LTS and the Group in a solid position to exploit the potential of technology to help us be our customers' most trusted partner.

Product and proposition

In October 2011, Bryce Johns re-joined the Group to lead product capability across LTS. He took over this role from Steven Levin, who was appointed CEO of Skandia International in 2011. Bryce is a member of the LTS Executive Committee, with the following key focus areas:

- Supporting the product front line in Wealth Management as we expand the range of customer solutions to include insurance, retirement income and downside protection products
- Leading the product risk management function to ensure ongoing pricing and asset liability management rigour, improved economic capital efficiency in product design, and better leverage of our global balance sheet to local advantage
- Ensuring we are relentlessly driving innovation, connectivity and more integrated planning across the LTS product and proposition community. We are aiming for a global talent pool which is able to leverage its scale, mobility and international mindset for local advantage
- Ensuring that we are building our delivery capacity across line functions with a view to more effectively delivering compelling customer experiences.

Asset Management

In October 2011, we announced the appointment of Paul Feeney as CEO of LTS Asset Management.

Co-ordinating the asset management businesses across LTS is a key component of our strategy to deliver the best products, solutions and services to our customers.

Paul will be responsible for all the LTS asset management businesses in Skandia Investment Group and Old Mutual Investment Group South Africa. He will provide a consistent focus on solid investment performance, the right asset management solutions for customers, and close co-ordination with LTS marketing and distribution. He will build our capabilities in Europe and leverage Old Mutual Asset Management's capabilities in co-ordination with the Group's US Asset Management business.

LONG-TERM SAVINGS
CONTINUED

Review of 2011 results

On a reported basis the Emerging Markets business accounts for: 72% of the LTS IFRS AOP earnings, 46% of LTS FUM, 43% of LTS APE sales; 63% of LTS operating MCEV earnings (covered business, post-tax); and 55% of LTS MCEV per share (covered business).

The analysis below is presented on a constant currency basis.

Continued operational delivery despite difficult markets

Key performance statistics:

2011	Emerging Markets	Wealth Management	Retail Europe	Total £m
AOP (IFRS basis, pre-tax)	**570**	**179**	**44**	**793**
NCCF (£bn)	**0.4**	**2.5**	**0.3**	**3.2**
FUM (£bn)	**49.9**	**54.4**	**4.2**	**108.5**
Life assurance sales (APE)	**524**	**611**	**72**	**1,207**
PVNBP	**3,295**[1]	**5,269**	**549**	**9,113**
Non-covered sales[2]	**8,147**	**4,669**	**20**	**12,836**
Value of new business	**99**[1]	**70**	**8**	**177**
Operating MCEV earnings (covered business, post-tax)	**349**	**184**	**19**	**552**
Adjusted MCEV per share (covered business)	**56.9p**	**35.2p**	**10.6p**	**102.7p**
Return on embedded value[4]	**11.9%**[1]	**9.3%**	**3.0%**	**9.3%**
(VNB + experience variance)/MCEV (covered business)[4]	**6.8%**[1]	**5.0%**	**1.1%**	**5.2%**

2010 (constant currency)[3]	Emerging Markets	Wealth Management	Retail Europe	Total £m
AOP (IFRS basis, pre-tax)	524	197	51	772
NCCF (£bn)	–	3.9	0.4	4.3
FUM (£bn)	46.6	55.9	4.8	107.3
Life assurance sales (APE)	473	734	70	1,277
PVNBP	3,175[1]	6,380	519	10,074
Non-covered sales[2]	6,762	4,507	23	11,292
Value of new business	83[1]	66	7	156
Operating MCEV earnings (covered business, post-tax)	333	112	67	512
Adjusted MCEV per share (covered business)	49.7p[1]	36.2p	11.1p	97.0p
Return on embedded value[4]	13.2%[1]	6.1%	12.8%	10.8%
(VNB + experience variance)/MCEV (covered business)[4]	4.7%[1]	3.1%	2.2%	3.9%

2010 (as reported)[3]	Emerging Markets	Wealth Management	Retail Europe	Total £m
AOP (IFRS basis, pre-tax)	539	197	51	787
NCCF (£bn)	–	3.9	0.4	4.3
FUM (£bn)	57.0	55.9	5.0	117.9
Life assurance sales (APE)	487	734	69	1,290
PVNBP	3,269[1]	6,380	513	10,162
Non-covered sales[2]	6,962	4,507	23	11,492
Value of new business	86[1]	66	7	159
Operating MCEV earnings (covered business, post-tax)	344	112	66	522
Adjusted MCEV per share (covered business)	60.7p[1]	36.2p	11.4p	108.3p
Return on embedded value[4]	13.2%[1]	6.1%	12.8%	10.8%
(VNB + experience variance)/MCEV (covered business)[4]	4.7%[1]	3.1%	2.2%	3.9%

1. PVNBP and value of new business excluded Zimbabwe, Kenya, Malawi and Swaziland (the other African countries) in 2011 and 2010. The other African countries were excluded from Adjusted MCEV per share in 2010. Return on embedded value and (VNB + experience variance)/MCEV metrics for 2011 and 2010 excluded the other African countries from opening MCEV when calculated.
2. Includes unit trust/mutual fund sales.
3. The year ended 31 December 2010 has been restated to reflect Nordic as discontinued.
4. Return on embedded value and (VNB + experience variance)/MCEV (covered business) were calculated in local currency, except for LTS where they were calculated on a reporting currency basis.

IFRS AOP results

Overall LTS AOP increased 3% to £793 million.

Emerging Markets improved by 9% to £570 million, with strong profit growth in Retail Affluent and Mass Foundation Cluster (MFC). The consolidation of Zimbabwe, Kenya, Malawi and Swaziland for the first time increased AOP by £24 million.

Wealth Management decreased by £18 million to £179 million, with 2010 benefiting from policyholder tax prior year smoothing of £76 million compared to £32 million in 2011. Excluding the impact of prior year policyholder tax smoothing, underlying AOP grew by 21%, driven by higher average FUM balances and reduced absolute levels of expenses.

Retail Europe was down £7 million, impacted by non-recurring costs associated with the transfer of some of the business operations to South Africa and higher commissions reflecting increased new business in Poland and Switzerland.

Net client cash flow

Overall LTS NCCF decreased by £1.1 billion to £3.2 billion. H2 flows were below H1, reflecting worsening investor sentiment in Europe.

Emerging Markets increased to £0.4 billion, with strong inflows in MFC and Retail Affluent and a large transaction in Colombia. OMIGSA benefited from lower PIC outflows and there were improved flows across a number of its boutiques.

Wealth Management decreased by £1.4 billion, with reduced inflows from Continental Europe following the end of the Italian tax shield that generated a sales boost in 2010. UK Platform NCCF was £3.3 billion (2010: £3.6 billion), with continued strong positive contributions from both covered and non-covered business.

Retail Europe saw a decrease of £0.1 billion as improved persistency was offset by higher surrender values.

Funds under management

Overall LTS FUM at 31 December 2011 was up 1% to £108.5 billion.

Emerging Markets increased by 7% to £49.9 billion, due mainly to consolidation of the other African countries for the first time. Some 85% of total Emerging Markets FUM is in South Africa.

Wealth Management was down 3% to £54.4 billion despite strong NCCF, with markets lower than at 31 December 2010. FUM included UK assets of £33.4 billion (2010: £33.9 billion). Of the UK assets, UK Platform assets totalled £18.8 billion, a 13% rise from the 31 December 2010 level, further solidifying Wealth Management's position as one of the largest participants in this market. As of 29 February 2012, UK Platform assets were £20.1 billion.

Retail Europe closed slightly below 31 December 2010. Decreases in the market value of investments were partially offset by net client cash inflows.

Life sales summary

Overall LTS APE sales decreased by 6% to £1,207 million.

In Emerging Markets, South African regular premium sales grew by 14%. Continued momentum in MFC sales delivered excellent growth of 28%. Retail Affluent sales increased by 4%, with more advisers, improved sales productivity and focused initiatives for the *Greenlight* protection product.

South African single premium sales decreased by 10%, with lower sales in Retail Affluent and OMIGSA. Retail Affluent sales were muted as management focused on product mix and completing training for the regulatory exams; sales volumes in 2010 were exceptional due to competitive Fixed Bond pricing. OMIGSA sales declined by 32% due to clients delaying investment decisions and some sales are now being reported as Corporate business.

Rest of Africa sales more than doubled, with strong Namibian sales. The consolidation of the other African countries for the first time increased APE sales by £17 million.

Sales in Asia & Latin America increased by 9%, benefiting from an increase in financial planner numbers and improved productivity in Mexico.

Sales at Emerging Markets' Chinese joint venture, Old Mutual-Guodian, increased by 77% due to strong regular premium sales and continued growth in telemarketing sales.

Wealth Management continued to grow its single premium business on the UK Platform. Platform sales totalled £244 million of the £312 million total UK sales.

Sales in the UK Legacy market were £68 million, a decrease of £45 million reflecting the managed reduction in its product range available in 2011.

In the offshore International market, sales decreased by 8% to £208 million as Wealth Management reduced lower margin regular premium business across its International markets.

Sales in Wealth Management's Continental Europe business decreased by 43% to £91 million, reflecting worsening investor sentiment in H2 2011 and the ending of the one-off tax shield in Italy in 2010.

Retail Europe sales increased by 4% to £72 million, driven by increased regular premiums in the Polish business, which benefited from additional sales from new distribution partners in the IFA and bank channels.

LONG-TERM SAVINGS
CONTINUED

Non-covered sales, including unit trust and mutual fund sales

Overall LTS non-covered sales were up 14% to £12,836 million.

In Emerging Markets there was strong sales growth in Colombian voluntary and mandatory pension sales, including a large public sector transaction concluded in the third quarter. There was strong growth in new client business in Acsis and OMIGSA in South Africa and the inclusion of deposits at CABS in Zimbabwe in 2011.

In Wealth Management, UK mutual fund sales grew strongly – up 10%. As in the prior year, Wealth Management benefited from the seasonality of the tax year end along with increased ISA allowances. International unit trust sales were down as market volatility impacted customer sentiment.

Margins and value of new business

Across LTS as a whole, new business APE margins improved to 15% (2010: 13%) and present value of new business premiums (PVNBP) margin improved to 1.9% (2010: 1.6%). The bulk of the improvement was in Wealth Management. Value of new business (VNB) increased by 13% to £177 million, driven by a combination of increased sales volumes and new business margins in Emerging Markets.

APE margins improved from 18% to 20% in Emerging Markets, mainly as a result of improved persistency rates, favourable changes in economic assumptions, an improved product mix and the positive impact of the new Dividends Tax replacing the current Secondary Tax on Companies (STC). Improved product mix and expense control in Retail Affluent in H2 lifted margins from 3% in H1 to 10% for the full year. Corporate margins reduced in 2011, mainly due to a change in product mix and a reduction in sales volumes. The value of new business in Emerging Markets increased by 19% to £99 million, with increased sales volumes and improved new business margins.

The increase in margins in Wealth Management was driven largely by a more beneficial product mix in International with increased focus on higher-margin portfolio bond products and lower acquisition costs. The International APE margin improved to 23% (2010: 19%). The value of new business in Wealth Management increased by £4 million to £70 million and the APE margin and PVNBP margin increased to 11% (2010: 9%) and 1.3% (2010: 1.0%) respectively.

In Retail Europe the value of new business and APE margin were in line with 2010.

Operating MCEV earnings

Overall LTS operating MCEV earnings increased by 8% to £552 million.

In Emerging Markets operating MCEV earnings (post-tax) increased by 5% to £349 million. Operating experience variances increased due to improved persistency and mortality experience, partially offset by expense assumption changes and increased central provisions for project costs. Adjusted MCEV per share was up 14% to 56.9p, benefiting from a large positive impact from the replacement of STC with Dividends Tax and a positive impact from economic variances. Return on embedded value (RoEV) reduced from 13.2% to 11.9%, reflecting the significant uplift in MCEV during 2010.

In Wealth Management MCEV operating earnings post-tax increased by £72 million to £184 million for the period, driven by improved new business value, positive experience variances and a number of net positive assumption changes. Adjusted MCEV per share decreased to 35.2p (2010: 36.2p), with strong MCEV earnings more than offset by high capital and dividend flows to Group and negative economic variances. RoEV increased from 6.1% to 9.3% due to increased MCEV operating earnings.

In Retail Europe operating MCEV earnings after tax decreased to £19 million. On a comparable basis MCEV earnings after tax were in line with 2010, which benefited from positive assumption changes for rebates and persistency in 2010. MCEV per share was down 0.5p to 10.6p, due to economic variances, foreign exchange and dividend flows. RoEV decreased to 3.0%, with increased opening MCEV and decreased operating MCEV earnings.

We are structuring the business around customer segments.

Value creation

A key metric by which we judge the performance of the business is Group value creation for the LTS covered business. It measures the contribution to RoEV from management actions of writing profitable new business and managing expenses, persistency, risk and other experience compared to what had been assumed. This metric improved from 3.9% to 5.2% in LTS (excluding Nordic), driven by strong sales of high margin protection products in Emerging Markets' MFC and favourable persistency and rebate experience in Wealth Management.

Outlook

In January 2012, we announced that we planned to bring together Wealth Management's Continental Europe business (France, Italy) and Retail Europe (Germany, Austria, Poland, Switzerland) to form one new business: Wealth Management Europe. The combined business brings together 736,000 customers across Europe and over €11 billion of FUM. Wealth Management Europe will be reported under the Wealth Management business unit in future.

We will proceed with the integration of the Retail Europe business during 2012. The product portfolio and customer service offering will be improved and organisational structures amended accordingly.

Job creation in South Africa, particularly in the public sector, is likely to see good growth in the medium term, underpinned by the Government's planned infrastructure spending.

In South Africa we anticipate that the full potential impacts of the FAIS regulatory exams will only emerge in 2012 and 2013. We have implemented extensive training plans and other measures to help our representatives pass the exams ahead of the revised 30 June 2012 deadline.

Together with other companies in the Group, Emerging Markets will continue actively to explore means for organic and inorganic growth in Africa. We are well positioned to grow into the rest of Africa by leveraging our established business bases in South Africa, Namibia and Zimbabwe. Using our expertise in these businesses we are able to design and export relevant products and low-cost IT infrastructure into new markets.

Our distribution capacity and use of technology to increase customer reach and reduce costs will accelerate in 2012. In particular we expect continued growth in our tied agency operations, with growth in the number of advisers and productivity. Higher new business standards will be the additional drivers of expected premium growth and the quality of new business.

The European government debt crisis diminished investor confidence, particularly in Q4 of 2011, reducing European investment market demand in the short-term. There was a particularly strong impact in the weaker European economies such as Italy. However, we expect steady progress for 2012 as a whole.

Our early and decisive management action in the UK positioned us well to deal with the impending changes to the industry brought about by the Retail Distribution Review (RDR). With the potential ban on cash rebates and the development in operating margins for legacy businesses we believe our plan for a fully unbundled charging structure, under which we will pass on rebates to customers, will give us an advantage over our peers. We are actively developing new protection and asset management products in anticipation of the new market structures. We are also testing new forms of interaction with customers that help their advisers provide services more efficiently.

Total gross sales on the UK Platform were £4.9 billion (2010: £4.9 billion), reflecting challenging markets especially in Q4. However, we believe our share of the Platform market continued to grow over the period. Taxation uncertainty and regulatory delays may impede our ability to act as swiftly as we wish, but we are confident that reform will be implemented in line with our expectations. UK sales growth may be constrained in 2012 by the lead-up to the RDR announcement and resulting investor uncertainty.

We anticipate the completion of the sale of our Finnish business in mid-2012. Post-tax profits for the business were approximately £12 million and were included in Wealth Management for 2011.

BANKING

Key financial highlights

Adjusted operating profit (pre-tax and minorities)

£755m

2010: £601m

Total Assets

£51.4bn

2010: £58.9bn

Number of employees

28,494

2010: 27,525

Return on equity (excl. goodwill)
(%)

2011	**15.3**
2010	13.4

Net interest margin
(%)

2011	**3.46**
2010	3.35

Net interest income
(£m)

2011	**1,549**
2010	1,468

Credit loss ratio
(%)

2011	**1.14**
2010	1.36

Non-interest revenue
(£m)

2011	**1,324**
2010	1,168

Core tier 1 ratio
(%)

2011	**11.0**
2010	10.1

Our brand

NEDBANK

Banking

Mike Brown
Chief Executive, Nedbank

Nedbank is one of the four largest banking groups in South Africa measured by assets, with a strong deposit and wholesale banking franchise.

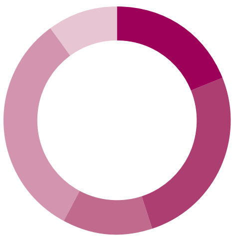
Overview

Nedbank is listed on the JSE Limited in South Africa as well as on the Namibian Stock Exchange, with a market capitalisation of £5.9 billion at the end of 2011. Old Mutual has a majority shareholding and owned 51.6% of Nedbank at 31 December 2011.

Nedbank is positioned as a bank for all and provides a wide range of wholesale and retail banking services and a growing insurance, asset management and wealth management offering through five main business clusters; Nedbank Capital, Nedbank Corporate, Nedbank Business Banking, Nedbank Retail and Nedbank Wealth.

Focused on southern Africa, Nedbank's vision is to build Africa's most admired bank by its staff, clients, shareholders, regulators and communities. Nedbank's key strategic areas for growth include the repositioning of Nedbank Retail, growing non-interest revenue and implementing the portfolio tilt strategy. In the rest of Africa Nedbank has recently deepened its strategic alliance with Ecobank by providing finance for a transformational banking acquisition in Nigeria and, in so doing, secured rights to acquire up to 20% of Ecobank Transnational Inc. within two to three years.

Percentage of 2011 Headline Earnings from operating units



Nedbank Capital	**19%**
Nedbank Corporate	**26%**
Nedbank Business Banking	**13%**
Nedbank Retail	**32%**
Nedbank Wealth	**10%**

Nedbank is focused on entrenching and integrating economic, environmental, social and cultural sustainability across its businesses. Well acknowledged for its sustainability leadership as South Africa's 'green bank', Nedbank is the first and only carbon-neutral financial services organisation in Africa and continues to play a leadership role in environmental issues through participation in Conference of the Parties 17 (COP17), maintaining carbon neutrality, leading in water stewardship and being a signatory to the CEO Water Mandate of the United Nations Global Compact.

Nedbank is headquartered in Sandton, Johannesburg, with large operational centres in Durban and Cape Town, a regional branch network throughout South Africa and facilities in other southern African countries. These facilities are operated through Nedbank's eight affiliated banks and subsidiaries, as well as through branches and representative offices in certain key global financial centres that meet the international banking requirements of Nedbank's South African multinational clients.

Find further details of the operational results of the business within the Financial Disclosure Supplements on:
www.oldmutual.com/ir/

Business profile		
Nedbank Capital	Nedbank Capital provides comprehensive investment banking solutions to institutional and corporate clients. Its product strengths include: investment banking, leverage financing, trading, broking, structuring and hedging. It has offices in South Africa and London and representative offices in Angola and Toronto.	The cluster comprises: ■ Investment Banking ■ Global Markets ■ Treasury ■ Client Coverage.
Nedbank Corporate	Nedbank Corporate provides full-service corporate banking to large corporates with an annual turnover over R400 million, including commercial, industrial and property finance solutions. It includes operations which service both retail and corporate market segments in Lesotho, Malawi, Namibia, Swaziland and Zimbabwe through Nedbank Africa.	The cluster comprises: ■ Corporate Banking ■ Property Finance ■ Transactional Banking ■ Nedbank Africa ■ Nedbank Investor Services ■ Corporate Shared Services.
Nedbank Business Banking	Nedbank Business Banking provides commercial banking solutions to small- to medium-sized businesses with an annual turnover between R7.5 million and R400 million.	The cluster comprises: ■ Four geographically decentralised client-facing business units ■ A strategic business unit, including specialised finance, debtor management and client value propositions ■ Specialist services, including investment management, transactional banking sales, finance and business intelligence/ client value management and specialist functional areas of HR, finance and risk.
Nedbank Retail	Nedbank Retail serves the financial needs of individuals and small businesses with an annual turnover up to R7.5 million. It provides transactional, card, lending and investment products and services. The Nedbank Retail Cluster also services merchants and large corporates in respect of card-acquiring services.	The cluster comprises: ■ Secured lending, including home loans and vehicle finance ■ Retail relationship banking, which combines personal relationship banking and small business services ■ Consumer banking, which comprises client engagement (client insight, value management, CVPs, digital innovation, transactional and investments), integrated channels and personal loans ■ Card issuing and acquiring.
Nedbank Wealth	Nedbank Wealth comprises three divisions – Insurance, Asset Management and Wealth Management – with offices in South Africa, London, the Isle of Man, Jersey, Guernsey and the Middle East.	The cluster comprises: ■ Wealth Management, which includes private banking and fiduciary services locally and internationally, as well as stockbroking and financial planning ■ Asset Management, which includes the Nedgroup Investments range of local and international Best of Breed unit trusts, cash solutions and multi-management as well as private client active management and research supporting high-net-worth clients and stockbroking businesses ■ Insurance, which includes short-term insurance.

Well positioned to build on the momentum from 2011

Highlights	2011	2010	Rm % change
AOP (IFRS basis, pre-tax)	**8,791**	6,799	29%
AOP (IFRS basis, pre-tax) (£m)	**755**	601	26%
Headline earnings*	**6,184**	4,900	26%
Net interest income*	**18,034**	16,608	9%
Non-interest revenue*	**15,412**	13,215	17%
Net interest margin*	**3.46%**	3.35%	
Credit loss ratio*	**1.14%**	1.36%	
Cost to income ratio*	**56.6%**	55.7%	
Return on equity*	**13.6%**	11.8%	
Return on equity (excluding goodwill)*	**15.3%**	13.4%	
Core tier 1 ratio*	**11.0%**	10.1%	

* As reported by Nedbank in its report to shareholders for the year ended 31 December 2011.

The full text of Nedbank's results for the year ended 31 December 2011, released on 29 February 2012, can be accessed on our website *http://www.oldmutual.com/mediacentre/pressReleases/viewPressRelease.jsp?pressItem_id=16311*. The following is an edited extract:

Banking and economic environment

The global economic environment deteriorated in 2011 as the European sovereign debt crisis continued to unfold, leading to a loss of economic growth momentum in both developed and emerging markets.

For South Africa GDP growth is expected to end at 3.2% for the 2011 year and interest rates remained unchanged at 37-year lows.

Household demand for credit remained stable and transactional demand continued to strengthen, supported by real wage increases.

Business confidence remained at low levels for most of 2011, with corporate credit demand gaining some traction towards the end of the year as both private and public sector fixed-investment activity increased off a low base.

Review of 2011 results

Nedbank performed well for the year ended 31 December 2011, reflecting the benefits of disciplined execution of its business plans and excellent progress with key strategic initiatives.

Nedbank recorded strong headline earnings growth of 26.2% to R6,184 million for the year (2010: R4,900 million), driven primarily by 16.6% growth in NIR, net interest margin (NIM) expansion and continued improvement in the Nedbank Retail credit loss ratio.

Diluted headline earnings per share increased 25.4% to 1,340 cents (2010: 1,069 cents) and diluted earnings per share 27.7% to 1,341 cents (2010: 1,050 cents) in line with Nedbank's trading statement issued on 6 February 2012.

Return on average ordinary shareholders' equity (RoE), excluding goodwill, increased to 15.3% (2010: 13.4%) and RoE to 13.6% (2010: 11.8%), with the benefit of return on assets (RoA) improving to 0.99% (2010: 0.82%), partially offset by a reduction in gearing. Nedbank generated economic profit (EP) of R924 million (2010: economic loss of R289 million).

Nedbank is well capitalised, with the core tier 1 capital ratio at 11.0% (2010: 10.1%). Funding and liquidity levels remain sound. Liquidity buffers increased R18.0 billion to R24.0 billion and the long-term funding ratio increased to Nedbank's target level of 25.0%.

Net asset value per share continued to increase, growing by 9.4% to 10,753 cents at 31 December 2011 (2010: 9,831 cents).

During 2011 Nedbank continued to deliver on its vision of building Africa's most admired bank and its commitments to all stakeholders. Highlights for the key stakeholders include:

- For staff: creating 969 additional job opportunities, investing R303 million in leadership development programmes and continuing the positive shift in corporate culture
- For clients: paying out R116 billion in new loans; expanding the range of distinctive client-centred offerings; launching various new product innovations; keeping fee increases at or below inflation, with average retail banking fees remaining at levels similar to those in 2005; increasing footprint by 121 new staffed outlets and 389 ATMs; further extending banking hours in 59 branches and Sunday banking in 49 branches and, through restructures, having kept 13,900 families in their homes since 2009.

- For shareholders: generating a 15.3% total shareholder return, delivering R924 million EP, declaring a total dividend up 26.0% as well as winning numerous reporting awards and the Financial Times and Banker magazine's Bank of the Year in South Africa for 2011
- For regulators: increasing capital levels and remaining well positioned for Basel III and the Solvency Assessment and Management regime; being one of the first South African banks to receive South African Reserve Bank (SARB) approval for using the advanced approaches for all three applicable risk types, and making cash contributions of R5.1 billion relating to direct, indirect and other taxation
- For communities: making banking more accessible for the entry-level market and remote rural communities with initiatives such as Vodacom m-pesa; extending R1.8 billion in loans to black small to medium enterprises with a turnover of up to R35 million; assisting over 934 entrepreneurs under skills development programmes, including the emerging agriculture sector; contributing R78 million to social development; remaining a Department of Trade and Industry (DTI) level 2 contributor and increasing the DTI score to 95.2 from 89.5; spending R6.6 billion on local procurement and playing a leadership role in environmental sustainability through participation in COP17, maintaining our carbon neutrality, leading in water stewardship and being a signatory to the CEO Water Mandate of the United Nations Global Compact.

Cluster performance

The business clusters collectively reported an increased RoE of 18.6% (2010: 14.4%) and earnings growth of 30.8%.

Nedbank Retail's headline earnings growth and RoE improvement were achieved through excellent progress strategically and financially in repositioning the cluster. Delivering distinctive client-centred value propositions enabled strong new-client growth and markedly increased sales. As a result, the cluster's NIR grew 17.3%, primarily driven by higher transactional and lending volumes. In addition, improved risk-based pricing, effective collections and rehabilitations resulted in reduced impairments, which contributed to the robust performance.

The good performance from the wholesale clusters was supported by excellent risk management, an increase in primary clients and higher usage of innovative transactional banking offerings. Nedbank Capital navigated well through difficult and volatile markets and ended the year with a small increase in its headline earnings. Nedbank Wealth performed well and its 2009 acquisitions continued to bear fruit, supporting its growth in earnings and embedded value, while the insurance and asset management businesses contributed strongly.

The centre moved to a loss of R192 million primarily as a result of an additional amount of R200 million before tax that was raised as a portfolio impairment and a R111 million after-tax share-based payments charge for the Eyethu community share scheme.

Detailed segmental information is available on Nedbank's website at *www.nedbankgroup.co.za* under the 'Financial information' section.

Financial performance

Net interest income

Net interest income (NII) grew 8.6% to R18,034 million (2010: R16,608 million), with NIM growing to 3.46% (2010: 3.35%). Average interest-earning banking assets increased 5.1% (2010 growth: 3.0%).

The increase in NIM reflects:

- Asset margin expansion on new advances from risk-adjusted pricing and a change in asset mix
- The lower cost of term liquidity in 2011.

This was partially offset by:

- The impact of endowment, with average interest rates 90 basis points lower than in 2010
- The cost of enhancing Nedbank's funding profile
- The cost of carrying higher levels of lower-yielding liquid assets as Nedbank proactively positions itself for the likely implications of Basel III.

	Headline earnings (Rm)			RoE (%)	
	2011	2010	% change	**2011**	2010
Nedbank Capital	**1,225**	1,202	1.9	**23.0**	23.5
Nedbank Corporate	**1,672**	1,496	11.8	**25.0**	19.7
Nedbank Business Banking	**852**	825	3.3	**23.1**	26.4
Nedbank Retail	**2,002**	760	163.4	**11.8**	4.6
Nedbank Wealth	**625**	592	5.6	**38.7**	41.0
Operating units	**6,376**	4,875	30.8	**18.6**	14.4
Centre	**(192)**	25			
Total	**6,184**	4,900	26.2	**13.6**	11.8

Credit loss ratio analysis

	Dec 2011	H2 2011	H1 2011	Dec 2010 (%)
Specific impairments	**1.02**	0.93	1.10	1.32
Portfolio impairments	**0.12**	0.13	0.11	0.04
Total credit loss ratio	**1.14**	1.06	1.21	1.36

Credit loss ratio

	Dec 2011	H2 2011	H1 2011	Dec 2010	Through-the-cycle target ranges (%)
Nedbank Capital	**1.23**	1.57	0.86	1.27	0.10 – 0.35
Nedbank Corporate	**0.29**	0.24	0.34	0.20	0.20 – 0.35
Nedbank Business Banking	**0.54**	0.67	0.40	0.40	0.55 – 0.75
Nedbank Retail	**1.98**	1.73	2.24	2.67	1.50 – 2.20
Nedbank Wealth	**0.25**	0.09	0.41	0.15	0.20 – 0.40
Total	**1.14**	1.06	1.21	1.36	0.60 – 1.00

Impairments charge on loans and advances

The credit loss ratio improved to 1.14% for the year (2010: 1.36%), while further strengthening the portfolio impairment provision.

The credit loss ratio relating to specific impairments improved substantially to 1.02% for the year (2010: 1.32%) as defaulted advances continued tracking downwards to R23,073 million (2010: R26,765 million).

Nedbank maintained a strong focus on credit risk management. The increased level of portfolio impairments includes R159 million relating to lengthened-emergence-period assumptions and R200 million in the centre for unknown events that may have already occurred, but which will only be evident in the future.

Nedbank Retail's credit loss ratio of 1.98% (2010: 2.67%) is now within the cluster's through-the-cycle target range of 1.50% to 2.20%. Nedbank Capital's credit loss ratio remained elevated at levels similar to those of 2010 mainly due to impairment charges on increased non-performing loans. Credit loss ratios in Nedbank Corporate, Nedbank Business Banking and Nedbank Wealth remained within or better than the respective clusters' through-the-cycle target ranges.

Non-interest revenue

The momentum in non-interest revenue (NIR) continued in the second half of 2011, resulting in strong growth of 16.6% to R15,412 million (2010: R13,215 million) and the ratio of NIR-to-expenses increasing to 81.5% (2010: 79.6%).

The continued trend of growth in commission and fee income, which was up 16.2% to R11,335 million (2010: R9,758 million), arose from further primary-client gains, robust transaction volumes and a good uptake of new products, particularly in Nedbank Retail, as well as from increased volumes in electronic channels in the rest of Nedbank.

Insurance income grew strongly at 22.4%, achieved through insurance sales into the MFC, personal loans and card businesses, as well as an improved underwriting performance.

Trading income increased by 3.4% to R2,168 million (2010: R2,096 million) in difficult markets. Private equity income increased by 41.7% to R323 million (2010: R228 million), mainly from improved realisations and dividends received in the Nedbank Capital and Nedbank Corporate private equity investment portfolios.

NIR was negatively impacted by a R49 million loss (2010: R213 million loss) over the year due to fair value adjustments of Nedbank's subordinated debt and associated hedges resulting from the strengthening of Nedbank's credit spreads.

Expenses

Nedbank continued to manage core expenses while investing for growth, resulting in an ongoing improvement in the NIR-to-expenses ratio. Expenses increased 14.0% to R18,919 million (2010: R16,598 million), comprising expense growth of 8.0% relating to 'business-as-usual' activities, 3.0% relating to investing for growth initiatives and 3.0% relating to variable compensation.

Overall the main drivers of expense growth were:

- Remuneration costs increasing 12.5%, driven by 3.4% headcount growth and inflation-related annual increases of 6.5%
- Short-term incentive costs increasing 35.8% on the back of strong headline earnings and EP growth
- Long-term incentive costs increasing R140 million to R262 million, as 2010 contained a reversal of costs when associated corporate performance targets were not met
- Volume-driven costs, such as fees and computer processing costs, continuing to grow in support of revenue-generating business activities
- Investing for growth initiatives taking place across the clusters, which included the repositioning of Nedbank Retail that entailed footprint roll-out, headcount growth in frontline and collections staff, and system enhancements.

The efficiency ratio increased to 56.6% (2010: 55.7%), reflecting the negative endowment impact of lower interest rates on NII, compounded by slower growth in interest-earning banking assets and the strategy of investing for growth.

Nedbank's compound NIR growth of 10.2% since 2007 continues to exceed its related compound expense growth of 8.8%.

Taxation

The tax charge increased 60.6% to R2,194 million (2010: R1,366 million), with the effective tax rate increasing to a more normalised 25.2% (2010: 20.7%). The increase resulted from:

- The 31.9% growth in income before tax
- A lower proportion of dividend income relative to total income than in 2010
- Secondary tax on companies (STC) savings in the first six months of 2010 due to the take-up of the scrip dividend (81.5%) offered in that period
- The reversal of certain tax provisions in 2010.

Statement of financial position

Capital

Nedbank's capital adequacy ratios remain well above its internal targets in preparation for Basel III and continue to be strengthened as a result of ongoing risk and capital optimisation, strong growth in organic earnings and a strategic focus on managing for value and portfolio tilt.

Given the predominant focus on the core tier 1 ratio under Basel III and considering Nedbank's strong total capital adequacy ratio, it elected to call the Nedbank Limited tier 2 bond (Ned 5) amounting to R1.5 billion in April 2011 without replacing it.

Further detail on capital and risk management will be available in Nedbank's Pillar 3 Report to be published in April 2012 on Nedbank's website at *www.nedbankgroup.co.za*.

Risk methodologies and capital allocation

In 2011 Nedbank Limited received approval from the SARB to use, for regulatory capital purposes, the Internal Model Approach for market trading risk. Nedbank Limited now has approval for the advanced approaches in respect of all three of the major Pillar 1 risk approaches under Basel II, having received approval for using the Advanced Measurement Approach for operational risk, effective from 2010, and to use the Advanced Internal Ratings-based Approach for credit risk from the implementation date of Basel II in 2008. This makes Nedbank Limited one of the first South African banks to operate under all three advanced risk assessment approaches.

Further enhancements to the internal capital allocation to business clusters occurred in 2011 to support the closer alignment of Nedbank Group and cluster RoEs. These enhancements have no impact on Nedbank's overall capital levels and RoE, but have impacted the RoEs recorded by the business clusters. This is an ongoing process born out of evolving regulatory developments such as Basel III.

(%)	**2011**	2010	Internal target range	Regulatory minimum
Basel II				
Core tier 1 ratio	**11.0**	10.1	7.5 to 9.0	5.25
Tier 1 ratio	**12.6**	11.7	8.5 to 10.0	7.00
Total capital ratio	**15.3**	15.0	11.5 to 13.0	9.75

(Ratios calculated include unappropriated profits)

Loans and advances by cluster are as follows:

			Rm
	2011	2010	% change
Banking activity	**48,558**	42,650	13.9
Trading activity	**19,952**	19,678	1.4
Nedbank Capital	**68,510**	62,328	9.9
Nedbank Corporate	**164,754**	157,703	4.5
Nedbank Business Banking	**58,272**	50,765	14.8
Nedbank Retail	**183,663**	187,334	(2.0)
Nedbank Wealth	**19,625**	16,869	16.3
Other	**1,224**	274	>100.0
Total	**496,048**	475,273	4.4

Basel III developments

The majority of the international Basel III proposals were finalised in December 2010, although some significant aspects remain to be completed this year. The details of how Basel III will be adopted in South Africa are expected to be determined by the SARB during 2012.

Nedbank expects the impact of the new capital requirements to be manageable. On a Basel III pro forma basis for 2011 Nedbank is in a position to absorb the Basel III capital implications, with all capital adequacy ratios remaining well above the upper end of current internal target ranges. These should improve further into 2013 (the expected commencement date of Basel III implementation) from projected earnings, continuing capital and risk optimisation, and the impact of Nedbank's strategic portfolio management.

Once Basel III has been finalised in South Africa, Nedbank will review its current target capital ratios.

Two new liquidity ratios have been proposed under Basel III, being the liquidity coverage ratio (LCR) for implementation in 2015 and the net stable funding ratio (NSFR) for implementation in 2018. The impact of compliance by the South African banking industry with, particularly, the NSFR would be punitive if implemented as it currently stands in the light of structural constraints within the South African financial market. This is the case for many jurisdictions around the world, and the negative effect on economic growth and employment would be significant. Nedbank anticipates that a pragmatic approach on this issue will be applied prior to implementation in 2018.

Loans and advances

Loans and advances grew 4.4% to R496 billion (2010: R475 billion), with growth increasing, particularly in the wholesale portfolios, during the fourth quarter.

Advances totalling R9 billion were transferred from Nedbank Retail to Nedbank Business Banking in 2011 to leverage its strong client and risk practices. On a like-for-like basis the growth in Nedbank Retail was 2.7%, while Nedbank Business Banking's advances, excluding the full impact of the Imperial Bank transfer and other client moves, remained flat.

Deposits

Deposits increased 6.3% to R521 billion (2010: R490 billion) and Nedbank's loan-to-deposit ratio strengthened to 95.2% (2010: 96.9%).

Optimising the mix of the deposit book remains a key focus in reducing the high cost of longer-term and professional funding. This is critical as banks compete more aggressively for lower-cost deposit pools with longer behavioural duration as they position their balance sheets in preparation for the Basel III liquidity ratios. Low interest rates, coupled with low domestic savings levels and the deleveraging of consumers, led to modest growth in retail deposits during 2011. Relatively higher deposit growth in commercial deposits indicated increasing working capital and available capacity among corporate clients.

Group strategic focus

Nedbank's key strategic initiatives of repositioning Nedbank Retail, growing NIR, implementing the portfolio tilt strategy and expanding into the rest of Africa will continue to drive earnings growth.

Excellent progress was made in repositioning Nedbank Retail as a more client-centred and integrated business while maintaining the growth momentum of the product lines. Strong underlying business performance, growing the number and quality of primary clients, embedding effective risk management practices and strengthening balance sheet impairments while improving credit loss ratios, particularly in home loans, all contributed to Nedbank Retail's headline earnings increasing by 163.4% and its RoE increasing from 4.6% in 2010 to 11.8%.

Nedbank's NIR-to-expenses ratio target of 85% remains a key focus in the medium term. The objective is to achieve this target by continuing to deliver good quality annuity income through commission and fee growth from primary client gains, volume growth, new innovative products and cross-sell across clusters. Since 2009 Nedbank has added 58 branches, 229 in-retailer kiosks and 719 ATMs, and has refurbished 79 branches, representing an investment of R514 million.

The Optimise to Invest programme, involving simplifying information technology systems and rationalising costs, will also benefit the NIR-to-expenses ratio in the medium term.

Nedbank's portfolio tilt strategy continues to focus on strategically important EP-rich, lower-capital and liquidity-consuming activities and at the same time drives the efficient allocation of the bank's resources while positioning Nedbank strategically for Basel III. Insurance, asset management, transactional banking products, selected asset categories and deposits are important targeted areas for growth. In secured lending Nedbank continues to focus on profitable business that falls within Nedbank's board-approved risk appetite.

In the short to medium term, Nedbank's primary focus on South Africa and the five southern African countries in which it has a presence provides strong upside as it increases its EP share in the largest EP pool for financial services in Africa.

The deepening of the alliance with Ecobank through the granting of a $285 million loan facility and the subscription rights to acquire up to a 20% shareholding in Ecobank Transnational Inc. in two to three years creates a path to provide a significant benefit to clients in the rest of Africa in a prudent yet substantive manner and ultimately could provide shareholders with access to higher economic growth in the rest of Africa.

Nedbank's medium- to long-term targets remain unchanged and are included in the table below, with an outlook for performance against these targets for 2012:

Metric	2011 performance	Medium- to long-term targets	2012 outlook
RoE (excluding goodwill)	15.3%	5% above average cost of ordinary shareholders' equity	Improving, remaining below target.
Growth in diluted headline earnings per share	25.4%	≥ consumer price index + GDP growth + 5%	Above the target level.
Credit loss ratio	1.14%	Between 0.6% and 1.0% of average banking advances	Improving into upper end of target.
NIR-to-expenses ratio	81.5%	> 85%	Improving, remaining below target.
Efficiency ratio	56.6%	< 50.0%	Improving, remaining above target.
Core tier 1 capital adequacy ratio (Basel II)	11.0%	7.5% to 9.0%	Strengthening, remaining above target.
Economic capital	Capitalised to 99.93% confidence interval on economic capital basis (target debt rating A, including 10% buffer)		
Dividend cover policy	2.26 times	2.25 to 2.75 times	2.25 to 2.75 times.

Economic outlook

South Africa's GDP is currently forecast to grow by 2.7% in 2012, but remains dependent on international developments, particularly in Europe.

Given that confidence is anticipated to remain fragile, private sector fixed-investment activity is expected to remain modest. However, government and public corporations are forecast to escalate their infrastructure spending, which should contribute to improved wholesale advances growth.

Consumer spending is anticipated to moderate as concerns about inflation, house prices and job security prevail. Transactional demand should remain robust, while credit demand is likely to improve slowly off a low base as consumer balance sheets strengthen and debt levels decline.

Prospects

Nedbank is well set for continued growth in 2012, building on the earnings momentum created in 2011 and the focus and success of the delivery on Nedbank's strategic initiatives.

In an uncertain global environment Nedbank's qualities are attractive and should support continued earnings growth. These qualities include:

- Being one of the big four South African banks (South African banks were ranked second in the Soundness of Banks category in the World Economic Forum Global Competitiveness Survey)
- A strong, well-capitalised balance sheet with a prudent funding structure and sound liquidity
- A strong wholesale banking franchise returning high RoEs
- A strengthened and growing retail franchise
- A growing wealth business returning high RoEs
- A demonstrated ability to manage costs judiciously over time
- A growing primary-client base
- Sound risk management practices
- A stable and experienced management team
- Good staff morale and a values-based culture.

There is potential for further uplift from any acceleration of the economic cycle, as Nedbank NIM should benefit from the positive effect of increased interest rates on endowment income, improved levels of advances growth and the prospect of lower credit loss ratios.

These drivers, along with Nedbank's operational and financial gearing, are likely to enable continued improvement in Nedbank's RoA and RoE.

In the context of Nedbank's 2012 forecast for GDP growth, inflation and interest rates in South Africa, Nedbank's guidance for 2012 is as follows:

- Advances to grow at mid single digits
- NIM to remain at levels similar to those in 2011 and to benefit from interest rate increases
- The credit loss ratio to continue improving into the upper end of Nedbank's through-the-cycle target range
- NIR (excluding fair value adjustments) to grow at low double digits, maintaining Nedbank's ongoing improvement in the NIR-to-expenses ratio
- Expenses, including investing for growth, to increase by mid to upper single digits
- Nedbank to maintain strong capital ratios and continue to strengthen funding and liquidity in preparation for Basel III.

SHORT-TERM INSURANCE

Key financial highlights

Adjusted operating profit (pre-tax)

£89m

2010: £103m

Combined ratio

95.0%

2010: 92.4%

Number of employees

2,390

2010: 2,222

Underwriting result (£m)

2011	**30**
2010	46

Underwriting margin (%)

2011	**5.0**
2010	7.6

Return on equity (%)

2011	**14.9**
2010	19.0

Gross premiums (£m)

2011	**761**
2010	746

Some of our brands

MUTUAL & FEDERAL

iwyze

Short-Term Insurance

Peter Todd
Managing Director

Mutual & Federal (M&F) is our short-term insurer in South Africa, with operations in Namibia, Botswana and Zimbabwe.

Overview and strategy

M&F provides a full range of short-term insurance products to commercial and domestic customers in five principal portfolios: Commercial, Corporate, Personal, Risk Finance and Credit.

Our strategy is to deliver strong underwriting profit and revenue growth by building a profitable multi-channel business through which we can deliver competitive customer value propositions. Our vision is to become the short-term insurer of choice.

Over the coming years, M&F will continue focusing on delivering operational efficiencies and driving growth through the core broker business as well as alternative channels including direct through iWyze, underwriting management agencies and niche businesses.

Our five strategic drivers are to:

1 Embed profitable and sound underwriting processes

2 Develop compelling and innovative offerings for targeted customer and broker segments

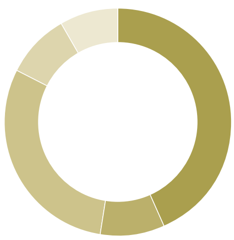
3 Grow our customer base by servicing customers through their channel of choice

4 Deliver value through efficient and customer-centric processes

5 Transform our business to benefit our people and other stakeholders.

Business profile	
Commercial	The Commercial portfolio is the largest, with a broad spectrum of customers ranging from small to medium businesses. It covers primarily property, liability, motor, engineering, marine and crop insurance risks.
Corporate	The Corporate portfolio focuses on corporate clients, from mid-size companies to large multinationals. Corporate offerings include protection, fire policies, accident policies and motor fleet insurance. The portfolio is staffed by specialists in corporate insurance, who support the major brokers in this sphere with expertise in mining, engineering, chemical production, motor manufacture and other major sectors.
Personal	The Personal portfolio provides household, motor and all-risk short-term insurance products to domestic customers of all ages and various financial groups. Our comprehensive personalised branded product, *Allsure*, continues to enjoy significant market support from the broker community. The portfolio also offers various white-labelled intermediary-branded products. It includes iWyze, the direct channel valuables insurance product, as well as a hospital cash plan, personal accident policies and low-cost products covering livestock and informal dwellings.
Risk Finance	The Risk Finance portfolio, comprising alternative risk transfer products, is provided by a well-regarded team which is recognised in the industry as one of South Africa's largest suppliers of risk financing solutions, primarily to medium-sized commercial customers.
Credit	The Credit portfolio is underwritten by a subsidiary of M&F with a market-leading position in credit insurance.

Percentage of 2011 gross premiums



Commercial	**44%**
Corporate	**9%**
Personal	**30%**
Risk Finance	**9%**
Credit	**8%**

Find further details of the operational results of the business within the Financial Disclosure Supplements on:
www.oldmutual.com/ir

SHORT-TERM INSURANCE
CONTINUED

Solid performance while building a strong foundation for growth

Highlights	2011	2010	% change
			Rm
Underwriting margin	**5.0%**	7.6%	
Underwriting result	**354**	519	(32%)
Long-term investment return (LTIR)	**625**	639	(2%)
AOP (IFRS basis, pre-tax)	**1,039**	1,162	(11%)
Gross premiums	**8,865**	8,442	5%
Earned premiums	**7,039**	6,859	3%
Claims ratio	**65.2%**	63.8%	
Combined ratio	**95.0%**	92.4%	
International solvency ratio	**66%**	73%	
Return on equity	**14.9%**	19.0%	

Review of 2011 results

M&F delivered a sound underwriting result in 2011, with results reflecting a more normalised year compared to the very favourable trading conditions and benign claims environment in 2010.

We increased our focus on achieving premium growth through alternative distribution channels, including direct through iWyze, underwriting management agencies and niche business.

iWyze, M&F's direct insurance joint venture with the Emerging Markets Mass Foundation distribution team, is progressing well and continues to meet premium growth targets. While there was continued investment in this start-up phase, including an increased headcount from 52 in 2010 to 206 in 2011, we are on track to deliver underwriting profitability in accordance with expectations.

As part of its ongoing capital management programme with the rest of the Group, M&F restructured its capital base and paid almost R1.0 billion of dividends in 2011. The company remains well capitalised, with a 66% international solvency ratio (the ratio of net assets to net premiums) at 31 December 2011. Working closely with the FSB and Group, M&F continues to make good progress in its preparation for Solvency II and its South African equivalent, Solvency Assessment and Management (SAM).

Underwriting and IFRS AOP results

AOP was 11% down on 2010, due to a decrease in the underwriting result and a marginal decrease in the LTIR due to the lower prescribed rate applied in 2011.

RoE reduced from 19.0% to 14.9%, reflecting reduced after-tax profits compared to 2010.

Premiums increased modestly as softening rates offset unit growth. The commercial portfolio performed well in terms of client retention and underwriting profit. iWyze achieved outstanding premium growth in its first full year of operation and has already become a meaningful competitor in the direct market for personal insurance.

The underwriting result was 32% down on 2010, impacted by softening rates and the expected normalisation in claims patterns which saw the claims ratio increase from 63.8% in 2010 to 65.2%. The 2010 claims ratio benefited from unusually benign claims conditions in H2 2010, with abnormally low levels of commercial losses and very favourable climatic conditions.

Expenses increased, primarily due to investment in change management initiatives to improve client service and drive operating efficiencies, as well as development costs associated with iWyze.

The Credit Guarantee operation performed particularly well over the period, with other portfolios generating solid returns. The businesses in Namibia and Botswana continued to deliver satisfactory contributions.

Outlook

We anticipate real top-line growth in 2012, with increased contributions from alternative channels including direct through iWyze and underwriting management agencies.

Our further investment in change management initiatives over the next two years will directly improve the claims ratio while reducing the expense base over the medium-term. We expect this to lead to an underwriting margin that is sustainable throughout the underwriting cycle in the long-term and in line with the 2011 margin.

We continue to partner Old Mutual Emerging Markets in the rest of Africa to identify opportunities and exploit synergies.

iWyze achieved outstanding premium growth in its first full year of operation and has already become a meaningful competitor in the direct market for personal insurance.

US ASSET MANAGEMENT

Key financial highlights

Adjusted operating profit (pre-tax):

2011		**£67m**
2010		£72m

Operating margin (before non-controlling interests (NCI)):

2011		**18%**
2010		18%

Adjusted operating profit (pre-tax):
Results from Continuing Operations[1,2]

£82m
2010: £73m

Funds under management:
Results from Continuing Operations[1]

2011		**£128.8bn**
2010		£133.5bn

Funds under management:
Reported results

2011		**£148.8bn**
2010		£166.4bn

Operating margin (before NCI):
Results from Continuing Operations[1]

22%
2010: 20%

Net client cash outflow:
Results from Continuing Operations[1]

2011		**£4.2bn**
2010		£8.2bn

Net client cash outflow:
Reported results

2011		**£15.3bn**
2010		£12.0bn

Number of employees

1,564
2010: 1,537

Some of our brands

ROGGE
ACADIAN
BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.

1. Excludes results of Old Mutual Capital, Lincluden, and Dwight Asset Management, as well as £7.5 million of restructuring costs in 2011.

2. Excludes gains/losses on seed capital which have been captured at the Group level. The comparative period has been restated accordingly.

US Asset Management

Peter Bain
President and Chief Executive Officer

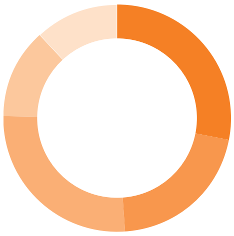
Trading as Old Mutual Asset Management (OMAM) and based in Boston, US Asset Management (USAM) delivers institutionally-driven, active investment management through its multi-boutique framework.

Overview

USAM's 17 boutique firms (affiliates) offer a diverse set of products to a wide range of institutions around the globe.

USAM supports its affiliates from the centre by providing selected product distribution, seed capital, risk management, technology, legal and internal audit capabilities. With strong support from a global wealth management organisation, affiliates can remain focused on generating superior investment performance for their clients.

2011 Funds under management mix



FUM	$bn
US Equities	65
Global & Non-US Equities	48
Fixed Income	61
Alternatives	30
Stable value	27

The new management team at USAM has taken steps to refine strategy and refocus the business. As part of that effort, several affiliate firms are being divested to improve USAM's longer-term financial performance. USAM is therefore presenting its results on two bases: reported results, and results from continuing operations. Results from continuing operations exclude the operating results of the affiliates being divested and certain restructuring costs.[1]

Markets and strategy overview

US investors experienced highly volatile and unpredictable market conditions throughout 2011, with relatively flat equity market performance for the year. Globally, equities experienced declines in 2011, impacted by concerns over sovereign debt and the pace of the global economic recovery. Fixed income, alternative strategies, and emerging market equities were favoured by investors during 2011, while the other equity strategies, particularly US equities, continued to experience outflows.

Over 140 investment strategies across a wide array of categories

US Equities	Global & Non-US Equities	Fixed Income	Alternatives
■ Large, mid, small, all-cap ■ Growth, value, core	■ Global, international, regional ■ Emerging markets	■ Long duration, intermediate, short-term ■ Core, core plus, high yield ■ TIPS ■ Global, international, emerging markets	■ Market neutral ■ Hedge fund seeding ■ Hedge fund emerging managers ■ Managed futures ■ Real estate (public, private, global) ■ Timber

Find further details of the operational results of the business within the Financial Disclosure Supplements on: **www.oldmutual.com/ir**

US ASSET MANAGEMENT
CONTINUED

USAM boutique investment managers (Continuing Operations)[1]

Affiliate	Established	Investment style	Funds under management 31 December 2011
[illegible]	1979	Fundamental US global & international value equity & US fixed income manager	$59.7bn
ROGGE	1981	Fundamental global fixed income manager	$45.0bn
ACADIAN	1986	Quantitative US, global & international equity manager	$42.2bn
HEITMAN A REAL ESTATE INVESTMENT MANAGEMENT FIRM	1966	Public and private real estate, real estate debt manager	$19.2bn
TS&W Thompson, Siegel & Walmsley LLC Investment Management	1969	Fundamental US/international value equity & fixed income manager	$6.8bn
OLD MUTUAL ASSET MANAGERS	1986	Fundamental & quantitative global and fixed income manager	$6.2bn
Analytic Investors	1970	Quantitative equity & fixed income manager	$5.9bn
The Campbell Group	1981	Timber investment management company	$5.8bn
Ashfield Capital Partners	1973	Fundamental US growth manager	$3.4bn
ICM	1972	Fundamental US value equity manager	$1.9bn
Echo Point Investment Management	2010	Fundamental international growth equity manager	$1.5bn
Copper Rock Capital Partners	2005	Fundamental US small/SMID growth & global equity manager	$1.2bn
Larch Lane Advisors LLC	1999	Multi-strategy fund of hedge funds manager & hedge fund seeding specialist	$0.9bn
300	1951	Fundamental US growth manager	$0.4bn
2100Xenon	2005	Quantitative commodity trading adviser of managed futures portfolios	$0.2bn

1. Excludes two affiliates held for sale: Old Mutual Capital and Dwight Asset Management.

Continuing operations achieve improved financial results and reduced net outflows despite challenging markets

Highlights	2011	2010	$m change
Reported results			
AOP (IFRS basis, pre-tax)	**107**	111	(4)%
Operating margin, before non-controlling interests	**18%**	18%	
Operating margin, after non-controlling interests	**15%**	15%	
Net client cash flows ($bn)	**(24.6)**	(18.4)*	(34)%
Funds under management ($bn)	**231.5**	258.3*	(10)%
Results from continuing operations			
AOP (IFRS basis, pre-tax)	**131**	113	16%
Operating margin, before non-controlling interests	**22%**	20%	
Operating margin, after non-controlling interests	**19%**	17%	
Net client cash flows ($bn)	**(6.7)**	(12.6)*	47%
Funds under management ($bn)	**200.3**	207.4*	(3)%

* 2010 NCCF and FUM were restated to exclude some of Larch Lane's funds, which were also included in Emerging Markets' NCCF and FUM.

Review of 2011 results

We are presenting our results on two bases: reported results, and results from continuing operations. Results from continuing operations exclude the operating results of the affiliates being divested and certain restructuring costs.[1] The key impact of these strategic actions, reflected in the continuing operations, is a reduction in net cash outflows from $24.6 billion to $6.7 billion and an increase in operating margin from 18% to 22%. In addition, fees on average assets under management increase from 28 basis points to 31 basis points on a continuing basis.

AOP results and operating margin

Reported results

IFRS AOP was down 4% to $107 million (2010: $111 million). These figures exclude gains/losses on seed capital which have been captured at the Group level for 2011 and comparative periods. Seed capital investment returns on strategies managed by our affiliates were $(0.5) million (2010: $24.0 million).

Overall revenue was down $3.6 million due to a 2% decrease in average FUM and lower performance fees, partially offset by higher transaction fees.

Management fees decreased by $11.6 million or 2% and performance fees were down $2.7 million or 25%. However, transaction fees were up $7.3 million or 103% to $14.4 million for the period.

AOP operating margin before non-controlling interests was consistent with 2010 at 18%.

[1] Excludes results of OMCAP, Lincluden, and Dwight Asset Management, as well as $12 million of restructuring costs in 2011.

Results from continuing operations

Excluding operating results from affiliates held for sale or disposed of, and adding back $12 million of restructuring costs, AOP was up 16% to $131 million (2010: $113 million). This was largely due to higher management fees, lower amortisation of deferred acquisition costs and impairments during 2012, and lower central costs.

Management fees were up $6 million or 1% due to higher average FUM.

AOP operating margin before non-controlling interests was 22%, up from 20% in 2010. Improving operating margin continues to be an area of focus.

Investment Performance

Results from continuing operations

Investment performance continued to improve during the period. For the one-year period ended 31 December 2011, 62% of assets outperformed benchmarks, compared to 57% at 31 December 2010.

Over the three- and five-year periods to 31 December 2011, 68% and 67% of assets outperformed benchmarks, compared to 49% and 65% at 31 December 2010. The increase was driven by improving performance in International Equity and Global Fixed Income.

US ASSET MANAGEMENT
CONTINUED

Funds under management and net client cash flows

	Flows from continuing operations		Flows from disposed of or held for sale affiliates		Total	$bn
	2011	2010	**2011**	2010	**2011**	2010
Opening FUM	**207.4**	198.8	**50.9**	61.9	**258.3**	260.7
Gross inflows	**25.6**	25.9	**3.8**	5.0	**29.4**	30.9
Gross outflows	**(32.3)**	(38.5)	**(21.7)**	(10.8)	**(54.0)**	(49.3)
Net outflows	**(6.7)**	(12.6)	**(17.9)**	(5.8)	**(24.6)**	(18.4)
Market and other	**(0.4)**	21.2	**(1.8)**	(5.2)	**(2.2)**	16.0
Closing FUM	**200.3**	207.4	**31.2**	50.9	**231.5**	258.3

Funds under management and net client cash flows

Reported results

FUM ended the year at $231.5 billion (2010: $258.3 billion). The disposal of Lincluden Investment Management during the period reduced FUM by $2.7 billion.

Net client cash outflows totalled $24.6 billion (2010: $18.4 billion), largely relating to low-fee stable value funds. Market volatility and weakness during the year contributed to withdrawals and reallocations.

Gross inflows during the period totalled $29.4 billion (2010: $30.9 billion), with $7.6 billion of gross inflows coming from new client accounts during the period.

Gross outflows totalled $54.0 billion (2010: $49.3 billion), with $18.8 billion of outflows relating to low-fee stable value funds (2010: $8.2 billion).

Results from continuing operations

FUM decreased 3% to $200.3 billion (2010: $207.4 billion), reflecting flat markets overall and net client cash outflows. FUM was primarily long-term investment products diversified across equities ($113 billion, 56%), fixed income ($57 billion, 29%) and alternative investments ($30 billion, 15%).

Net client cash outflows of $6.7 billion showed improvement over the prior year (2010: $12.6 billion), as enhanced investment performance stabilised outflows in key products. Net outflows declined to $0.1 billion in Q4 2011, their lowest quarterly level since Q2 2009.

Gross inflows totalled $25.6 billion (2010: $25.9 billion). Top 2011 gross sales were driven by Emerging Market Equity, Real Estate, Fixed Income and Low Volatility Equity.

Gross outflows totalled $32.3 billion (2010: $38.5 billion), driven by outflows from US equities, particularly large cap. This is consistent with the overall asset management industry's experience in 2011.

Non-US clients currently account for 34% of FUM. International, Emerging Markets and Global Equity products account for 24% of FUM.

Corporate developments

The transaction transferring ownership of Lincluden Investment Management to the affiliate's management team closed on 30 December 2011.

The previously announced sale of our domestic retail business, OMCAP, is progressing as planned and is expected to close in April 2012.

In February 2012 we announced that Goldman Sachs had entered into a definitive agreement to acquire Dwight Asset Management Company LLC, an institutional fixed income affiliate based in Burlington, Vermont. The transaction is expected to close in Q2 2012.

In Q4 2011 we announced organisational changes to support the strategic expansion of our global distribution efforts.

Outlook

We expect continued improvement in NCCF in 2012 as a result of enhanced investment performance in a number of key products. The improved investment performance over 2011 initially reduced outflows and subsequently increased sales: we believe this trend could lead to positive flows in 2012.

In 2012 and beyond, we expect to make investments in our global distribution capabilities to further leverage Group capabilities and distribution platforms. This will enable USAM to better leverage the affiliates' investment expertise for clients around the world.

We remain committed to achieving our financial goals of 25% to 30% operating margin and expect continued improvement in USAM's margin in 2012, particularly if equity markets remain strong throughout the year and NCCF turns positive. However, we will continue to invest in the business by incurring current expenses which may partially inhibit margin growth in the short term but will achieve important financial and strategic objectives in future years.

The new management team at USAM has taken steps to refine strategy and refocus the business. As part of that effort, several affiliate firms are being divested to improve USAM's longer-term financial performance.

NON-CORE AND DISCONTINUED BUSINESS OPERATIONS

Non-core business – Bermuda

Bermuda remains a non-core business. Its results are excluded from the Group's IFRS AOP, although the interest charged on internal loans from Bermuda to Group Head Office is charged to AOP.

Overview

The business continued to implement its run-off strategy of risk reduction while managing for value. Ongoing business service improvements, enhancements to liability management and further de-risking initiatives, targeted specifically at contracts that have elected the Guaranteed Minimum Accumulation Benefits (GMABs), are designed to accelerate the run-off of the in-force book.

IFRS results

The IFRS post-tax loss of $286 million (2010: $41 million gain) was driven by the guarantee performance arising primarily from equity market declines in H2 and a reduction in US interest rates. There was an IFRS post-tax profit of $76 million in H1. The impact of the dynamic hedging programme over 2011 helped to reduce the losses on the variable annuity guarantees. Notwithstanding the hedging programme, given current equity market conditions the business expects volatility in earnings in the short to medium term.

MCEV results

The 2011 operating MCEV earnings resulted in a gain after tax of $76 million (2010: $36 million loss). Operating earnings include positive persistency experience variance and assumption changes in 2011 compared to one-time negative corrections from data migration and modelling changes in 2010.

Total MCEV earnings including economic variances and other non-operating variances were a loss of $343 million, mainly due to significant underperformance of the variable annuity guarantee business.

The MCEV balance reflects the value of the reserve plus the other net assets of the business including the collateral posted under the hedge programme, the fee revenue to be collected and expenses to be paid to run off the entire business. Thus the VIF reflects the full market cost of providing an instrument that matches the expected development of the liability. Changes in the hedge programme from the levels actually used will not change the value of the reserve itself, but may change the value of the collateral posted under the hedging programme and the adjusted net worth which, together with the VIF, generate the MCEV for the business.

Reserve development

The development of the Bermuda business reserves is shown below:

		$m
	2011	2010
Variable annuity investments	**3,130**	4,495
Variable annuity guarantee liabilities	**1,061**	672
Deferred & fixed index annuities	**310**	939
Total insurance liabilities	**4,831**	6,106

The overall reduction in liabilities reflects the surrenders experienced in the year and negative investment return earned, offset by the increase in the guarantee reserve.

Of total insurance liabilities of $4,831 million, $3,130 million is held in a separate account relating to variable annuity investments. Of the remaining reserves, $1,061 million relates to guarantee liabilities on the variable annuity business and $640 million relates to other policyholder liabilities, including deferred and fixed indexed annuity business.

The GMAB reserve in respect of universal guarantee option (UGO) contracts has been set up for the full period of the contract length, including the five-year anniversary top-up of 105% of total premiums, the 10-year 120% top-up of total premiums and any high watermark contracts.

At the year end, there were 27,820 UGO contracts, of which 720 had high watermarks over and above the 120% top-up entitlements.

The $389 million increase in GMAB reserve during the period was largely attributable to poor equity market performance, but lower interest rates increased the reserve by almost $79 million.

Mapping of policyholder investment funds to hedgeable indices is performed at least quarterly. This has improved the accuracy of the GMAB reserve calculations and the effectiveness of hedging.

The sensitivity to capital markets on GMABs with UGO is highlighted in the table below, showing quarterly GMAB reserves and estimated fifth-anniversary guarantees over the past 18 months:

		$m
Period	Guarantee reserves for UGO GMAB	Estimated top-up payment of meeting UGO GMAB fifth-anniversary guarantees
30 June 2010	996	775
30 September 2010	824	458
31 December 2010	660	334
31 March 2011	573	303
30 June 2011	620	346
30 September 2011	1,144	738
31 December 2011	**1,035**	**689**

Surrender development

Surrender activity is being proactively managed through further service enhancements and fund expansion, with conservation strategies focused on the non-GMAB book of business. The account values associated with GMAB and non-GMAB for 2011 and 2010 are shown in the table below:

			$m
Period	Account Value: GMAB	Account Value: Non-GMAB	Total Account Value
31 December 2011	**2,858**	**912**	**3,770**
31 December 2010	4,143	1,291	5,434

We continue to engage with distributors, developing the customer proposition and experience through a strengthened adviser-focused strategy. Bermuda is maintaining high levels of customer service through continued operational and service improvements.

The $1.2 billion of surrenders across the whole Bermuda book during the period amounted to some 22% of the total 31 December 2010 account value. This was partially attributable to initiatives allowing UGO GMAB contract holders to surrender their contracts without penalty charges. These initiatives increased the rate, value and number of guarantee contract surrenders; overall surrender activity across UGO GMAB was over two and a half times 2010 levels (2011: 2,175 policies; 2010: 796 policies). Management continues to assess demand for similar offers to accelerate further the run-off of the UGO guaranteed book.

Future surrender behaviour will be influenced by the extent to which the underlying fund values of the policyholders are close to or above the level of the guarantee.

Risk management and investment portfolio update

No defaults or impairments were recorded during 2011. The portfolio has a current average rating of A3 (Moody's rating scale) with investment-grade quality holdings continuing to represent more than 80% of the portfolio.

The net unrealised position was a gain of $29 million at 31 December 2011 (2010: $31 million gain) as a result of continued de-risking efforts and the decrease in US interest rates, offset somewhat by a widening of corporate spreads. Overall, the book value of the portfolio reduced from $0.8 billion at the end of 2010 to $0.6 billion at 31 December 2011, largely due to the sale of investments to meet surrender activity and withdrawals.

The year-end book value of assets in the investment portfolio with a market value to book value ratio of 80% or lower was zero (compared to $3 million at 31 December 2010). The bond portfolio which forms part of shareholder assets is invested to match the duration of obligations to policyholders and has a running yield of 5%, higher than the 3% interest credited to certain policyholders.

NON-CORE AND DISCONTINUED BUSINESS OPERATIONS
CONTINUED

Hedging

Over the period, the business continued to dynamically manage the underlying economics of the hedging programme to strike a balance between the potential changes in the income statement, liquidity and transactional costs. At 31 December 2011, hedge coverage over equities was 54% (2010: 58%) and 53% over foreign exchange (2010: 39%), with interest rates remaining unhedged (2010: nil). The exposures are primarily to Asian equities and currencies versus the US dollar.

At 31 December 2011, the total cost of fifth-anniversary top-up payments to policyholders in respect of the GMAB liabilities over the next two years was estimated at $689 million (30 September 2011: $738 million; 30 June 2011: $346 million; 31 December 2010: $334 million). The actual cash cost will be affected by any changes in policyholders' account values until the fifth-anniversary date of each policy, offset by hedge gains or losses. At 29 February 2012, rising equity markets had reduced the cash cost of top-up payments required to meet fifth-anniversary guarantees to $426 million and the GMAB reserve to $791 million. At the level of hedging in place at 29 February 2012, a 1% fall in equity market levels would have increased the net cash cost of meeting policyholder guarantees by approximately $11 million.

In March 2012, Bermuda enhanced its hedging strategy by implementing an option-based hedging arrangement. This strategy will protect against downside risk from further equity market declines relating to meeting the cash cost of the fifth-year anniversary of UGO contract top-up obligations, while maintaining the potential to realise gains if equity markets move higher. The existing futures-based dynamic hedging strategy will remain in place for the variable annuity book exposure beyond five years. Also, the exposure to currency movements impacting the UGO top-ups will continue to be dynamically hedged.

Fifth-anniversary payments began on 5 January 2012, but the bulk of the payments will be made between 1 October 2012 and 31 January 2013. The enhanced hedging strategy aims to provide greater cash flow certainty over the period when the fifth-year anniversary UGO top-up payments fall due. We remain confident that the fifth-anniversary top-ups can be met within the estimated cost at 31 December 2011 and expect the cash cost to be met from Bermuda's own resources.

Statutory capital reduced to $291 million at 31 December 2011, reflecting the IFRS loss for the year (2010: $625 million). Capital allocated to the business on a local level takes into account the inter-company loan from the business to the Group. At the end of December 2011, the Bermuda Class E prudential rules had been signed into Bermudan law, so the new BMA regulatory framework is in effect from 2011. The amount of Bermuda solvency required capital for financial year 2011 is estimated at about $120 million under the current transition rule. The business continues to maintain a sufficient statutory capital surplus against such a requirement.

Treasury management of Bermuda business assets

The Bermuda business assets backing the liabilities include:

	$m	
	2011	2010
Cash	**256**	114
Fixed income general account portfolio	**543**	839
Collateral for hedge assets	**91**	77
Inter-company loan	**830**	880
Separate account assets	**3,130**	4,495
Other assets	**310**	384
Total assets	**5,160**	6,789

As the most active period of the fifth-anniversary guarantee payments approaches, the business will seek to sell assets from its fixed income general account portfolio and, together with the other liquid assets of the business, meet the cash requirements of the top-ups as they fall due. Collateral posted for the hedge assets will adjust as the liabilities develop and could be released as the business evolves. The inter-company loan is structured in tranches, allowing capital and treasury management flexibility if this is required from this source.

Discontinued business – Nordic and US Life

Profit from discontinued business after tax was £198 million (2010: £728 million loss), comprising US Life profits of £130 million (2010: £713 million loss) and Nordic profits of £68 million (2010: £15 million loss).

US Life profits were driven by the recycling of the available for sale reserve and foreign exchange to the income statement. The 2010 loss reflected the impairment of the US Life business in anticipation of its sale on the terms agreed with the purchaser.

Nordic

As a non-core business, the Nordic results are reported on an IFRS basis. However, for the purpose of comparability with previous periods, Nordic has been included in the Business Review below as if it was still being reported under AOP.

Despite the turbulent stock markets and a number of one-off costs, the Nordic business had a robust underlying IFRS AOP result. A cost-reduction programme was implemented during the year and the management team has refocused the business on delivering its key priorities, namely:

- Strengthening distribution power
- Improving the product offering to customers
- Stimulating future NCCF growth
- Increasing operational efficiency to secure profitable growth
- Optimising structures and risk frameworks to unlock value.

Product development has been accelerated, with the release of the *Depå* pension product and a bank investment savings account.

According to customer surveys, Skandiabanken had the most satisfied banking customers for the tenth year in a row and was also nominated for best customer service in Norway in 2011.

Net client cash flow and funds under management

NCCF decreased 3% to SEK7.2 billion, driven by higher surrenders in the occupational pension business and outflows from the bank offering. The increased outflows in Skandiabanken were primarily driven by customers seeking lower-risk investments, such as deposit accounts. Skandiabanken Sweden retail deposits grew, which are not included in NCCF, to SEK33.1 billion.

FUM reduced by 8% to SEK134.3 billion at the year end, with negative market movements partially offset by positive NCCF. The stock market recovery during Q4 had a positive impact on FUM.

Sales

APE sales rose 6% to SEK2,381 million, driven by strong sales in Denmark as a result of attractive products and continued distribution growth via the tied agents sales force. Swedish APE sales were 5% down, with lower Corporate sales. Corporate business growth was held back by the delay in launching the occupational pension version of the *Depå* product and the current market conditions, which favour products with guarantees.

Mutual fund sales were up 1% to SEK6,553 million, with customers transferring assets to the low-risk and popular Skandia interest-earning funds.

IFRS AOP results*

IFRS AOP (pre-tax) was down 16% to SEK1,036 million (2010: SEK1,227 million). The 2010 result included one-off income of SEK126 million related to a divestment of a private equity holding and restructuring costs of SEK49 million. The 2011 result includes several one-off costs totalling SEK281 million, including IT costs. Excluding all one-off items, the underlying profit was SEK1,317 million (2010: SEK1,150 million) – a robust result in a challenging economic climate.

MCEV results

Operating MCEV earnings after tax increased to SEK1,336 million (2010: SEK503 million), primarily due to growth in existing business contribution, strong new business value and a strengthening of operating assumptions in 2010 that negatively impacted 2010 earnings. Operating MCEV earnings included two one-off effects, a restructuring expense from the ongoing redundancy programme and a change in the modelling of tax on overhead expenses. Without these two non-recurring effects, operating MCEV earnings after tax would have been SEK1,482 million.

The value of new business increased 27% to SEK584 million, driven by positive new sales in Skandia Link Denmark. The APE margin increased from 20.6% to 24.5%, due to a more profitable product mix.

*As a non-core business the Nordic results are reported on an IFRS basis. However, for the purpose of comparability with previous periods Nordic has been included in the Business Review as if it is still being reported under AOP.

GROUP FINANCE DIRECTOR'S STATEMENT

Old Mutual showed strong growth in profits… AOP earnings per share were up 10%[1] to 15.7p… RoE increased to 14.6% from 14.2%.

Philip Broadley
Group Finance Director

Overview

Following the proposed sale of the Nordic business, Nordic has been classified as a discontinued operation and its profits have been excluded from AOP. Seed capital investment in strategies managed by USAM affiliates and seed capital investment returns previously recognised within USAM were recorded at Group level for 2011. Comparatives were restated accordingly. USAM's Dwight, Lincluden and OMCAP affiliates were included in all reported results unless otherwise stated. Nordic, US Life and Bermuda results are included in the Group's MCEV results.

During the year to 31 December 2011 ('2011' or 'the year') Old Mutual showed strong growth in profits compared to the year to 31 December 2010 ('2010'). AOP earnings per share were up 10% to 15.7p for 2011 (2010: 14.3p). Pre-tax AOP was £1,515 million, an increase of £144 million on 2010. On a constant currency basis profits increased by £182 million, with notable improvements in profitability in the Mass Foundation Cluster (MFC) and Retail Affluent in our Emerging Markets business and increased non-interest revenue income in our South African banking business. Including Nordic, AOP earnings per share were up 9% to 17.5p (2010: 16.0p).

Group net margin (measured as profit before tax on average assets) increased by 4 basis points over the year from 42 basis points (excluding Nordic) to 46 basis points.

[1]On a reported basis.

The increase was driven by a strong improvement in the net margin at Nedbank. In Wealth Management the net margin, excluding the previously reported smoothing for policyholder tax, has improved from 23 basis points to 27 basis points as a result of the business gaining operational leverage, with increased UK Platform FUM and a more efficient expense base following the cost reduction programme; administrative expenses are now £42 million below the prior year.

RoE increased to 14.6% from 14.2%, as a result of the increased profits, particularly in Nedbank, offsetting an increase in the Group's equity base, which included the net assets of Zimbabwe, Kenya, Malawi and Swaziland for the first time.

While life assurance annual premium equivalent (APE) sales were down 6% to £1,207 million, Emerging Markets APE sales increased, driven by continued strong protection sales in MFC and Retail Affluent. Wealth Management continued to grow its single premium Platform sales but APE sales were down overall, with lower UK Legacy sales reflecting the reduction in the range of Legacy products being offered in 2011 and weakened European sentiment.

Non-covered business sales, including unit trust and mutual fund sales, were up 13%, driven by pension sales in the Colombian business of Emerging Markets. Strong sales continued in Wealth Management, up 4% on 2010.

FINANCE DIRECTORS FROM AROUND THE GROUP

Iain Pearce
Group Head Office

Katie Murray
Emerging Markets

Markus Deimel
Retail Europe

Mark Satchel
Wealth Management

Raisibe Morathi
Nedbank

Michael Sakoulas
Bermuda

Dheven Dharmalingam
Mutual & Federal

Stephen Belgrad
OMAM US

Summarised Financial Information

			£m
	2011	2010[1]	% change
IFRS results			
Basic earnings per share	**12.9p**	(6.5)p	
IFRS profit/(loss) after tax attributable to equity holders of the parent	**667**	(282)	
Sales statistics			
Life assurance sales – APE basis	**1,207**	1,290	(6)%
Life assurance sales – PVNBP basis	**9,113**	10,162	(10)%
Value of new business	**177**	159	11%
Non-covered sales[2]	**14,374**	13,018	10%
MCEV results[3]			
Adjusted Group MCEV (£bn)	**10.8**	11.0	
Adjusted Group MCEV per share	**194.1p**	202.2p	
AOP Group MCEV earnings (post-tax and non-controlling interests)	**1,055**	830	27%
Adjusted operating Group MCEV earnings per share	**19.4p**	15.5p	25%
Financial metrics			
Return on equity[4]	**14.6%**	14.2%	
Return on Group MCEV[3]	**10.7%**	10.9%	
Net client cash flows (£bn)	**(11.4)**	(6.7)	(70)%
Funds under management (£bn)	**267.2**	295.2	(9)%
Interim dividend	**1.5p**	1.1p	36%
Final dividend	**3.5p**	2.9p	21%
Financial Groups Directive (FGD) surplus[5] (£bn)	**2.0**	2.1	(5)%
Net asset value per share	**140p**	151p	

[1] The year ended 31 December 2010 has been restated to reflect Nordic as discontinued.
[2] Includes all unit trust and mutual fund sales.
[3] Includes Nordic and US Life.
[4] RoE is calculated as core business IFRS AOP (post-tax) divided by average shareholders' equity (excluding the perpetual preferred callable securities).
[5] The Group's regulatory capital surplus, calculated under the EU Financial Groups Directive, was £2.0 billion at 31 December 2011. The Group followed the FSA's requirements, and gave six months advance notice of its right in January 2012 to call the remaining €200 million of the €750 million Lower Tier 2 euro bond that was partially redeemed in July 2011. As a result of that notice, the Lower Tier 2 instrument was excluded from the regulatory capital surplus calculations as at 31 December 2011.

GROUP FINANCE DIRECTOR'S STATEMENT
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Overview of FY 2011 results

	2011	2010 (constant currency)	% change	2010 (as reported)	% change
					£m
Group highlights[1]					
Adjusted operating profit (IFRS basis, pre-tax)	**1,515**	1,333	14%	1,371	11%
Adjusted operating earnings per share (IFRS basis)	**15.7**	13.9p	13%	14.3p	10%
Group net margin[2]	**46bps**			42bps	4bps
Return on equity[3]	**14.6%**			14.2%	40bps
Life assurance sales – APE basis	**1,207**	1,277	(6)%	1,290	(6)%
Non-covered sales[4]	**14,374**	12,766	13%	13,018	10%
LTS net client cash flow (£bn)	**3.2**	4.3	(26)%	4.3	(26)%
Net client cash flows (£bn)[5]	**(0.2)**	(2.5)	91%	(2.8)	92%
Funds under management (£bn)	**267.2**	282.3	(5)%	295.2	(9)%
Full dividend for the year	**5.0p**			4.0p	25%
Total profit/(loss) after tax attributable to equity holders of the parent	**667**			(282)	

[1] The figures in the table are in respect of core continuing businesses only and the 2010 comparatives have been restated accordingly. Nordic was classified as discontinued business in 2011 as it is subject to a sale agreement.
[2] Ratio of AOP before tax to average assets under management in the period.
[3] RoE is calculated as core business IFRS AOP (post-tax) divided by average shareholders' equity (excluding the perpetual preferred callable securities).
[4] Includes unit trust/mutual funds sales.
[5] Total NCCF excludes NCCF from USAM's Dwight, Lincluden and OMCAP affiliates, which were sold or held for sale at 31 December 2011.

All of our LTS businesses saw positive NCCF during the year. The Group had a small net client cash outflow of £0.2 billion (2010: £2.5 billion outflow), excluding £11.2 billion of net outflows from USAM's affiliates which were sold or held for sale at 31 December 2011. The improvement was primarily due to improved NCCF in USAM's continuing business, reflecting markedly improved investment performance on a number of key strategies.

On a constant currency basis closing FUM decreased by 5% driven by negative market movements in H2 and net client cash outflows in USAM. Over the year the FTSE and MSCI World indices fell by 6% and 8% respectively, the JSE All Share and S&P 500 indices were broadly flat and the Dow Jones rose by 6%.

The rand weakened by 3% against sterling, on an average rate, negatively impacting sterling earnings from our South African businesses. The 31 December 2011 rand closing rate was down 22% against 31 December 2010, negatively impacting sterling FUM from our South African businesses. The US dollar weakened by 4% on an average rate, negatively impacting sterling earnings from USAM, but was flat at closing rate.

Proposed Nordic sale

On 15 December 2011 we announced the sale of our Skandia Nordic business, which operates in Sweden, Norway and Denmark, to Skandia Liv for net cash proceeds of £2.1 billion. Following shareholder approval at the Extraordinary General Meeting on 14 March 2012, completion is expected on or around 21 March 2012. The necessary competition authority and regulatory approvals have been obtained.

The total return on the Skandia Investment

Since purchasing the Skandia businesses in 2006, the Group has made a total return on investment from the acquisition of about £1.8 billion or 45%, giving an internal rate of return of 8%.

	£bn
Net cash flows from Skandia BUs	0.8
Proposed net sale proceeds	2.1
Remaining business valued at MCEV 31/12/2011	2.9
Total proceeds from and remaining value of Skandia BUs	5.8
Purchase price	(4.0)
Surplus	**1.8**
Internal rate of return	8%

Net cash inflows, including proceeds from disposals, from the Skandia businesses to the Group since acquisition have amounted to £0.8 billion; the proposed net sale proceeds for the Nordic elements of the Skandia businesses are £2.1 billion and the MCEV of the remaining Skandia businesses within the Group (which ignores the value of future new business) is £2.9 billion. The bulk of the £4.0 billion consideration for the Skandia businesses was paid in February 2006, resulting in an implied surplus for shareholders of £1.8 billion from the acquisition.

Dividends and consolidation of shares

Special dividend

Following the proposed Nordic sale, the Board intends to return approximately £1.0 billion of net proceeds from the disposal to ordinary shareholders by means of a special dividend, equivalent to 18p per ordinary share (or its equivalent in other applicable currencies), which we expect to be paid in June 2012. We are also proposing a consolidation of shares following the special dividend of seven new shares of $11^{3}/_{7}$p nominal per share for every eight existing shares of 10p nominal. Reported earnings per share for 2012 and 2011 will be restated accordingly.

No scrip alternative to the 18p per ordinary share special dividend will be offered.

Final dividend for 2011

Given the continued progress in achieving our debt repayment programme, the Board has considered the position in respect of the final dividend for 2011 and is recommending the payment of a final dividend for 2011 of 3.5p per ordinary share (or its equivalent in other applicable currencies), amounting to about £195 million. This is equivalent to 4.0p per new ordinary share once the existing shares are consolidated. Based on this recommendation, the full-year ordinary dividend would be 5.0p, up 25% on 2010.

A scrip dividend alternative is not being made available in relation to this dividend in view of the complexities involved in the share consolidation, and the Board will consider later in 2012 whether to reinstate a scrip dividend alternative for the interim dividend for the current year.

Dividend policy

The Board intends to pursue a progressive dividend policy consistent with our strategy, having regard to overall capital requirements, liquidity and profitability, and targeting dividend cover of at least 2.5 times IFRS AOP earnings over time. In future we expect to set interim dividends routinely at 30% of the prior year's full dividend.

Management discussion and analysis of results for FY 2011

The principal businesses of the Group are the LTS division, Nedbank, M&F and USAM. The results for each of the LTS businesses, Nedbank, M&F and USAM are discussed separately in the Business Review which precedes this report.

Full year ordinary dividend of 5.0p, up 25% on 2010.

Fees increased 5% to £2,075 million. Fees include asset-based fees, transactional fees, performance fees and premium-based fees, earned on unit-linked investment contracts and Asset Management revenues.

The increase in fees was driven by Wealth Management and Emerging Markets, reflecting significantly higher average FUM – up some 7% on 2010.

Underwriting increased 4% to £1,471 million. The increase was driven by Emerging Markets, which benefited from improved retail mortality and morbidity experience as well as more favourable retail persistency experience.

Nedbank net interest income (NII) was up 19% to £1,120 million, due to an increase in the NII margin, an increase in interest-earning assets and a reduction in impairment provisions.

Nedbank non-interest revenue (NIR) was up 11% to £1,268 million. NIR included service charges, trading income, commission and transactional fees. The increase was due to higher commission and fees, higher derivative and dividend income and increased transactional volumes.

Net other revenue was flat, with reduced inter-company interest paid to Bermuda and small increases in other revenues in Nedbank and Emerging Markets, offset by a reduction in long-term investment return (LTIR) in Wealth Management.

Sources of earnings

£m	2011	2010[1]	% change
Revenue			
Fees	**2,075**	1,976	5%
Underwriting[2]	**1,471**	1,419	4%
Nedbank net interest income[3]	**1,120**	943	19%
Nedbank non-interest revenues	**1,268**	1,145	11%
Net other revenue	**402**	405	–
Total revenues	**6,336**	5,888	8%
Expenses			
Debt costs	**(128)**	(128)	–
Administration expenses & other expenses	**(3,676)**	(3,460)	(6)%
Acquisition expenses	**(1,017)**	(929)	(9)%
Total expenses	**(4,821)**	(4,517)	(7)%
AOP before tax and non-controlling interests	**1,515**	1,371	11%

[1] The year ended 31 December 2010 has been restated to reflect Nordic as discontinued.
[2] Underwriting includes net income from writing insurance products (protection, annuity and general insurance).
[3] Presented net of impairments.

GROUP FINANCE DIRECTOR'S STATEMENT
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Operating profit analysis

					£m
	2011	2010 (constant currency)	% change	2010* (as reported)	% change
AOP analysis					
Long-Term Savings	**793**	772	3%	787	1%
Nedbank	**755**	584	29%	601	26%
Mutual & Federal	**89**	100	(11)%	103	(14)%
US Asset Management	**67**	69	(3)%	72	(7)%
	1,704	1,525	12%	1,563	9%
Finance costs	**(128)**	(128)	–	(128)	–
LTIR on excess assets	**37**	31	19%	31	19%
Net interest payable to non-core operations	**(23)**	(39)	41%	(39)	41%
Corporate costs	**(57)**	(60)	5%	(60)	5%
Other net (expenses)/income	**(18)**	4	n/a	4	n/a
AOP	**1,515**	1,333	14%	1,371	11%

* The year ended 31 December 2010 has been restated to reflect Nordic as discontinued.

Administration expenses increased by 6% to £3,676 million, with increased costs in Nedbank (primarily due to higher staff costs) and Emerging Markets (driven by one-off project costs). Wealth Management reduced its costs, reflecting the underlying savings achieved as part of its transformation programme. Across the business £11 million was spent in 2011 on transformation costs associated with cost-saving initiatives and £15 million on LTS IT transformation.

Acquisition expenses increased by 9% to £1,017 million, primarily in Wealth Management, which saw increased trail commission as a result of higher average FUM.

AOP from operating units increased 12%, primarily as a result of a 29% increase in Nedbank's AOP, driven by higher NIR, a moderate improvement in net interest margin and lower retail credit losses. LTS was 3% up on 2010, driven by a 9% increase in Emerging Markets following strong results in MFC and Retail Affluent. AOP in Wealth Management was down £18 million to £179 million, with 2010 benefiting from policyholder tax smoothing of £76 million compared to £32 million in 2011. Excluding the benefit of policyholder tax smoothing for prior years, underlying AOP grew by 21%, driven by higher FUM balances and reduced absolute levels of expenses. M&F saw higher claims in H2 as underwriting conditions normalised. USAM's profits were broadly flat despite lower average FUM in H2 and restructuring charges.

AOP for 2011 increased by £144 million on a reported basis.

AOP for 2011 increased by £144 million on a reported basis; this variance includes a positive currency impact on the 2010 result of £38 million. On a constant currency basis AOP increased by £182 million.

Finance costs were flat, with reduced debt levels offset by the 8% coupon costs of the £500 million 10-year bond that was issued in June 2011. We anticipate lower finance charges in the future as the Group debt reduction programme continues.

RoE and margin targets

	2011	2010	Target
Long-Term Savings[1]			
Emerging Markets[2]	**24%**	25%	20%-25%
Retail Europe	**15%**	20%	15%-18%
Wealth Management	**16%**	14%	12%-15%
LTS Total	**20%**	20%[3]	16%-18%
USAM operating margin[4]	**15%**	15%	25%-30%
Nordic	**10%**	11%	12%-15%

[1] RoE is calculated as IFRS AOP (post-tax) divided by average shareholders' equity, excluding goodwill, PVIF and other acquired intangibles.
[2] Within Emerging Markets, OMSA is calculated as return on allocated capital.
[3] The LTS 2010 RoE has been restated to exclude Nordic.
[4] USAM margin is stated after non-controlling interests and excluding gains/losses on seed capital, but makes no adjustment for affiliates held for sale or disposed in the period. The results for the comparative period have been restated accordingly to exclude gains on seed capital.

Cost reduction targets

	Cumulative run-rate savings	2011 cost incurred	Cumulative cost incurred to date	2012 run-rate target
				£m
Long-Term Savings				
Emerging Markets	**4**	–	–	5
Retail Europe	**9**	5	10	15
Wealth Management	**50**	6	46	45
LTS Total	**63**	11	56	65
USAM	**15**	–	20	10
Group-wide corporate costs	**11**	–	–	15
Total	**89**	11	76	90
Nordic	**22**	13	18	10

LTIR on excess assets increased due to an increase in the average asset base, offset by a marginal decline in the long-term rate from 9.4% in 2010 to 9.0% in 2011.

Corporate costs were reduced 5% to £57 million. Around 10% of these costs were incurred in South Africa in respect of activities which support the corporate centre. A further 10% were unavoidable listed holding company costs including, amongst other things, corporate insurances, audit fees and other recurring professional fees.

The other net expenses increased to £(18) million (2010: £4 million income), primarily due to lower seed capital gains from USAM affiliates and interest paid to business units for cash balances held on their behalf at the centre. Associated interest income is recorded at the business unit level.

Group cost savings and RoE and margin targets

At the 2009 Preliminary Results and Strategy Update, the Group introduced three-year RoE and cost-saving targets.

Wealth Management exceeded its RoE target, assisted by a reduced effective tax rate increasing post-tax returns. Emerging Markets RoE decreased to 24%, but remains at the upper level of the target range, with increased after-tax profit more than offset by increased allocated capital supporting growth and expansion plans in Africa. Retail Europe's RoE reduced, reflecting a reduction in profits and an increased equity base primarily as a result of foreign exchange movements.

We are well advanced in delivering the reduction in our cost base.

USAM's operating margin was flat on 2010. However, the new USAM management team has taken steps to refocus the business. As part of that effort, several affiliate firms are being divested to improve longer-term financial performance. Excluding the operating results of affiliates being divested and certain restructuring costs, the operating margin increased to 19% from 17% in 2010.

We are well advanced in delivering the reduction in our cost base announced in March 2010, with £89 million of the targeted £90 million run-rate savings already achieved. The original £100 million target has been re-stated to exclude Nordic following the proposed Nordic sale.

Wealth Management had substantially delivered its 2012 cost-saving target of £45 million by July 2011 and has delivered an additional £5 million since then. Retail Europe achieved a further £3 million of run-rate savings in the year, including savings generated from its Skandia branch in South Africa. The LTS IT transformation programme has made significant steps forward and is expected to generate material savings; benefits from the programme are expected to accrue from 2012. USAM delivered around £15 million of savings in 2009 and 2010.

GROUP FINANCE DIRECTOR'S STATEMENT
CONTINUED

Summary MCEV results

		p
Adjusted Group MCEV per share at 31 December 2010*		**202.2**
Covered business	13.4	
Non-covered business	6.0	
Adjusted operating Group MCEV earnings per share (including Nordic)*		**19.4**
Economic variances and other earnings	(7.0)	
Foreign exchange and other movements	(20.9)	
Dividends paid to ordinary and preferred shareholders	(2.6)	
Nedbank market value adjustment	(1.1)	
BEE and ESOP adjustments	0.6	
Mark to market of debt	(0.7)	
Effect of sale of US Life	8.3	
Impact of issue of new shares	(4.1)	
Below the line effects		**(27.5)**
Adjusted Group MCEV per share at 31 December 2011*		**194.1**

* The weighted average number of shares used to calculate adjusted Group MCEV per share and adjusted operating Group MCEV earnings per share does not include preference shares.

We identified run-rate savings of £11 million in 2011 in respect of Group-wide corporate costs and continue to look for cost efficiencies including, where practical and cost-effective, using the Group's South African head office branch.

The £11 million cost of executing the cost-reduction programme restricted 2011 profits in Retail Europe and Wealth Management. Retail Europe's costs incurred include an element of dual running costs while activity was transitioned to South Africa. The costs incurred in executing the programmes will continue to restrict profits until the programmes are completed.

Summary MCEV results

The adjusted Group MCEV per share decreased by 4.0% (or 8.1p) from 202.2p at 31 December 2010 to 194.1p at 31 December 2011, largely reflecting foreign exchange losses as a result of the weakening of the South African rand and adverse market movements. This was partially offset by the effect of the sale of US Life.

The adjusted operating Group MCEV earnings per share increased by 3.3p from 13.5p in 2010 (15.5p including US Life and Nordic) to 16.8p for 2011 (19.4p including Nordic).

Covered business operating MCEV earnings per share increased by 1.3p from 9.7p for 2010 (11.0p including Nordic and US Life) to 11.0p for 2011 (13.4p including Nordic) as a result of:

- A strong positive contribution from experience variances, largely attributable to favourable mortality and persistency experience
- An improved contribution from new business
- An adverse contribution from methodology changes.

Non-covered business operating earnings per share increased by 1.5p from 4.5p for 2010 to 6.0p for 2011 as a result of:

- Higher sterling profits in the banking business due to greater fee income and lower bad debt charges
- Slightly lower profits in the asset management businesses, arising from reduced FUM at USAM and a fall in OMIGSA asset management profits.

During the year Old Mutual owned on average 54% of Nedbank. At 31 December 2011, the market capitalisation of Nedbank (excluding treasury shares) was R69.6 billion, equivalent to £5.5 billion (2010: R63.7 billion; £6.2 billion). On a constant currency basis, Nedbank's market capitalisation increased by £0.4 billion from £5.1 billion in its 2010, due to an 11% increase in its share price over the year.

The Group generated £986 million of free surplus in the year (2010: £748 million).

Group (excluding Nedbank) debt movements (IFRS basis) net of holding company cash

				£m
		2011		2010
Opening debt (net of holding company cash)		**(2,436)**		(2,273)
Inflows from businesses		**684**		433
Outflows to businesses		**(57)**		–
Holding company expenses and interest costs		**(233)**		(210)
Change in cash from net repayment / issue of debt		**(339)**		(110)
Gross debt raised	**(500)**		(10)	
Gross debt repaid	**839**		120	
Debt repaid net of debt raised		**339**		110
Ordinary dividends paid (net of scrip dividend elections)		**(48)**		(65)
Other movements		**88**		(321)
Closing debt (net of holding company cash)		**(2,002)**		(2,436)
Decrease/(increase) in debt (net of holding company cash)		**434**		(163)

Free surplus generation

The Group generated £986 million of free surplus in the year (2010: £748 million) of which £554 million (2010: £423 million) was generated by the LTS division. Covered business (which included Nordic, US Life and Bermuda) generated £555 million (2010: £519 million). We expect the value of our in-force business (VIF) will generate about £1.5 billion over the next three years. Over 60% of this surplus is expected to come from non-Emerging Market entities. Non-covered business generated £431 million (2010: £229 million), with the improvement largely from banking, but also gains in short-term insurance and asset management.

Sources and uses of free surplus

Gross inflows from core and continuing operations were £1,165 million (2010: £903 million) and new business investment was £390 million (2010: £370 million). Total free surplus generated from core operations of £931 million was significantly higher than the £555 million in 2010 due to higher transfers from the VIF and positive experience in the life businesses, improved profits in the non-covered businesses and lower transfer to capital requirements in Nedbank.

Capital, liquidity and leverage

Debt strategy, activity profile and maturities

In H2, the Group successfully tendered for €550 million of the €750 million euro bond. In addition the Group repaid a further $50 million of senior debt in September 2011 and the remaining €200 million of the €750 million euro bond was called in January 2012.

At 31 January 2012, the Group had repaid £0.6 billion of the £1.5 billion debt repayment target, including £110 million of debt (net of debt raised) in 2010, £339 million of debt (net of debt raised) in 2011 and a further £144 million in January 2012.

We intend to use £1.1 billion of the net proceeds of the proposed Nordic sale to reduce indebtedness. This will increase the Group's debt repayment plan to a total of £1.7 billion. Any decisions regarding the repayment of debt will take account of capital treatment and the economic impact of the repayment and will, where appropriate, be subject to regulatory approval. We do not intend to repay further debt until after the payment of the 18p per share special dividend to ordinary shareholders.

Business local statutory capital cover

	2011	2010
OMLAC(SA)	**4.0x**	3.9x
Mutual & Federal	**1.5x**	2.0x
UK	**2.0x**	2.8x
	Core tier 1: 11.0%	Core tier 1: 10.1%
	Tier 1: 12.6%	Tier 1: 11.7%
Nedbank*	**Total: 15.3%**	Total: 15.0%
Nordic	**6.3x**	9.8x
Bermuda (estimated)**	**2.3x**	n/a

* This includes unappropriated profits.
** The new BMA regulatory framework is in effect from 2011. Bermuda has not submitted its regulatory return for the year ended 31 December 2011, but statutory capital cover is estimated to be 2.3x.

GROUP FINANCE DIRECTOR'S STATEMENT
CONTINUED

Regulatory capital

	2011		2010*	
	£m	**%**	£m	%
Ordinary Equity	**4,602**	**80**	5,269	77
Other Tier 1 Equity	**593**	**10**	653	10
Tier 1 Capital	**5,195**	**90**	5,922	87
Tier 2	**1,893**	**34**	2,336	35
Deductions from total capital	**(1,355)**	**(24)**	(1,502)	(22)
Total capital resources	**5,733**	**100**	6,756	100

* Capital as reported to FSA. Numbers may vary slightly to those reported in Annual Report and Accounts 2010.

In the medium term, the Group has further first calls on debt instruments amounting to £656 million in 2015, £500 million maturing in 2016 and a $750 million retail preferred instrument, which is callable quarterly. In 2020, the Group has a call on a further £350 million instrument. The £500 million 10-year bond issued in June 2011 matures in 2021.

Liquidity

In April 2011, we renewed the Group's bank facilities by negotiating a five-year, £1.2 billion, syndicated revolving credit facility, which was strongly supported by 17 banks.

At 31 December 2011, the Group had available cash and undrawn committed facilities of £1.5 billion (2010: £1.4 billion). Of this, cash on hand at the holding company was £0.4 billion (2010: £0.4 billion); a proportion of this was used to settle the remaining €200 million repayment of the €750 million euro bond in January 2012.

We anticipate that the use of £1.1 billion of the net proceeds from the disposal of the Nordic business to reduce indebtedness will allow Old Mutual to retain an increased proportion of cash flows generated from operational activity and other corporate actions. This will enhance Old Mutual's capital flexibility and liquidity going forward.

In addition to the cash and available resources referred to above at the holding company, each of the individual businesses also maintains liquidity to support its normal trading operations. During the year a total of £84 million (R938 million) of special and ordinary dividends were paid by M&F under its revised capital management strategy. Nedbank paid £120 million of cash dividends to the South African holding company entities and, following the preliminary results for Nedbank announced on 29 February 2012, further cash dividends for 2011 of R891 million (equivalent to £71 million at 31 December closing rate) are expected to be paid to the South African holding company in April 2012.

At a Group holding company level, net inflows from businesses improved from £433 million in 2010 to £684 million in 2011. The inflow in the year included remittances arising from the sale of US Life of £288 million. There was a net outflow of £57 million from the parent company to Bermuda relating to the repayment of inter-company loans. Holding company expenses and interest costs increased predominantly as a result of a non-recurrence of the stamp duty reserve tax refund received in 2010. The holding company made ordinary dividend payments in the year of £48 million and offered a scrip dividend election. The £321 million of negative other movements in 2010 resulted primarily from the tightening of credit spreads and the weakening pound increasing the value of Group IFRS debt in sterling terms; this was not repeated to the same extent in 2011.

Financial Groups Directive results

The Group's regulatory capital surplus, calculated under the EU Financial Groups Directive (FGD), at 31 December 2011 was £2.0 billion. Following the notice given to the FSA of the right to call the remaining €200 million of the €750 million euro bond that was partially redeemed in July 2011, we followed the FSA's requirements and excluded the instrument from the regulatory capital surplus calculations at 31 December 2011. If this instrument had been included in the calculation the surplus would have been £2.2 billion, and on a like-for-like basis the surplus was £2.4 billion at 31 December 2010 and £1.5 billion at 31 December 2009. The reported £2.0 billion FGD surplus represented a coverage ratio of 155%, compared to 146% at 31 December 2010. The Group comfortably met the recent stress tests required under the EU-wide Solvency II project.

The like-for-like decrease since 31 December 2010 was primarily a result of the impact of the US Life sale (approximately £100 million), the weakening of the rand, the payment of Group ordinary and preferred dividends and the redemption of subordinated debt offset by statutory profits in Emerging Markets and Nedbank and the issue of the £500 million bond in June.

Reconciliation of Group AOP and IFRS profits

			£m
		2011	2010*
Adjusted operating profit		**1,515**	1,371
Adjusting items		**(329)**	(392)
Non-core operations (including Bermuda**)		**(183)**	15
Profit before tax (net of policyholder tax)		**1,003**	994
Income tax attributable to policyholder returns		**(9)**	101
Profit before tax		**994**	1,095
Total tax expense		**(225)**	(391)
Profit from continuing operations after tax		**769**	704
Profit/(loss) from discontinued operations after tax		**198**	(728)
Profit/(loss) after tax for the financial year		**967**	(24)
Other comprehensive income		**(1,400)**	1,151
Total comprehensive income		**(433)**	1,127
Attributable to			
Equity holders of the parent		**(408)**	594
Non-controlling interests			
Ordinary shares	**(87)**		428
Preferred securities	**62**		105
Total non-controlling interests		**(25)**	533
Total comprehensive income		**(433)**	1,127

* The year ended 31 December 2010 has been restated to reflect Nordic as discontinued.
** Non-core operations relates to Bermuda with the exception of £17 million of inter-segment revenue and expenses.

The proposed Nordic sale will increase the Group's FGD surplus by about £1.5 billion on completion, before the payment of the special dividend and the planned repayment of debt.

The Group's FGD surplus is calculated using the 'deduction and aggregation' method, which determines the Group's capital resources less the Group's capital resources requirement. Group capital resources is the sum of all the business units' net capital resources, calculated as each business unit's stand-alone capital resources less the book value of the Group's investment; the Group capital resources requirement is the sum of all the business units' capital requirements. The contribution made by each business unit to the Group's regulatory surplus will, therefore, be different from its locally reported surplus since the latter is determined without the deduction for the book value of the Group's investment. Thus, although all the Group's major business units have robust local solvency surpluses, a number of them do not make a positive contribution to the Group's FGD position. The Group regulatory capital was calculated in line with the FSA's prudential guidelines.

The Group's subsidiary businesses continue to have strong local statutory capital cover. There was a small decrease in cover for the UK business following the purchase of two entities from the parent and the conversion of a loan to the parent to a dividend. Nordic also saw a decrease in cover with the old Skandia UK holding company paid up to the parent as a dividend.

Exposure to sovereign debt in Portugal, Italy, Ireland, Greece, Spain and France

The Group's direct exposure to the sovereign debt of Portugal, Italy, Ireland, Greece and Spain remains very low. At December 2011, the Group had less than £2 million of exposure to bonds issued by the Italian Government and no exposure to the debt issued by the Greek, Irish, Portuguese or Spanish governments. The exposure to French sovereign debt was £2 million.

Corporate disposals and acquisitions and related party transactions

During 2011 and the early part of 2012, we have continued to focus on streamlining the Old Mutual business to focus on key competencies, competitive strength and operational improvements. In the 2011 interim results, we reported the completion of the sale of US Life, the closure to new business of our Retail Europe Swiss business and the proposed legal transfer of some of our emerging markets businesses to accord with their operational management.

GROUP FINANCE DIRECTOR'S STATEMENT
CONTINUED

Since then we have taken further steps to simplify the business structure. In addition to the proposed Nordic sale, we have also announced the sale of Wealth Management's Finnish branch and a number of USAM affiliates.

The sale of the Finnish branch was announced in December 2011. The transaction is subject to regulatory approvals and other customary conditions and is expected to close by the end of H1 2012.

The new management team at USAM has taken steps to refine strategy and refocus the business. As part of that effort, several affiliate firms have been or are being divested to improve USAM's longer-term financial performance and move towards the margin targets announced to the market in 2010.

- In September 2011, USAM announced the sale of Lincluden Management to its existing management team. The sale was completed in December 2011.
- In October 2011, USAM announced the sale of OMCAP, its US Retail affiliate, to Touchstone Investments. The sale is expected to close in H1 2012. USAM will continue to act in a sub-advisory capacity and retain a substantial portion of the assets under management. Through the transaction USAM will dispose of its retail administration centre in Denver and the significant costs associated with it.
- On 7 February 2012, we announced the sale of Dwight Asset Management to Goldman Sachs Asset Management. Subject to certain conditions, the sale is expected to be completed in Q2 2012. Dwight managed $30.7 billion of FUM at 31 December 2011, largely of stable-value asset mandates.

Subject to the approval of the relevant authorities in South Africa and Zimbabwe, the legal transfer of the ownership of the Zimbabwean business from Old Mutual Zimbabwe Limited to Old Mutual Africa Holdings and to local Zimbabweans, including staff and pensioners, as part of Old Mutual's response to Zimbabwean indigenisation legislation, is expected to be completed in H1 2012.

Statutory results

Adjusting items

The key adjusting items for 2011 excluded from AOP but included in IFRS profits were:

- A £264 million goodwill impairment charge for the USAM business, resulting from a reduction in growth-rate assumptions reflecting the outlook for US nominal GDP growth and net cash outflows experienced by USAM in 2011. The impairment charge has been partially offset by a reduction in the risk-adjusted discount rate
- A £129 million charge in respect of other acquisition accounting adjustments relating to Skandia (mainly the amortisation of acquired present value of in-force business)
- A £171 million charge for short-term fluctuations in investment return, largely as a result of Wealth Management policyholder tax and lower returns on cash and bonds
- A £249 million profit for the African businesses in Zimbabwe, Kenya, Malawi, Swaziland and Nigeria under the control of Emerging Markets. Following a period of greater political and currency stability in Zimbabwe and an expectation that the Group will be able to extract benefits from its Zimbabwean business, the Group's Zimbabwean business has been consolidated for the first time together with operations in Kenya, Malawi, Swaziland and Nigeria. The acquisition has been accounted for at the net asset value of the underlying businesses at 1 January 2011, being the fair value of the Group's investment in these operations for the assets and liabilities acquired. Deemed consideration for the acquisition is the fair value of the Group's investment immediately prior to control. The result was a gain for the Group in these businesses that is accounted for as a profit on acquisition in the year. This profit has been excluded from adjusted operating profit. The trading results of the other African businesses for the year ended 31 December 2011 have been included in the Group's income statement and adjusted operating profit.

Income tax attributable to policyholder returns

Under IFRS, tax on policyholder investment returns is included in the Group's IFRS tax charge rather than being offset against the related income. The impact is to increase IFRS profit before tax, with a corresponding increase to the IFRS tax charge. In 2011, policyholder investment return generated a tax credit of £9 million (2010 restated to exclude Nordic: £101 million charge) due mainly to a credit in Wealth Management offsetting a charge in Emerging Markets.

The 2011 AOP result benefited from the structural tax efficiency applicable to UK companies writing unit-linked business in the UK, together with the smoothing of previous years' deferred tax assets. These assets arose in 2008/09 from the significant market volatility where falls in the value of policyholder assets resulted in the recognition of significant deferred tax assets in the IFRS income statement, which were spread forward under AOP. The final pre-tax smoothing adjustment in respect of previous years' deferred tax assets made in 2011 gave rise to a profit of £32 million, a significant reduction from £76 million in 2010. Going forward, we expect the structural tax efficiency to continue.

Total tax expense

The effective tax rate on AOP was 23% (2010: 24%, restated to exclude Nordic). The decrease from 2010 was due to fewer unutilised tax losses, partially offset by increased Secondary Tax on Companies (STC) on dividends from South Africa and a decreased proportion of low-taxed dividend and capital profits. In addition, no further strengthening of provisions was required in 2011.

Looking forward, and depending on market conditions and profit mix, we would expect the effective tax rate on AOP in future periods to tend towards 25% to 27%.

Other comprehensive income

Other comprehensive income for the year was a loss of £1,400 million driven by unrealised foreign exchange losses, primarily from the translation impact of the lower year-end rand to sterling exchange rate on the net asset value of the South African businesses.

Non-controlling interests

Non-controlling interests' share of total comprehensive income was a £25 million loss (2010: £533 million profit), reflecting non-controlling interests' share of the unrealised losses generated on the translation of Nedbank.

Risk allocation, Solvency II and iCRaFT and financial controls initiative update

The Group's economic capital models form the basis of the risk appetite and limit-setting framework. Our economic capital approach applies market-consistent valuation methodologies and assumption-setting processes to ensure that risk appetite and exposures are based on a risk-neutral benchmark. This approach adds value by ensuring that the Group makes explicit decisions regarding risk when writing new business and in the management of the in-force book. We believe that this disciplined approach facilitated better risk acceptance decisions during the period.

We have developed our economic capital models to meet Solvency II requirements in our integrated Capital, Risk and Finance Transformation (iCRaFT) project. These models were embedded during the period and will add value to risk decision-making by formally quantifying risk exposures, and hence ensuring that decision-making is better informed. We conducted the recent European Insurance and Occupational Pensions Authority (EIOPA) stress test on a Fifth Quantitative Impact Study (QIS5) basis and this showed a comfortable level of solvency over the Group's Solvency Capital Requirement (SCR) floor. In the tests there was no scenario when the Group's capital reduced below the SCR level.

The three key matters for the Group in respect of its regulatory capital position under Solvency II are:

- Discussions on the treatment of EPIFP (Expected Profits In Future Premiums) have moved in a positive direction and we believe they are likely to be eligible as Tier 1 capital under Solvency II
- Bermuda was included in the first of three groups of non-EEA jurisdiction equivalence assessments. EIOPA's findings from this assessment were inconclusive and will be revisited this year. The equivalence of South Africa will be reviewed in 2012 as part of the second group of assessments
- The latest draft regulations have suggested that a short contract boundary may be applied to some of the Group's long-term unit-linked insurance business. We believe this proposal is not aligned with an economic balance sheet valuation of this business and we have raised concerns about this definition with the FSA and other bodies.

Further discussion of OM Risk and Capital Management can be found on page 72

GROUP FINANCE DIRECTOR'S STATEMENT
CONTINUED

In addition to delivering the economic capital model developments, the iCRaFT project is progressing well on embedding Pillar I, II and III. We are working towards a submission to the FSA's internal model approval process and are on track to deliver all requirements for Solvency II compliance. We were the first major UK retail group to submit Group QIS5 results and the self-assessment questionnaire on the internal model to the FSA. In 2011, we formally entered a 'use test' phase, using an internally developed Use Framework to translate Solvency II requirements into practical business applications and to provide a structured approach in assessing use across the Group. Development and embedding of the Own Risk and Solvency Assessment (ORSA) processes is progressing alongside the Use Framework and continued development of enterprise risk management, bringing further insight to key risk decisions.

In 2011 we embedded our internal financial controls framework across the Group. The control framework is designed to mitigate the risk of material misstatement in the Group's financial reporting. The control environment continues to be assessed by management to ensure there is reasonable assurance regarding the reliability of financial reporting and the preparation of financial information across all the relevant reporting units.

Risks and uncertainties

A number of potential risks and uncertainties could have a material impact on Group performance and cause actual results to differ materially from expected and historical results.

During 2011, global economic activity weakened against initial expectations and became more uneven, confidence fell sharply, and downside risks grew. Against a backdrop of unresolved structural fragilities, a number of shocks hit the international economy, including the devastating Japanese earthquake and tsunami, unrest in some oil-producing countries and the major financial turbulence in the eurozone. Two of the forces now shaping the global economy are high and rising commodity prices and the need for many economies to address large budget deficits. Financial volatility has increased drastically at the year end, driven by concerns about developments in the eurozone and the strength of global activity.

Southern Africa and Emerging Markets generally have strong GDP growth, increasing population sizes, a growing middle class, stable unemployment levels and moderate inflation. The impact of the financial crisis on these economies was generally less severe than in the more developed countries. However, the current economic environment remains a threat with unstable and volatile equity markets, currency risk and unemployment challenges – particularly in South Africa.

Regulatory changes in the UK – the Retail Distribution Review (RDR) and Solvency II – are likely to have significant effects on the industry as a whole. The RDR has continued to provide opportunities for the UK Platform to grow, but may accelerate the run-off of the more profitable legacy book. UK Platforms are expecting margins to be squeezed both in the lead-up to RDR and afterwards. The implementation of Solvency II requirements continues to occupy the industry and there is still uncertainty about both the implementation timetable and the details of the directive, particularly the issue of contract boundaries, which could materially affect our Solvency II position.

We monitor the external factors and uncertainties, such as market and regulatory developments that could adversely affect our ability to create value and continue meeting the capital requirements and day-to-day liquidity needs of the Group and individual entities. Overall risk trends are going down and Old Mutual is in a solid position to withstand the threat of further economic recession. In this respect we compare favourably to our peers; this is reflected in our Solvency II capital requirement, which we believe is less demanding than those faced by some of our peers. The risks we face in our Bermuda business, although significant, are being effectively managed and closely monitored.

We continue to strengthen and embed our risk management framework. We attach increasing importance to ensuring business decisions are within our risk appetite, and that risk exposures are monitored against appetite, allocated limits and budgets.

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

Philip Broadley
Group Finance Director
9 March 2012

RISK AND RESPONSIBILITY

RISK AND CAPITAL MANAGEMENT

We have clear risk appetite limits representing economic capital, cash flow and earnings at risk as well as operational risk and the business performance is monitored against these limits.

Sue Kean
Chief Risk Officer

There has been significant investment in risk and capital management at Old Mutual over the past two years. This has been sponsored from the top of the organisation, at both Executive and Board level, and driven through the new Group operating model and a Group-wide project iCRaFT (integrated Capital Risk and Finance Transformation). The Group's Board Risk Committee which was established in 2010 has overseen these developments in risk management including setting the risk appetite limits and monitoring the Group's risk profile.

We are now at a stage where the new operating model and risk management at Old Mutual is embedded in our businesses, and iCRaFT is becoming part of business as usual. Risk frameworks, governance and the Group's internal capital model are designed and overseen centrally but implemented by our global businesses locally. This is reinforced through senior Group Executive representation in the local business unit boards coupled with a formalised dual reporting for all key control functions.

In 2010 we set out the Group's risk strategy and stated risk preferences. This has guided the business strategy and planning processes for the business units and the Group. We have clear risk appetite limits representing economic capital, cash flow and earnings at risk as well as operational risk and the business performance is monitored against these limits. This is used by the Remuneration Committee as a factor in determining incentive payments.

We are well placed for the forthcoming regulatory changes under Solvency II and the South African equivalent Solvency Assessment and Management (SAM). We have an internal capital model which delivered the first results in June 2011, our risk, capital and liquidity policies and processes have been enhanced and we have much greater line of sight on the key risks in the businesses and how these interact. In particular there is now centralised sign-off of all new products which contain guarantees using risk-based capital metrics, and prior approval for any significant changes to the business unit risk profile. The risks in the Bermuda business, in run-off, remain significant but these are well known and very actively managed and monitored.

The remainder of this section of the report is intended to provide a more granular understanding of our target and actual risk profile, together with a description of each of the key risks. The full description of risk and governance framework is provided on the website. Given the modelling process involved, the data in this report is at 30 June 2011.

Find out more online at:
www.oldmutual.com/reportingcentre

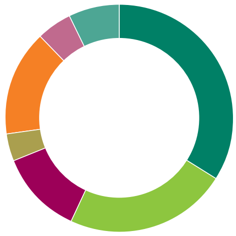
Risk profile – current and target

When we set out the Group's risk strategy and preferences in 2010 we distinguished between the risk and the return preferences. The Group's risk preferences outline our position on different risk types, identifying the risks that we actively seek, avoid or view neutrally. The return preferences are driven by the probability and size of the returns. This is intended to serve as a guide to steer the medium-term planning cycle and hence implementing these preferences will take time. For more information on these, please visit the Risk section on the Group website.

The current and target risk profile of the Group is shown in the pie charts. A comparison of the actual profile in 2011 compared to the profile in 2010 is shown in the table underneath. The introduction of our Solvency II model during 2011 means that the data for 2011 includes some modelling changes. The current and target risk profiles are drawn on a standalone basis, allowing for no diversification of risks within or between business units or risk types – for example, UK business risk is not balanced against UK operational risk.

In 2011 the sale of US Life significantly reduced the proportion of credit risk in the Group. The profile has not yet been adjusted to reflect the proposed sale of Nordic. One of the priorities for 2012 will be to revisit the target risk profile and consequent risk strategy in the light of changes in the composition of the Group.

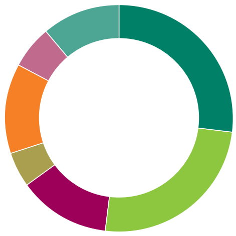
Group's Target Risk Profile* %



	%
Market (Policyholder)	34
Business	23
Credit Other	12
Currency	4
Liability	15
Market (Shareholder)	5
Operational	7

* This includes all business written in the Group at June 2011. The target profile in the 2010 Accounts did not include Nedbank.

Current Risk Profile (June 2011) %



	%
Market (Policyholder)	27
Business	25
Credit Other	13
Currency	5
Liability	13
Market (Shareholder)	6
Operational	11

The table below shows the progress the Group made since the risk strategy and target risk profile was rolled out:

Risk Category	Target profile	Risk preference	2010 vs 2011 2010 profile	2011 profile	Marginal impact of extra exposure on economic capital at a Group level (BU=100%)	Expected return relative to target
Market (Policyholder)	34%	For	26%	27%	86%	Excellent
Credit and Other	12%	Against*	22%	13%	64%	Neutral
Business	23%	Neutral	24%	25%	47%	Good
Market (Shareholder)***	5%	Against	4%	6%	78%	Poor
Liability	15%	Strongly for**	8%	13%	11%	Excellent
Operational	7%	Strongly against	12%	11%	42%	Very poor
Currency	4%	Against	4%	5%	81%	Poor

* Unless taken in the form of well-governed and managed banking-related credit risk
** Assumes risk is correctly priced
*** This was referred to as ALM risk in the 2010 Accounts

RISK AND CAPITAL MANAGEMENT
CONTINUED

The business plans for 2011 specifically targeted a reduction in business and operational risk, whilst seeking to take on more liability and market risk where properly priced, for example through more protection products or guarantees. The Market (Policyholder) risk category includes the ALM risk from guarantee business. This remains a central tenet of the Long-Term Savings (LTS) product development strategy. The increase shown above for liability risk appears greater than is the case, as the economic capital figures are expressed in terms of % of the total and hence the reduction in credit risk has increased the % for all other risk areas.

There have also been some changes in the classification and modelling methodology as we have moved to the Solvency II model for June 2011 results production.

Our exposure to operational risk has come down as we have reduced geographical spread and business lines, however, there is still work to do to achieve our target exposure. Over the course of 2011 we have rolled out a new enterprise risk management methodology and system for measuring operational risk losses. This greater focus and measurement has enhanced our ability to manage operational risk and the risk appetite targets are set to reduce this risk type over time.

Our exposure to other risk types are generally in line with our target profile. Reported exposure to these risk types are expected to move marginally from year to year as the model refinements are made and the effect of interactions with other risk types changes.

Looking forward, the Group will continue to manage towards the stated target risk profile. This will be driven by the products we sell (greater focus on protection business in Europe) as well as our focus on strong enterprise risk management (in particular managing our exposure to operational risk).

Understanding and identifying significant risks to Old Mutual

Our business is affected by numerous uncertainties, some of which are potential threats but can also be seen as opportunities if we make the right value-enhancing decisions. The section below defines the major risk types and summarises the actions we adopt to mitigate the risks and optimise the opportunities that they present.

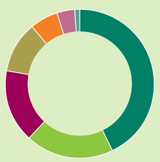
<table>
<tr><th>Risk type and potential threat or uncertainty</th><th>Group mitigating actions and opportunities</th><th>Business unit management actions and opportunities</th></tr>
<tr><td>

Business risk
The main business risk the Group is exposed to is the risk of poor persistency or retention of customers, resulting in income not covering the expense base that was assumed at the time of writing the business. High lapse rates and upfront costs are key risk drivers in this category.

This risk category also incorporates the risk of unsatisfactory new business margins, driven by volume and business mix; persistency experience losses driven by regulatory changes; poor client administrative service; or economic-driven client behaviours.

The June 2011 business risk economic capital split allows for diversification both within business risk and between business risk and other risk categories.

Business risk %



Business risk	%
Lapse/Persistency	43
Banking Business	19
Expense Level	16
Expense Inflation	11
Asset Management Business	6
Retained Rebates	4
New Business	1

</td><td>

- Quarterly Group-led reviews with each business unit ensuring regular dialogue and oversight of business performance
- Business risk is monitored against market consistent embedded value (MCEV) experience variances and, where appropriate, actions are agreed to mitigate negative trends
- Lapse rates and persistency information are monitored through experience investigations
- Within the Group, we examine the impact on earnings and capital by stress testing both increased and decreased new business volumes to understand these impacts
- Old Mutual is well diversified across geographies and product lines, minimising the impact of sector- or territory-specific economic downturns
- The key mitigation for product design and approval is the review process conducted by the LTS product teams and by the Group Actuarial team.

</td><td>

Product design in the LTS businesses ensures technically sound pricing and structures whilst positioning the product correctly in difficult market conditions. Risk-adjusted profit signatures and improved persistency are key features of the product strategy.

Business risk is a significant risk on unit-linked and asset management business which is materially exposed to market, credit or insurance risk:

- Wealth Management, Nordic and Retail Europe manage significant unit-linked portfolios. While these risks are important in Emerging Markets, they represent a lower proportion of overall risk
- Nedbank Group actively manages business risk through its management structures and an earnings-at-risk methodology similar to the Group's risk appetite metrics.

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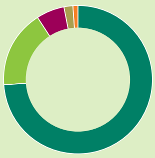
Risk type and potential threat or uncertainty

Market (Policyholder) risk
The impact of market movements on policyholder assets and liabilities covers mismatches of assets relative to liabilities. Also the impact of a change in fund-related management fees earned from client portfolios as a consequence of movements in asset markets.

The June 2011 market (policyholder) risk economic capital split allows for diversification both within market risk and between market risk and other risk categories.



Market (Policyholder) Risk	%
Equity	74
Volatility	17
Yield Curve	6
Property	2
Hedge Effectiveness	1

Group mitigating actions and opportunities

- Business units exposed to downside market risk are required to take account of the structure of their asset and liability portfolios, the local regulatory environment and Group policies
- Risk management strategies designed to mitigate market risk are tailored to the type of contracts sold. Where contracts are related purely to longevity, mortality and morbidity risk, there is typically no sharing of better-than-expected or required investment returns. Under unit-linked and/or market-linked contracts, policyholders receive the full investment return on the underlying assets, less any applicable fees, and the only residual market risk relates to variation in asset-based fees as a result of fluctuations in the underlying assets
- In most other classes of investment-related contracts, investment returns are attributed to, or shared with, policyholders in the form of vesting and/or non-vesting bonuses. Non-vesting bonuses offer an option for management action, as they can be withheld in adverse circumstances
- The Bermuda business, in run-off, is subject to substantial market risk due to the nature of the guarantees in the products. The risks are monitored on a daily basis and we are subject to a dynamic hedging programme which is governed by the Group Oversight Committee, comprising Group and Bermuda Board members.

Business unit management actions and opportunities

- Some of our life assurance products contain investment guarantees and options. A reduction in interest rates and equity markets can cause options to be in-the-money, with a potentially adverse impact on profit
- We manage market (policyholder) risk through asset-liability matching, interest rate swaps and hedges, equity hedges, and currency swaps, borrowings and forward foreign exchange contracts to mitigate currency risk
- Smooth bonus products constitute a significant proportion of the South African business. We pay particular attention to declaring bonuses in a responsible manner, to meet our promise to clients that returns will be less volatile over time than purely market-linked returns. Net investment returns not distributed are credited to bonus-smoothing reserves to support consistent bonus declarations when markets are low
- When investing shareholders' funds, we address equity price risks through investment policies which tightly limit the extent of investment in equities or equity funds. As a result, the shareholder assets invested to back the statutory capital requirements of each legal entity in the Group are predominantly invested in sovereign bonds and cash, hence exposure of shareholder assets to market risk is relatively small overall.

Other practices include:

- Our Principles and Practices of Financial Management govern the management of discretionary participating contracts in South Africa, including bonus-sharing rules and management actions to be taken in adverse conditions
- Stock selection and investment analysis are supported by a well-developed research function
- In our investment guidelines asset-liability duration matching is used for fixed annuities, especially where specific guarantees apply. Other non-profit policies are also suitably matched
- Market risk on with-profit policies, where investment risk is shared with investors, is mitigated by appropriate bonus declaration practices and hedging
- Interest rate and equity hedging are used where movements can lead to an increase in the value of investment guarantees/options, causing a reduction in earnings and shareholder capital. We have implemented an Internal Economic Scenario Generator in South Africa, which allows us to dynamically hedge our interest rate and equity exposures.

RISK AND CAPITAL MANAGEMENT

CONTINUED

Risk type and potential threat or uncertainty

Credit risk

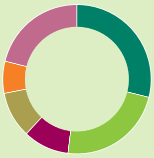
The Group is exposed to the risk of credit defaults. This includes counterparty risk where an asset is not repaid in accordance with the terms of the contract.

Credit risk also encompasses lending risk (for instance in our banking businesses), where a borrower becomes unable to repay outstanding balances.

Client defaults on financial guarantee obligations are also an element of credit risk.

Exposure by Sector

December 2011



December 2011	%
Retail	**29**
Financials	**23**
Industrials	**10**
All Industries	**10**
Government	**7**
Other	**21**

Group mitigating actions and opportunities

The Group's credit risk policy, limits and reporting systems have recently been reviewed.

- We have introduced improvements to allow us to adopt a more dynamic and timely approach to identifying and managing credit risk exposures
- The Group only deals with approved counterparties and, where appropriate, obtains sufficient collateral as a means of mitigating the financial loss from defaults. We continuously monitor the credit ratings of counterparties.

The Group's exposure to the European peripheral economies is not deemed significant and is primarily to highly-rated institutions. At the time of writing this report, the Group has less than £2 million exposure to the sovereign debt of European peripheral economies; the exposure has been reduced over the course of the last year from £10 million. We intend to maintain our exposures at low levels and to continue monitoring developments in this region.

Credit exposure was reduced by £11.5 billion as a result of the sale of US Life.

As our primary banking business, Nedbank carries the majority of our credit risk through its lending and other financing activities. Nedbank's financing activities contribute to its significant credit risk exposure. We expect impairment levels to remain stable or even start to reduce during 2012. This is due to a number of factors including a slowdown in lending, the introduction of tighter lending criteria and the stabilisation of economic conditions.

Business unit management actions and opportunities

The Group Credit Risk Policy sets out the principles and mandatory minimum standards for the management of credit and counterparty risk across the Old Mutual Group, which include:

- The credit risk the business is willing to accept
- The current credit risk profile and exposure to credit risk concentrations
- The future target credit risk profile and credit risk limits that comply with the business risk appetite.

Increasing activity in the unsecured personal loans within Old Mutual Emerging Markets, from the Mass Foundation Cluster, is subject to Group standards and risk assessment.

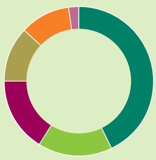
With the consolidation in 2011 of the Zimbabwean businesses into Old Mutual Emerging Markets, came the local banking business called CABS. This business will also be subject to complying and rolling out Group standards and policies within 2012.

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

- Closely monitored credit risk loss ratios and other key indicators through its credit risk monitoring committees
- Tightened credit granting criteria – for example, on home loans it has tightened loan-to-value criteria, increased acceptance standards and where appropriate, restructured credit risk agreements
- Tightened controls over large payments to and from global banks
- Increased staff to administer collections.

Risk type and potential threat or uncertainty	Group mitigating actions and opportunities	Business unit management actions and opportunities
Liability risk The Group assumes liability risk by issuing insurance contracts under which it agrees to compensate the policyholder or other beneficiary if a specified uncertain future event affecting the policyholder occurs. This risk includes mortality and morbidity risk in the LTS business units and a risk of loss from events such as fire or accident in Mutual & Federal (M&F), our general insurance business unit. The June 2011 liability risk diversified economic capital allows for diversification both within liability risk and between liability risk and other risk categories.	We manage liability risk by: ■ Writing a mix of business over multiple insurance classes and geographical segments. Business that is weakly correlated with liability risk (eg unit-linked business) provides a hedge against liability risk due to a diversification effect ■ Using sophisticated management information systems which provide current data on the risks to which we are exposed ■ Calculating premiums and monitoring claims patterns using actuarial models based on past experience and statistical methods ■ In our underwriting policy, we specify Group requirements for concluding insurance contracts and assuming liability risks ■ Using reinsurance to limit exposure to large single claims and catastrophes and increase our insurance capacity ■ Building an effective mix of assets that back insurance liabilities based on the nature and term of those liabilities.	Incorrect pricing bases give rise to underwriting risk. The business units with significant liability risk are Emerging Markets and M&F. ■ In Emerging Markets the relatively weak correlation of liability risk with our other risk types reduces our exposure after diversification over several insurance classes and a number of geographical segments ■ Maintenance and use of sophisticated management information systems which provide current data on the risks to which we are exposed ■ Use of actuarial models to calculate premiums and monitor claims patterns using past experience and statistical methods ■ Guidelines for concluding insurance contracts and assuming liability risks, such as underwriting principles and product pricing procedures ■ Reinsurance to limit our exposure to large single claims and catastrophes ■ An effective mix of assets that back insurance liabilities based on those liabilities' nature and term ■ A key change project for M&F in 2011 has been to implement new, best-practice underwriting standards and processes in the underwriting division, which will enhance deal approval processes and risk-based pricing methodology ■ Reinsurance plays an extremely important role in the management of liability risk and exposure at M&F.

Liability Risk



Liability Risk	%
Mortality	43
Disability	16
Mortality Catastrophe	16
Longevity	12
Disability Catastrophe	11
Non-Life Liability	2

Note: the term 'insurance risks' is defined, for accounting purposes, as the risks other than financial risk that influence the insurance liabilities associated with insurance contracts as detailed in the notes to the consolidated financial statements on page 138. For life assurance business these arise through exposure to unfavourable claims experience on life assurance, critical illness and other protection business and exposure to unfavourable operating experience in respect of factors such as persistency levels and management expenses. For general insurance it also includes the risk of loss from fire, accident or other claim source. These risks are included within the liability risk and business risk categories described.

RISK AND CAPITAL MANAGEMENT
CONTINUED

Risk type and potential threat or uncertainty	Group mitigating actions and opportunities	Business unit management actions and opportunities
Operational risk The risk arising from operational activities, for example a failure of a major systems, or losses incurred as a consequence of people and or process failures, including external events. Specific examples include our ability to attract and retain key staff with the necessary skills to help the Group meet its objectives, and adequate protection of people, premises and data (including IT sustainability and infrastructure).	Operational loss is inherent to our business and difficult to eliminate entirely. However, by using sensitive indicative triggers we can respond to events before they occur. ■ Operational risk is one of the driving metrics in our risk appetite framework. Our appetite for operational risk is to continually reduce exposure from events that we are able to manage and control ■ We continue to focus on areas where we can add value for shareholders – reducing operational risk losses that directly impact profits, refining our risk categorisation model to enable more accurate and consistent reporting of events across the Group, and using more advanced mathematical concepts to translate data inputs into capital amounts ■ Both Risk and Control Self Assessment (RCSA) and internal risk events are used to validate the accuracy of scenarios used in our Advanced Management Approach to operational risk capital modelling ■ OpenPages, our risk management tool, is widely used throughout the Group – helping businesses to understand operational risk better, ensure there are no repeatedly occurring inherent weaknesses, and enhance the control framework. The table on next page gives a breakdown of the Group's principal operational risks.	■ We developed the RCSA process significantly during 2011, and the increased quality and quantity of data has enabled more granular review of operational risk across the Group ■ Following appropriate training and strengthening local risk teams across the Group, we are beginning to realise the benefits of a consistent, Group-wide RCSA process. The data has enhanced our Board risk reports and supports a more effective capital model.

The principal operational risks we face are listed below.

Risk description	2011 commentary	Key mitigations
Regulatory and tax risk Regulatory requirements continue to evolve, with a range of new prudential and business conduct regulations coming to fruition over the next couple of years. Business conduct regulation continues to evolve with a greater focus on customer protection, and compliance with all aspects of tax legislation is becoming increasingly complex as the system of taxation continues to change. Solvency II and its South African equivalent, SAM, are both currently planned to come into effect at the start of 2014. Additional risk also arises in relation to responsibilities for reporting routine customer, employee and other transactions to the tax authorities and adherence to processing risk procedures is important. We need to correctly assess the impact of these changes and respond to them in a timely manner to efficiently manage regulatory required capital. This could translate into lower returns to shareholders or being unable to provide customers with products at a price which is acceptable to them, thereby restricting our business opportunities. In addition to the risk of a fine, penalty or regulatory censure, non-compliance carries a growing risk of regulatory intervention that could impact on our ability to operate.	In the wake of the deepening financial crisis, global regulators have continued to issue a raft of new regulation. While much of the detail is still evolving, the direction is towards an intensifying regulatory environment with even tighter controls on banking and asset management. Structural reform has led a number of global regulators to adopt a 'twin peaks' regulatory model, which is expected to result in an increased focus on business conduct activities. Customer protection in developing markets and information security and privacy are also regulatory hotspots. Solvency II and SAM in South Africa will create step changes in insurance prudential regulation, with focus on internal risk and capital management and the more proactive nature of Group supervision under the Group internal model approval process. Governments continue to impose greater burdens on taxpayers as they seek to enhance revenue yield and transfer more of the cost of tax compliance to taxpayers. The risk for the Group is amplified by its broad geographical spread, which requires it to manage a diversity of changing tax requirements and regulations.	Old Mutual is well positioned to meet increased regulatory expectations since we scan the regulatory environment on a global basis. Dedicated Group and business unit compliance teams closely monitor new and changing regulatory developments and liaise regularly with local regulators and trade bodies to influence outcomes positively. The Group provides a co-ordination role in relation to the FSA, which is the lead authority for Old Mutual plc under the Financial Groups Directive and for approval of our internal model application under Solvency II. The iCRaFT project is designed to deliver all Solvency II and SAM requirements, as a minimum. It made good progress in 2011 and project deliverables are on target as we transition into business as usual. All major business units have dedicated in-house tax resources who assess and monitor new developments. For example the changes introduced by the SA budget in February 2012 are already being considered when pricing our policyholder products, and actions are being taken to: - Update systems to enable Old Mutual to pay the right amount of tax to the authorities - Review product pricing structures and design value-enhancing features. We have adopted a Group-wide tax risk management policy which requires tax review of major strategic initiatives and product developments before implementation.

RISK AND CAPITAL MANAGEMENT
CONTINUED

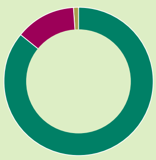
Risk description	2011 commentary	Key mitigations
IT and data security Poor IT infrastructure and resilience could result in disruption to our businesses with adverse consequences on customer service, loss of customer data and failure to manage the business effectively.	Across the LTS businesses the operating model was changed during 2011, providing greater centralised control for IT infrastructure whilst enhancing the seniority and experience of the Chief Information Officers in the business. Physical security and information security are areas of increasing risk and regulatory focus – particularly in relation to information security, where the UK and Europe have seen increasing enforcement activity and fines. New privacy and consumer protection laws have also been introduced in South Africa, although the practical regulatory enforcement bodies are still evolving.	We developed a new Group policy for information security and privacy in 2011, which will be rolled out and embedded within the different business units during 2012. The roll-out of the policy will also ensure that information security is included in the LTS IT strategy and that key risks and appropriate control frameworks are in place. Q2 2012 will see a refresh of our periodic information security benchmarking exercise, to measure how well embedded the Group policy is in the different IT processes and practices across the Group. Group information security standards are based on good practice and data privacy obligations.
People risk Delivery of the business strategy requires significant change. Without the right culture, leadership behaviours and management practices we will be unable to attract, retain and motivate the talent we need to deliver the business strategy.	There were a number of new appointments to senior roles and leadership team reorganisations to strengthen our senior talent which could have destabilised teams. Selection and appointment needed to be rigorous to ensure that we upgraded our leadership capability. The year saw further developments in regulatory requirements on executive remuneration and its alignment with risk-based measures.	Our first-ever Group culture survey had a very high response rate. Employee-led action plans to achieve the desired culture shift have been developed and are being implemented. We have continued to develop our leadership and emerging talent by enhancing development opportunities through mobility and targeted structured programmes. Each appointment into a senior role, whether internal or external, includes independent external assessment. We introduced a new performance management system, which provides for the assessment of both business results and behaviours for the 2011 performance review. We also broadened the use of incentive pools determined by measures including economic profit.

<table>
<tr><th>Risk type and potential threat or uncertainty</th><th>Group mitigating actions and opportunities</th><th>Business unit management actions and opportunities</th></tr>
<tr><td>

Market (Shareholder) risk
The impact on shareholder assets due to changes in the value of financial assets or liabilities arising from changes in equity, bond and real estate prices, interest rates and foreign exchange rates. Our greatest exposure is to equity risk. Market risk arises differently in the business units, depending on the types of assets and liabilities held. Most of our shareholder assets are invested in sovereign bonds which is included within the credit section of the risk profile. The analysis here represents just that part of shareholder funds subject to market risk.

The June 2011 market (shareholder) risk economic capital split allows for diversification both within market risk and between market risk and other risk categories.

Market (Shareholder) Risk %



Equity	86
Property	13
Yield Curve	1

</td><td>

The Group monitors market risk as part of the risk appetite framework.

- The impact of changes in market risk is monitored and managed using sensitivity analyses, through the business units' own regulatory processes, with reference to the Group's risk appetite framework, and by other means. This work is complemented by the Group's capital modelling and embedded value reporting processes, which include assessments of the sensitivity of our capital position and embedded value to various market changes
- The upside presented by market risk is evident when equity values rise or interest rates move favourably.

</td><td>

The Group market (shareholder) risk policy sets out the principles and mandatory standards for the management of market (shareholder) risk across the Old Mutual Group.

- Business units are required to have a written strategy for managing market risk which should reflect the Group strategy.

The business unit strategy must cover:

- The approach to measuring and managing market risk
- Market risk return preferences
- The current market risk profile
- Exposure concentrations
- The future target market risk profile
- Limits that comply with the business risk appetite, and risk mitigation techniques.

</td></tr>
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Currency risk
Currency risk is firstly the risk at Group level that net assets in business units invested in currencies other than sterling depreciate relative to sterling, leading to a fall in Group net asset values (currency translation risk).

Secondly, there is an allowance at business unit level for currency risk associated with direct revenue streams from subsidiaries and related companies.

</td><td>

- We manage currency risk to ensure that Financial Groups Directive (FGD) capital remains adequate and does not attract unwelcome regulatory attention. We arrange our assets and liabilities to ensure that FGD remains at suitable levels in stress scenarios
- We manage currency risk associated with known flows of currencies from business units to Group and vice versa if appropriate, such as future dividends and proceeds arising from disposals
- We test the devaluation of other currencies relative to sterling, and seek to match currency liabilities to assets in the Group's consolidated balance sheet, eg by issuing debt in specific currencies, and/or via the use of swaps.

</td><td>

- Intra-Group currency exposures are not typically hedged
- There is an allowance at business unit level for currency risk associated with direct revenue streams from subsidiaries and related companies.

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</table>

RISK AND CAPITAL MANAGEMENT
CONTINUED

Risk type and potential threat or uncertainty	Group mitigating actions and opportunities	Business unit management actions and opportunities
Strategic and change risk The risk of failing to implement the business strategy and the management of associated changes to the business.	Key risks that could adversely affect our ability to deliver the stated strategy include: ■ Unanticipated external changes arising from competitors, regulators and government bodies ■ Failure to clearly communicate Old Mutual's strategy, both internally and externally ■ Unexpected performance shocks in the Group's underlying businesses ■ Failure to clearly define, prioritise and monitor delivery of the most critical Group-wide and local strategic programmes ■ Decreasing staff engagement due to the uncertainties associated with organisational changes.	A rigorous annual strategy review and tracking process mitigates the risks in the following ways: ■ To ensure ongoing ownership and commitment, the Old Mutual Board and top leaders are actively involved in the annual review of the Group strategy ■ The Group strategy is communicated externally and simultaneously internally, to provide guidance to all Old Mutual's employees ■ The Group strategy clearly sets out the strategic priorities for the Group and provides context for business unit planning ■ Competitor activity and anticipated regulatory changes are monitored locally and included in business units' annual plans ■ Progress against business plans is reported at four quarterly review meetings and remedial actions taken where necessary. In addition, the key Group-wide strategic programmes are developed, tracked and reported on by the Strategic Implementation Office and the Group Strategy and Strategic Implementation teams work with the business leaders to define the activities that will support the strategy and track the progress of these activities ■ The business units within the Group have taken steps to establish Change teams with Change Directors to provide accountability for the delivery of key programmes ■ The Strategic Implementation team have worked to provide a framework for change that is monitored through the change risk policy. This ensures that the risks of programme failure are reduced and the deliveries provide value for money for the investment in change.

Risk type and potential threat or uncertainty	Group mitigating actions and opportunities	Business unit management actions and opportunities
Liquidity risk Liquidity risk is the risk that the Group is unable to meet its obligations as they fall due, for example if counterparties providing short-term funding were to withdraw or not roll over funding. It also includes the risk of being unable to sell assets in an illiquid market, or not being able to raise more capital, leading to asset-liability matching problems and a threat to capital cover ratios. Extreme market volatility may result in unexpected capital calls and stressed liquidity positions.	Our liquidity position is prudently managed at both Group and business unit level. ■ The Group-wide liquidity policy sets out parameters within which all business units must operate to identify, measure and manage liquidity risk ■ The Group Capital Management Committee reviews capital and liquidity positions, with the Group Executive Risk Committee providing additional oversight and challenge ■ Liquidity headroom is one of our key risk indicators. It ensures we have sufficient liquidity to cover both asset liquidity risk and funding liquidity risk ■ The Group has rolled out a new liquidity policy in 2011, which is being embedded within business units. The Group has a new documented Contingency Funding and Capital Strategy which is continuing to evolve into 2012, with business units also developing local contingency plans ■ The Basel Committee on Banking Supervision issued new liquidity standards on 16 December 2010. Many of the key principles are already encapsulated in Nedbank's Liquidity Risk Management Framework. However, in order to meet the requirements of the liquidity coverage ratio by 2015 and the net stable funding ratio by 2018, Nedbank and the other South African banks are working closely with the South African Reserve Bank (SARB) and National Treasury to address the structural challenges of compliance for the local banking industry, while at the same time considering the unintended economic consequences which may arise from the proposed liquidity standards.	The Group liquidity risk policy sets out the principles and mandatory minimum standards for the management of liquidity risk across the Old Mutual Group: ■ Business units are required to assess their liquidity risk, by conducting a review of their funding profile against the nature of risk inherent within the business ■ Business units must define their liquidity risk appetite and propose measures for managing this which are appropriate and proportionate to the risk ■ The liquidity risk appetite must determine the level of liquidity risk exposure the business is willing to accept in order to meet objectives and optimise returns against capital ■ The policy sets out the minimum frequency with which the reports must be prepared, the escalation process and also contingency plans ■ The requirement for business unit specific liquidity contingency plans. Liquidity risk management is a particular focus in the Nedbank Group. ■ A portfolio of marketable and highly liquid assets to meet unforeseen funding requirements is maintained ■ Market liquidity by asset type (and for a continuum of plausible stress scenarios) is part of the internal stress testing and scenario analysis process ■ The quantum of unencumbered assets available as collateral for stress funding is measured and monitored on an ongoing basis.

RISK AND CAPITAL MANAGEMENT
CONTINUED

Risk appetite (RA) definitions and limit setting

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

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

Our risk appetite framework has evolved significantly over the past few years. We have enhanced the methodology, notably in the way the RA limits are set and agreed with each business unit. In particular, we have made limit-setting an iterative part of the business planning process and ensure that this process produces local risk limits that reflect local business plans rather than setting limits in a purely top-down fashion. As part of this process we set risk limits by risk type at both Group and business unit level.

Even though these RA limits need to be proposed only at business unit level, business units are encouraged to cascade the process down to legal entity level or even lower – to segments, divisions or product lines – as evidence that the RA framework is being embedded in their businesses.

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

Risk appetite limits

Metric	Explanation	Group limit definition
Economic Capital at Risk (ECaR)	The reduction in post-tax economic value (broadly defined on a market value balance sheet basis for life companies and as IFRS equity for non-life companies) over a one-year forward-looking time horizon that should only be exceeded seven times in 10,000 years (99.93% confidence level). ECaR helps us to optimise risk-based decisions. The stress tests underlying ECaR allow us to monitor our exposures and deepen our understanding of where the business could further improve its capital allocation. ECaR is similar to the Solvency Capital Requirement (SCR) measure in Solvency II and has been calculated and reported within the Group for more than five years.	Available Financial Resources (AFR) should not fall below 100% of (internal) economic capital (ECaR).
FGD Surplus Capital at Risk (FCaR)	The reduction in Financial Groups Directive (FGD) surplus over a one-year forward-looking time horizon that should only be exceeded once in 10 years (90% confidence level). FGD is a key regulatory measure which is particularly important to monitor in volatile economic conditions where our policyholder and shareholder assets can significantly impact our position – particularly since we hold these assets in a variety of currencies.	The FGD surplus should not fall below £1 billion more than once in 10 years.
Earnings at Risk (EaR)	The reduction in pre-tax IFRS adjusted operating profit (AOP) over a one-year forward-looking time horizon that should only be exceeded once in 10 years (90% confidence level).	EaR as a percentage of pre-tax AOP should not rise above 30% of planned earnings over the year ahead.
Cash flow at Risk (CFaR)	The reduction in the cash portion of earnings over a one-year forward-looking time horizon that should only be exceeded once in 10 years (90% confidence level).	The cash proportion of earnings should not fall in excess of £500 million more than once in 10 years.
Operational Risk (OpRisk)	The reduction in post-tax economic value due to one-in-10 year unexpected operational loss events (90% confidence level) and expected day-to-day losses, including reputational risk impacts.	OpRisk as a percentage of pre-tax AOP should not rise above 10% of planned earnings over the year ahead.

In addition to quantitative RA limits, we also use qualitative RA principles and statements to guide our business units and help to improve the clarity of our risk strategy in line with the Group's risk appetite. For 2011 all limits were met with the exception of the EaR.

The Group earnings at risk result at June 2011 was above the original absolute target limit in sterling, however this was driven largely by the volatility in the legacy Bermuda business. As a consequence the Board reviewed the basis upon which the limits are set and agreed that, going forward, Bermuda's limit will be separate to the Group's, since the Bermuda limit is subject to a series of detailed limits and monitoring. The limits for the remaining business are now expressed in terms of % of expected IFRS AOP to allow for growth over the plan period.

Embedding risk management culture

We think of culture as 'the way in which we operate'. We have developed a set of behaviours that define the risk management culture we want. These six behaviours are core requirements of any role in the organisation, regardless of where the role reports or what the job is:

- People are responsive to risk information and do not just shrug it off
- Employees think carefully about the risks in their environment and understand how they impact the business
- Employees understand the value of rules and policies, stick to them and challenge when necessary
- Inappropriate decisions and misleading information are pointed out
- Decisions about risk are made with clarity by the right people
- Employees share information openly; teams are transparent with one another and mistakes are not covered up.

Incentivising the right behaviours

To support and incentivise the right behaviours in the executive management team, we have further embedded the governance framework designed in 2010 to align the risk/reward balance with corporate governance objectives and ensure it promotes effective risk management. We have rolled out risk-related objectives to senior management and performance is measured and monitored every six months.

The framework is supported by a remuneration policy that does not encourage risk-taking beyond the Group's risk appetite. This policy has been designed to eliminate conflicts of interest and support business strategy, objectives, values, and the long-term interests of the Group. It is overseen by a Remuneration Committee appointed by the Board, consisting of at least three non-executive directors with relevant experience and a good knowledge of the Group and the environment in which it operates. This enables them to exercise competent judgement on compensation policies and the incentives for managing risk, value and capital in line with stakeholders' expectations.

We have made progress in aligning staff remuneration and incentives, explicitly taking into account the extent to which risk exposures have delivered results, and whether these risk exposures have complied with the agreed risk appetite.

Summary

In 2011 Old Mutual continued to embed tools, methodology and improved processes and governance frameworks that enhance the management and monitoring of risk and capital in order to create value. Our progress is continually driven by the Group's vision to have improved risk management practices and the appropriate behaviours to underpin them.

RESPONSIBLE BUSINESS

We pursue commercial success in ways that uphold ethical values and respect society and the natural environment.

Don Schneider
Group Human Resources Director

Our approach to responsible business

In 2010 we decided to pull together the various strands of our work in the field of responsible business to create a consistent approach across the Old Mutual Group.

We reported on our work last year. During 2011, we have made positive strides in developing internal networks to share experience, collaborate on finding solutions to key issues and collect the comparable data needed to demonstrate progress. Focusing our approach in these areas has already contributed towards our vision of becoming our customers' most trusted partner.

We have continued to engage with stakeholders to help refine our approach. Our Responsible Business Strategy balances the expectations of our stakeholders while addressing key business issues. Stakeholders with whom we have worked include our customers, employees, suppliers, shareholders, community organisations, Governments and regulators.

However, we recognise that we need to do more to align our responsible business strategy to our overall business priorities, and that we will progress further by prioritising our key issues and improving the quality of management information used to track performance.

Therefore, during 2012, we will prioritise the integration of responsible investment into our businesses, provide Group-wide principles for community and social investments and drive performance to meet our 2020 carbon-reduction targets.

We will continue to invest time and resources across all parts of the Group to develop our responsible business approach, and support our businesses in tailoring their activity to meet local market needs.

Our Responsible Business Committee continued to provide direction and to be accountable for our approach to responsible business practice, with Don Schneider, Group Human Resources Director, reporting issues directly to the Group Executive Committee.

The key issues we address through our Responsible Business Strategy are:

- **Responsible investment**
- **Responsible customer service**
- **Responsible to our employees**
- **Responsible to our communities**
- **Responsible environmental management**

Responsible investment: A long-term value approach

We spent time in 2011 establishing the right governance framework for responsible decision-making in our owned and managed investments. We are seeking to build a consistent approach to integrating environmental, social and good governance criteria into investment decisions, using experience gained across the Group. This includes the work of Nedbank as an Equator Principles signatory and Old Mutual Investment Group (South Africa) as a sponsor and signatory to the Code for Responsible Investment South Africa (CRISA).

We also addressed key issues in the emerging markets where our businesses operate by investing in housing, agriculture and education funds.

We conducted our second bribery risk assessment across the Group and updated our Code of Conduct to take into account changes in UK anti-bribery legislation. Nedbank and Old Mutual South Africa successfully implemented new monitoring systems to identify and prevent internal fraud as part of our drive to reduce financial crime.

Responsible customer service: Building trust

In our drive to become our customers' most trusted partner, we have been implementing a Group-wide customer loyalty metric – the Net Promoter Score. By measuring how likely our customers are to recommend Old Mutual as a financial services provider to their friends and family, we can see how and where we need to improve our services and products.

All new products in 2011 were thoroughly assessed to make sure that all aspects of sales, compliance, profitability and appropriateness to customer need were considered. A new formal sign-off process also ensures suitable risk management for our customers and shareholders, and there has been considerable focus on addressing our approach to responsible marketing and selling so that we are transparent about what we do and how we do it.

Our Long-Term Savings division is taking proactive steps to improve its engagement with customers as part of its customer-centric vision.

> We are building a consistent approach to integrating environmental, social and good governance criteria into investment decisions.

Responsible to our employees: Building a culture of excellence

During 2011, we asked our employees for their views on the current culture at Old Mutual, and are now working through a programme to build a high performance culture which has the customer at the heart of what we do.

We also launched a Group-wide initiative to increase the number of women in senior positions. Women currently hold 13% of senior management jobs within the Group, with the figure rising to 40% in Mutual & Federal's executive team.

Much of our strength comes from the fact that, as a global business, we have employees from many different backgrounds, cultures and professions. We are committed to increase and leverage diversity as well as encouraging mobility across the Group.

Responsible to our communities: Investing in the future

We have a proud history of social engagement, with a focus on supporting the long-term growth and stability of communities. Through our five Old Mutual Foundations, and directly through our businesses, we donated a total of £11.6 million to social projects last year. Employee volunteering helped to maximise the value of the donations, which were particularly aimed at supporting financial capability, and enterprise and skills development.

We also run programmes that address specific local community and market needs. For example, in 2011, the Old Mutual Foundation in South Africa increased the number of small black-owned businesses and community projects it supports through its Legends Programme by 82%.

£11.6m

Invested in local communities

Our commitment to the transformation of South African society continues, with Old Mutual South Africa and Nedbank maintaining their Level 2 status as Broad-Based Black Economic Empowerment contributors. Mutual & Federal retained its Level 3 status.

RESPONSIBLE BUSINESS
CONTINUED

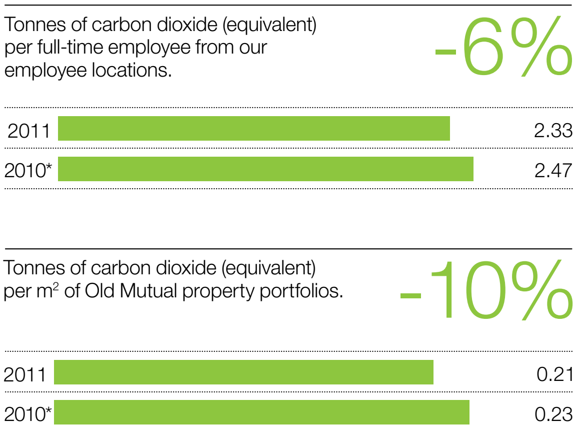
Responsible environmental management: An essential role

As an international business, we have a responsibility to contribute to wider global issues such as mitigating climate change, responding to macro changes in populations and using scarce resources responsibly.

We report each year to the UN Global Compact showing our progress in addressing universal issues, which cover human and labour rights, environmental protection and anti-corruption. This year we hosted a debate in London on the role of companies operating in conflict zones. Our businesses took part in, and learnt from, the climate change discussions at COP17 in Durban and we appeared in the 'Leadership Index' of the Carbon Disclosure Project, which we have reported against for over three years.

In 2010, we established our own climate-change strategy with a target of reducing the Group's carbon emissions by 20% by 2020 (from a 2010 baseline). Over the past year, our Carbon Taskforces across the Group have begun to implement the strategy and our performance is shown in the table below.

Old Mutual's carbon emissions



* 2010 figures restated due to improved data collection in 2011.

The future

Over the next year, we will work to ensure our Responsible Business Strategy is completely aligned to our business priorities and vision, with clear targets for the rest of the decade. We will work with our employees and others to highlight their roles in delivering our objectives and empower them to make their own personal contribution to the achievement of those objectives.

Particular focus will be placed on better demonstrating the positive impact we have with communities, progressing our responsible investment work and addressing our key environmental impacts.

We will continue to report through the UN Global Compact, Carbon Disclosure Project and our own communication channels to demonstrate our achievements transparently, while also acknowledging, where applicable, the challenges we face. And we will look to collaborate with others, so that we can continue to learn and create even greater benefit.

For more information on the highlights of 2011 and plans for 2012, please see our 2011 Responsible Business Report.

GOVERNANCE

BOARD OF DIRECTORS

1. Patrick O'Sullivan (62)
M.Sc., B.B.S., F.C.A. (Ireland)
Chairman

Patrick O'Sullivan joined the Board as Chairman in January 2010. He also chairs the Nomination Committee. From 2007 until 2009, he was Vice Chairman of Zurich Financial Services, where he had specific responsibility for its international businesses including those in South Africa. He had previously held roles at Zurich as Group Finance Director and CEO, General Insurance and Banking, of its UKISA division. Qualified as a chartered accountant, his prior experience includes positions at Bank of America, Goldman Sachs, Financial Guaranty Insurance Company (a subsidiary of GE Capital), Barclays/BZW and Eagle Star Insurance Company. He is also Chairman of the Shareholder Executive and a non-executive director of COFRA Group in Switzerland and Man Group plc and Deputy Governor of the Bank of Ireland.

Mr O'Sullivan has a strong track record of leading financial services businesses through periods of challenge and of tackling strategic issues successfully. His wide-ranging international experience and knowledge of the financial services industry, allied with excellent leadership ability, make him a highly effective Chairman of the Board, as shown by feedback from this year's Board effectiveness review.

2. Julian Roberts (54)
B.A., F.C.A., M.C.T.
Group Chief Executive

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

Since becoming Group Chief Executive, Mr Roberts has steered the Group successfully through the aftermath of the 2008-9 financial crisis and set clear targets to be achieved by the end of 2012, which the Group is well placed to fulfil. He has also taken steps to strengthen the quality of senior executive management and to improve the Group's governance model. His knowledge of the Group's businesses and his depth of previous experience in the life sector make him a very strong contributor to the Board.

3. Philip Broadley (51)
M.A., F.C.A.
Group Finance Director

Philip Broadley has been Group Finance Director since November 2008. He is also a member of the Board Risk Committee and a non-executive director of Old Mutual Asset Management. He was previously Group Finance Director of Prudential plc from May 2000 until March 2008. Prior to joining Prudential, he was a partner in Arthur Andersen from 1993 to 2000. He has been Chairman of the 100 Group of Finance Directors, was a founding member and trustee of the CFO Forum of European Insurance Company Finance Directors, and was a member of the IASB's Insurance Working Group. He is a member of the Code Committee of the Takeover Panel.

Mr Broadley has a deep understanding of, and experience in, the finances of insurance groups. Since he became Group Finance Director, he has implemented significant improvements in the financial reporting and controls of the Group, while also making an important contribution to the Board's discussion of strategy and operational matters.

4. Mike Arnold (64)
B.Sc., F.I.A.
Independent non-executive director

Mike Arnold has been an independent non-executive director of the Company since September 2009 and chairs the Board Risk Committee. He is also a member of the Group Audit and Nomination Committees. He is a qualified actuary and was formerly Principal Consulting Actuary and Head of Life practice at the consulting actuarial firm Milliman from 2002 to 2009. Prior to that, he had been the senior partner at the practice from 1995, having joined one of its predecessor organisations as a recently qualified actuary in 1971. He is a past Member of Council and Vice Chairman of the Institute of Actuaries, past Chairman of the International Association of Consulting Actuaries and past member of the Board of Actuarial Standards. He is also a non-executive director of Marine and General Mutual Life Assurance Society, Financial Information Technology Limited and the Scottish Equitable Policyholders Trust.

Mr Arnold brings to the Board a detailed understanding of actuarial matters, which enables the Group Audit Committee (of which he is a member) and the Board Risk Committee (which he chairs) to provide technical challenge to the Group's reported results, especially those of its life businesses.

5. Eva Castillo (49)
B.A.s in Business and Law
Independent non-executive director

Eva Castillo was appointed as an independent non-executive director of the Company in February 2011. She is also a member of the Board Risk, Nomination and Remuneration Committees. She led the Global Wealth Management business of Bank of America Merrill Lynch in Europe, Middle East and Africa (EMEA) from 2006 to 2009, having held a number of other senior positions in Merrill Lynch from 1997, including as Head of Global Markets and Investment Banking in Iberia and President of Merrill Lynch Spain and, before that, as Chief Operating Officer for Merrill Lynch EMEA Equity Markets. Previously she had worked for the International Equities division of Goldman Sachs in London between 1992 and 1997. She has been a non-executive director of Telefónica SA since the beginning of 2008.

Ms Castillo has a deep understanding of, and experience in, investment banking, wealth management and financial services, as well as a wide international perspective, which have enabled her to make an important contribution to the Board over the past year.

6. Russell Edey (69)
F.C.A.
Independent non-executive director

Russell Edey has been an independent non-executive director of the Company since June 2004. He chairs the Remuneration Committee and is also a member of the Group Audit and Nomination Committees. He is Chairman of Avocet Mining Plc, a member of the Conseil de Surveillance of Paris-Orléans, SA and a non-executive director of a number of companies in the Rothschild Group. He retired from the chair of Anglogold Ashanti Limited in May 2010, having served on its board for 12 years. Previously he had also served on the boards of English China Clays plc, Wassall plc, Northern Foods plc, Associated British Ports plc and Express Dairies plc. His career began in the Finance Division of the Anglo American Corporation of South Africa Limited in Johannesburg. In the 1970s he was General Manager – Corporate Finance of Capel Court Corporation in Melbourne. He joined Rothschild in 1977 and was Head of Corporate Finance from 1991 to 1996.

Mr Edey's extensive range of executive and non-executive experience in both the corporate finance and wider industrial field, including those with strong South African connections, have enabled him to make a valuable contribution to the Board over the nearly eight years that he has served. If re-elected this year, Mr Edey will retire at the AGM in May 2013.

BOARD OF DIRECTORS

7. Alan Gillespie (61)
CBE, B.A., M.A., Ph.D.
Senior Independent Director

Alan Gillespie has been an independent non-executive director of the Company since November 2010 and became the Senior Independent Director in May 2011. He is also a member of the Group Audit, Nomination and Remuneration Committees. His banking career began at Citibank, where he spent 10 years from 1976 to 1986. He joined Goldman Sachs in New York in 1986 and was made a partner of the firm in 1990, with responsibility for corporate finance and mergers and acquisitions in the UK and Ireland. He jointly led the firm's financial services practice in Europe and in 1996 established Goldman Sachs' presence in South Africa. After retiring from Goldman Sachs in 1999, he became Chief Executive of the Commonwealth Development Corporation in the UK. In 2001 he became Chairman of Ulster Bank, a subsidiary of Royal Bank of Scotland plc. He is also currently Senior Independent Director of United Business Media plc and Chairman of the Economic & Social Research Council and of the International Finance Facility for Immunization (IFFIm).

Mr Gillespie's background in investment banking and financial services has enabled him to make a valuable contribution to the Board's deliberations during the past year, particularly in discussions of the Group's future strategic direction. He has also taken on the role of Senior Independent Director effectively, participating when required in discussions with significant shareholders and ensuring that their views are made known to the Board.

8. Reuel Khoza (61)
Eng. D., M.A.
Non-executive director

Reuel Khoza has been a non-executive director of the Company since January 2006 and Chairman of Nedbank Group since May 2006. He is also a member of the Board Risk and Nomination Committees. He is Chairman of Aka Capital, which is 25% owned by Old Mutual (South Africa). He is also a non-executive director of Nampak Limited, Protea Hospitality Holdings Limited and Corobrik (Pty) Limited. His previous appointments include Chairmanship of Eskom Holdings Limited and non-executive directorships of Glaxo Wellcome SA, IBM SA, Vodacom, the JSE, JCI, Standard Bank Group and Liberty Life. He is currently a Fellow and President of the Institute of Directors of South Africa.

Mr Khoza's position as Chairman of Nedbank enables the Board to gain direct insight into matters relating to one of the Group's major businesses and serves as an important conduit for managing the relationship between the Company and its South African banking business. More generally, his involvement in the South African business community provides the Board with valuable insights into developing issues in the country.

9. Roger Marshall (62)
B.Sc. (Econ.), F.C.A.
Independent non-executive director

Roger Marshall was appointed as an independent non-executive director of the Company and Chairman of the Group Audit Committee in August 2010. He is also a member of the Board Risk and Nomination Committees. He was formerly an audit partner in PricewaterhouseCoopers, where he led the audit of a number of major groups, including Zurich Financial Services and Lloyds TSB. Previous outside appointments included six years as a member of the Accounting Standards Board. He is currently Interim Chairman of the Accounting Standards Board, a Director of the Financial Reporting Council and a non-executive director of Genworth Financial's European insurance companies.

Mr Marshall's long experience of auditing major life companies gives him the ideal background to chair the Group Audit Committee and also enables him to make a valuable contribution to the Board's discussions, particularly in addressing the financial implications of alternative courses of action.

10. Bongani Nqwababa (45)
B.Acc., C.A., M.B.A.
Independent non-executive director

Bongani Nqwababa has been an independent non-executive director of the Company since April 2007. He is also a member of the Group Audit, Nomination and Remuneration Committees. He has been Finance Director of Anglo American Platinum Limited since 2009, having previously been Finance Director of the South African electricity utility group, Eskom Holdings Limited, from 2004. Prior to joining Eskom, he had been Treasurer and CFO of Shell Southern Africa. He is currently Chairman of the South African Revenue Services (Receiver of Revenue) Audit Committee.

Mr Nqwababa's practical knowledge of the South African business and operating environment and his insight into financial matters make him a valued member of the Board and of the Group Audit Committee.

11. Nku Nyembezi-Heita (51)
B.Sc., M.Sc., M.B.A.
Independent non-executive director

Nku Nyembezi-Heita was appointed as an independent non-executive director of the Company in 9 March 2012. She has been the Chief Executive Officer of ArcelorMittal South Africa, the largest steel producer on the African continent, since March 2008. Prior to this, she served as the Chief Officer of Mergers & Acquisitions for the Vodacom Group and, before that, she was Chief Executive Officer of Alliance Capital (which was at that time the local South African subsidiary of the New York-based global investment management company) for seven years. She is also a non-executive director of the JSE Limited.

Having served as a non-executive director on the board of Old Mutual Life Assurance Company (South Africa) Limited since May 2010 (a position she has relinquished upon taking up her role at plc level), Ms Nyembezi-Heita brings to the Board significant knowledge of one of the Group's major businesses, as well as more general insight into the South African business environment as a result of her current and previous senior executive roles in that country.

12. Lars Otterbeck (69)
Dr. Econ.
Independent non-executive director

Lars Otterbeck has been an independent non-executive director of the Company since November 2006. He is also a member of the Board Risk, Remuneration and Nomination Committees. Prior to joining the Board, he had held various senior business positions in Sweden, including as President and CEO of the Swedish mutual pension insurance company, Alecta, from 2000 to 2004. He is also a non-executive director of Skandia Liv and Chairman of Hakon Invest AB.

Mr Otterbeck has made a significant contribution to the Board's discussions during his period of engagement and brings both operational and strategic experience, together with detailed knowledge of the Group's operations in the Nordic region, where he was until recently a Director of Skandia Insurance Company Limited (publ), as well as of Skandia Liv. It is anticipated that, if re-elected at this year's AGM, he will serve one further year on the Board and retire at next year's AGM.

GROUP EXECUTIVE COMMITTEE

Julian Roberts (54)
B.A., F.C.A., M.C.T.
Group Chief Executive

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

Peter Bain (53)
B.A., J.D.
President and Chief Executive Officer,
Old Mutual Asset Management (US)

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

Philip Broadley (51)
M.A., F.C.A.
Group Finance Director

Philip Broadley has been Group Finance Director since November 2008. He is also a non-executive director of Old Mutual Asset Management. He was previously Group Finance Director of Prudential plc from May 2000 until March 2008. Prior to joining Prudential, he was a partner in Arthur Andersen from 1993 to 2000. He has been Chairman of the 100 Group of Finance Directors, was a founding member and trustee of the CFO Forum of European Insurance Company Finance Directors, and was a member of the IASB's Insurance Working Group. He is a member of the Code Committee of the Takeover Panel.

Mike Brown (45)
B.Com., Dip. Acc., C.A. (SA), A.M.P.
Chief Executive, Nedbank Group

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

Ian Gladman (47)
B.A.
Group Strategy Director

Ian Gladman joined Old Mutual as Group Strategy Director in January 2012. He had previously worked at UBS Investment Bank for 16 years, most recently as Co-Head of Financial Institutions, EMEA, covering a wide range of UK and European insurance companies, banks and asset managers. He was previously Head of Corporate Finance, South Africa for UBS from 1998 to 2001, during which time he led the local UBS team advising Old Mutual on its demutualisation and original listing. He also advised Nedbank on a number of assignments and BoE on its acquisition by Nedbank. Prior to joining UBS, he worked at Goldman Sachs and JP Morgan.

Paul Hanratty (50)
B.Bus. Sc. (Hons), F.I.A.
Chief Executive Officer, Long-Term Savings and Chairman, Old Mutual South Africa

Paul Hanratty has been CEO of Long-Term Savings since March 2009 and Chairman of Old Mutual South Africa since September 2009. He has been with Old Mutual South Africa (OMSA) since 1984. He is a fellow of the Institute of Actuaries and has held a number of roles at Old Mutual. These have included Head of Product Development, General Manager Finance and Actuarial, and Head of the Retail business of OMSA. He joined the Board of OMSA's life business in 2003 and became Managing Director of OMSA in 2006.

Sue Kean (49)
B.A. (Econ.) A.C.A.
Chief Risk Officer

Sue Kean has been Chief Risk Officer since January 2011, having joined Old Mutual in July 2010 as Head of Governance & Regulatory Compliance. She has over 25 years' experience in insurance and financial services. She previously worked at Friends Provident and Aviva in a variety of risk and regulatory roles. She also spent time at the Financial Services Authority, and held positions in relation to Solvency II on industry bodies such as the Chief Risk Officer Forum and the European insurance trade body, the Comité Européen des Assurances (CEA).

Don Schneider (54)
B.A., M.A.
Group Human Resources Director

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

DIRECTORS' REPORT ON CORPORATE GOVERNANCE AND OTHER MATTERS

Old Mutual views good governance as a vital ingredient in operating a successful business.

Patrick O'Sullivan
Chairman

We continued to refresh the Board's membership during 2011, with the recruitment of Eva Castillo and the retirement at our Annual General Meeting of two of our long-standing non-executive directors, Nigel Andrews and Rudi Bogni. We were also pleased to welcome Nku Nyembezi-Heita to the Board in March 2012.

The Board spent a considerable amount of time during the year addressing strategic issues and the sale of the Group's Nordic business, which we anticipate will complete later in March 2012. This transaction, along with the sale of the US Life business which completed in the first half of 2011, has contributed towards achieving the restructuring objectives that we announced in 2010, enabling the Board now to focus on the longer-term future of the Group.

During the year, the Board reviewed output from the first Group-wide survey of culture and values, which provided a helpful benchmark on current strengths and weaknesses. We hope to improve the Group's culture over the coming years as these surveys are repeated annually.

The Board continued to monitor relationships with regulators and received a report from our supervisory regulator, the FSA, on findings from its most recent 'ARROW' visit, which showed an improved picture of the Group's governance and financial stability. We also received continued training on the important implications of Solvency II for our life insurance operations.

An externally facilitated review of Board effectiveness took place towards the end of the year under the auspices of an independent firm, IDDAS. This has provided us with some useful suggestions for how to improve Board performance in the future.

During the first half of 2011, we implemented a transition to paperless meetings through posting of materials on a Sharepoint site with access via iPads. The timeliness and accessibility of information provided to the Board and its Committees have benefited as a direct result of this.

I intend to continue to ensure over the coming year that directors' time is spent on issues that make a real difference to the Group.

Patrick O'Sullivan
Chairman

To see Glossary terms
please go to page 290

Approach to governance

Old Mutual views good governance as a vital ingredient in operating a successful business, so that it can provide assurance to shareholders, customers and regulators that the Group's businesses are being properly managed and controlled.

During 2011, steps were taken to embed around the Group our Group Operating Model, under which we now operate a 'strategic controller' model steered from our head office. This Model establishes clear principles of delegation and escalation that are designed to provide appropriate levels of assurance about the control environment, while retaining flexibility for our businesses to operate efficiently.

Compliance with the UK Corporate Governance Code

As the Company's primary listing (now known in the UK as a premium listing) is on the London Stock Exchange, this report mainly addresses the matters covered by the UK Corporate Governance Code, but the Company also has regard to governance expectations in the four other territories where its shares are listed (South Africa, Malawi, Namibia and Zimbabwe). The Company's major South African subsidiaries are also subject to applicable local governance expectations, including those contained in King III and, in the case of Nedbank Group Limited, the Listings Requirements of the JSE Limited.

Throughout the year ended 31 December 2011 and in the preparation of this Annual Report and these Accounts, the Company has complied with the main and supporting principles and provisions set out in the UK Corporate Governance Code as described in the following sections of this Report. The Company's compliance with UK Corporate Governance Code provisions C1.1, C2.1, C3.1 to C3.7, and the statement relating to the going concern basis adopted in preparing the financial statements set out at the end of this section of this report, have been reviewed by the Company's auditors, KPMG Audit Plc, in accordance with guidance published by the Auditing Practices Board.

Board of Directors

Membership

The Old Mutual Board currently has 12 members, two of whom are executive and ten of whom are non-executive directors. All of the current directors, except for Eva Castillo (who was appointed to the Board in February 2011), and Nku Nyembezi-Heita (who joined the Board in March 2012), served throughout the year ended 31 December 2011. Nigel Andrews and Rudi Bogni both retired from the Board at the end of the AGM in May 2011, having each served nine years.

Responsibilities of the Board

The Board's role is to exercise stewardship of the Company within a framework of prudent and effective controls that enables risk to be assessed and managed. The Board sets the Company's strategic aims, reviews whether the necessary financial and human resources are in place for it to meet its objectives and monitors management performance. It is kept informed about major developments affecting the Group through the Group Chief Executive's monthly reports and also holds regular strategy sessions at which high-level strategic matters are debated.

The Board has overall authority for the conduct of the business of the Group and the Group Operating Model sets out matters that are specifically reserved for Board decision and protocols that govern escalation of issues to it and delegation of powers from it in a manner that is designed to ensure clarity about where responsibility for decision-making lies. Further detail is set out under the heading 'Group Operating Model' below.

2011 operations

Board meetings were held regularly during 2011. As usual, scheduled meetings were co-ordinated with the Company's reporting calendar to allow for detailed consideration of interim and final results and interim management statements. Sessions were also devoted to strategy and business planning and the Board met ad hoc, as required, to deal with specific matters requiring its consideration. In all, ten Board meetings (of which eight were scheduled and two convened ad hoc) were held during the year.

Monthly management accounts were circulated to each member of the Board within three weeks of the month end, containing detailed analysis of the businesses' financial performance, including comparisons against budget. Any issues arising from these are addressed at Board meetings or can be raised directly with management.

The Board calendar ensures that all key matters are scheduled for attention over the course of the year, including presentations on the Group's major businesses. During 2011, the Board held three meetings at the Group's South African and one meeting at its US businesses' premises.

In addition to its normal agenda items, the Board addressed the following matters, among others, during the year:

- Progress against the Group's strategic targets for the end of 2012;
- Training on the implications for the Group of the introduction of Solvency II; and
- Hedging strategy and scenario-planning for Old Mutual Bermuda.

CORPORATE GOVERNANCE
CONTINUED

New directors receive induction upon their appointment to the Board, with an extensive list of briefing sessions available about the Group's businesses in conjunction with other directors, members of senior management and external advisers (such as the auditors). These arrangements applied particularly to Alan Gillespie and Eva Castillo, as the most recent appointees, during 2011. All directors have access to the Group Company Secretary, who is responsible to the Board for ensuring that Board procedures are complied with. Facilities are available for the directors to take independent professional advice at the Company's expense for the furtherance of their duties, whether as members of the Board or of any of its committees. The Company maintains directors' and officers' liability insurance in respect of legal action against its directors and senior managers.

Delegation of certain responsibilities

In accordance with the Group Operating Model, the Board has delegated its executive powers to the Group Chief Executive, with power to sub-delegate, and also to the Approvals Committee. In his co-ordination and stewardship of the Group, the Group Chief Executive is advised by the Group Executive Committee, a consultative management committee. Details of members of the Group Executive Committee accompany their photographs on pages 94 and 95 of this Annual Report. The Board has also delegated specific responsibilities for certain matters to Board committees. The principal Board committees have responsibility for Nomination, Remuneration, Group Audit and Board Risk matters, subject to their respective terms of reference. The Board receives reports from these committees on the subjects that they have covered. The matters addressed by the principal Board committees in 2011 are outlined below under the heading 'Board Committees' and, for the Remuneration Committee, in the Remuneration Report.

Group Operating Model

The objectives of the Group Operating Model are: (i) to establish a clear and comprehensive governance framework, with appropriate procedures, systems and controls, facilitating the satisfactory discharge of the duties and obligations of regulated firms, directors and employees within the Group; (ii) to provide a clear articulation of Old Mutual plc's expectations (as shareholder) of business unit boards when exercising their powers as set out in their respective constitutions in force from time to time; (iii) to take due account of the regulatory requirement that boards of regulated entities maintain proper controls over the affairs of their respective businesses; and (iv) to protect the interests of the Group's various stakeholders including its shareholders, creditors, policyholders and customers.

The governance relationship with the Group's majority-owned subsidiary, Nedbank Group Limited, recognises the latter's own governance expectations as a separately-listed entity on the JSE Limited and the fact that it has minority shareholders. The Company entered into a relationship agreement with Nedbank Group Limited in 2004 setting out the Company's requirements and expectations as its majority shareholder. The text of that relationship agreement is available on the Company's website. Nedbank has also now adopted the Group Operating Model, subject to certain waivers in acknowledgement of its separately-listed and regulated status, which sits alongside that agreement.

Rotation and re-election of directors

The Articles of Association of the Company require that any newly-appointed directors should be subject to election at the next following AGM and also that the Chairman, along with at least one third of the directors (excluding those appointed by the Board during the year), should retire by rotation each year. However, it has been decided this year, in line with recommended best practice under the UK Corporate Governance Code, that all of the directors will stand for election or re-election at the 2012 AGM.

The Board, having received and reviewed reports (including input from the externally facilitated Board effectiveness review) on the performance of the directors and the contributions that they have each respectively made, recommends that they each be elected or re-elected as directors at the AGM. Biographical details of all of the directors are contained in the Board of Directors section of this Annual Report and in the explanatory notes in the AGM circular.

Board performance review

The Board conducts a review of its performance on an annual basis. The review is designed to ensure, among other things, that each director continues to contribute effectively and to demonstrate commitment to his or her role (including commitment of time for Board and committee meetings and any other duties). The results of the review are considered by the Board and appropriate actions taken, if necessary.

The review for 2011 was conducted externally through IDDAS, an independent board effectiveness consultancy. It was undertaken in line with the Financial Reporting Council's Guidance on Board Effectiveness, including the emphasis on a board's role in creating a high-performance culture and the behavioural aspects of board performance, related to challenge and decision-making. Consequently, for the first time, the Board's performance review included psychometric assessment of Board members. This was designed to provide useful collective insights into how to improve team dynamics, communication effectiveness and constructive challenge further within the Boardroom. This insight information was reviewed by the whole Board in a session facilitated by IDDAS and a plan to address recommendations arising from this review over the coming year is currently under development.

The Board's performance review is now externally facilitated at least every three years in line with the UK Corporate Governance Code.

Skills, experience and diversity

Plans for refreshing and renewing the Board's composition are managed proactively by the Nomination Committee so as to ensure that changes take place without undue disruption and that there is an appropriate balance of experience and length of service. That committee also considers, in making recommendations, the independence of candidates and their suitability and willingness to serve on other committees of the Board. During 2011, it also acknowledged explicitly the benefits of promoting diversity on the Board and has used this as a criterion during its consideration of a number of senior roles, as well as for the Board recruitment. The current Board composition is considered by the Nomination Committee to be suitable for the requirements of the Group's business. However, such matters continue to be kept under active review, having regard to scheduled retirements of non-executive directors and the Group's future strategy.

In September 2011, the Company issued a statement in response to the Davies Report on Women on Boards in which we set a target of increasing female representation on the Board to at least two members by the end of 2013 and to at least three members by the end of 2015. The Company has already achieved the target announced for the end of 2013. It has also appointed Sue Kean to the Group Executive Committee from January 2012 and is taking active steps through a variety of initiatives to encourage female members of staff around the Group to progress to more senior positions.

Executive and non-executive roles

While there are currently only two executive directors, all members of the Board have regular contact with the other senior executive management (including the most senior executives of the main business units of the Group) through their periodic participation in Board meetings, other briefing sessions by the senior executives and Board visits to the locations where the Group's main businesses are based. The Board also receives Minutes of the proceedings of the Group Executive Committee.

The executive element of the Board is balanced by an independent group of non-executive directors. The Board as a whole approves the strategic direction of the Group, scrutinises the performance of management in meeting agreed goals and objectives, and monitors the reporting of performance. Procedures are in place to enable Board members to satisfy themselves about the integrity of the Group's financial information and to ensure that financial controls and systems of risk management are robust and sustainable. Non-executive directors on the Remuneration Committee are responsible for determining appropriate levels of remuneration for the executive directors, other members of the Group Executive Committee and certain other senior members of staff. Members of the Nomination Committee have a primary role in recommending the appointment and, where necessary, removal of executive directors.

Separately from the formal Board meeting schedule, the Chairman holds meetings with the other non-executive directors, without any executives being present, to provide a forum for any issues to be raised. He also conducts an annual one-to-one performance evaluation of each of the other non-executive directors, with any resulting action points being reported to the Nomination Committee.

Informal meetings among the non-executive directors, without the Chairman or any executive being present, are also facilitated by the Company. Among the activities carried out at such meetings is the annual review of the Chairman's own performance under the aegis of the Senior Independent Director, who also obtains such input as he considers appropriate from the executive directors.

The assignment of responsibilities between the Chairman, Patrick O'Sullivan, and the Group Chief Executive, Julian Roberts, is documented so as to ensure that there is a clear division between the running of the Board and executive responsibility for running the Company's business. The responsibilities of Patrick O'Sullivan as Chairman include leadership of the Board, ensuring its effectiveness in all aspects of its role and setting its agenda; ensuring that adequate time is available for discussion of all agenda items (in particular strategic issues), ensuring that the directors receive accurate, timely and clear information; ensuring effective communication with shareholders; promoting a culture of openness and debate by facilitating the effective contribution to the Board of non-executive directors in particular; and ensuring constructive relationships between the executive and non-executive directors.

The Board has determined that, in the absence of exceptional circumstances, non-executive directors (including the Chairman) should serve a maximum of nine years in office. During 2011, the way in which these principles operate was changed so that, instead of a third three-year term, renewals after six years are now for up to three further one-year terms.

The renewal of non-executive directors' engagements for successive terms is not automatic and the continued suitability of each non-executive director is assessed by the Nomination Committee before renewal of his or her appointment takes place. The section of the Remuneration Report entitled 'Non-Executive Directors' Terms of Engagement' describes the current position of each of the non-executive directors with respect to the duration of their office and how the extension process has been applied to them.

Independence of non-executive directors

Eight of the nine current non-executive directors other than the Chairman (Mike Arnold, Eva Castillo, Russell Edey, Alan Gillespie, Roger Marshall, Bongani Nqwababa, Nku Nyembezi-Heita and Lars Otterbeck) are considered by the Board to be independent within the meaning of, and having regard to the criteria set out in, paragraph B.1.1 of the UK Corporate Governance Code – ie independent in character and judgement and with no relationships

CORPORATE GOVERNANCE
CONTINUED

or circumstances which are likely to affect, or could appear to affect, their judgement. The other non-executive director, Reuel Khoza, is not considered independent because of his chairmanship of the Group's majority-owned subsidiary, Nedbank Group Limited, and the business relationships between Aka Capital, in which he owns a stake, and Nedbank.

The terms and conditions of engagement of each of the non-executive directors are available on the Company's website. These include details of the expected time commitment involved (which each of the non-executive directors has accepted). Other significant commitments of potential appointees are considered by the Nomination Committee as part of the selection process and are disclosed to the Board when recommendation of an appointment is submitted. Non-executive directors are also required to inform the Board of any subsequent changes to such commitments, which must be pre-cleared with the Chairman if material.

Senior Independent Director

Alan Gillespie succeeded Rudi Bogni as the Senior Independent Director in May 2011. The Senior Independent Director is available to shareholders if they have concerns that are unresolved after contact through the normal channels of the Chairman, Group Chief Executive or Group Finance Director or where such contact would not be appropriate. The Senior Independent Director's contact details can be obtained from the Group Company Secretary *(martin.murray@omg.co.uk)*.

Directors' interests

Details of the directors' interests (including interests of their connected persons) in the share capital of the Company and its quoted subsidiary, Nedbank Group Limited, at the beginning and end of the year under review are set out in the following tables, while their interests in share options and restricted share awards are described in the section of the Remuneration Report entitled 'Directors' interests under employee share plans'. There have been no changes to any of these interests between 31 December 2011 and 8 March 2012.

	Old Mutual plc Number of shares	Nedbank Group Limited Number of shares
At 31 December 2011		
Mike Arnold	12,725	–
Philip Broadley	412,178[1]	–
Eva Castillo	–	–
Russell Edey	25,000	2,604
Alan Gillespie	–	–
Reuel Khoza	–	3,174
Roger Marshall	40,000	–
Bongani Nqwababa	–	–
Patrick O'Sullivan	104,365	–
Lars Otterbeck	–	–
Julian Roberts	1,128,633[1]	–

	Old Mutual plc Number of shares	Nedbank Group Limited Number of shares
At 1 January 2011 (or date of appointment as a director, if later)		
Mike Arnold	12,725	–
Philip Broadley	55,353[1]	–
Eva Castillo (appointed on 4 February 2011)	–	–
Russell Edey	25,000	2,604
Alan Gillespie	–	–
Reuel Khoza	–	1,374[2]
Roger Marshall	20,000	–
Bongani Nqwababa	–	–
Patrick O'Sullivan	100,000	–
Lars Otterbeck	–	–
Julian Roberts	1,591,644[1]	–
Former directors (at 1 January 2011 and date of resignation)		
Nigel Andrews	7,000	–
Rudi Bogni	19,000	–

1 These figures do not include rights to restricted shares that have not yet vested, which are described in the Remuneration Report.
2 This figure does not include shares in the Aka-Nedbank Eyethu Trust, one of Nedbank's Eyethu BEE trusts. These were disposed of during 2011.

Directors' conflicts of interest

Processes are in place for any potential conflicts of interest to be disclosed and for directors to avoid participation in any decisions where they may have any such conflict or potential conflict. The Company's procedures for dealing with directors' conflicts of interest have operated effectively during 2011.

No director had a material interest in any significant contract with the Company or any of its subsidiaries during the year. Additional details of various non-material transactions between the directors and the Group are reported on an aggregated basis, along with other transactions by senior managers of the Group, in Note G3 to the Accounts.

The executive directors are permitted to hold and retain for their own benefit fees from one external (non-Group) non-executive directorship (but not a chairmanship) of another listed company, subject to prior clearance by the Board and the directorship concerned not being in conflict or potential conflict with any of the Group's businesses. Neither Julian Roberts nor Philip Broadley currently holds any external non-executive directorships of other publicly quoted companies.

Board Committees

The Board has a number of committees to which various matters are delegated in accordance with their respective terms of reference. The Board also establishes committees on an ad hoc basis to deal with particular matters. In doing so, it specifies a remit, quorum and appropriate mix of executive and non-executive participation. Further information on the principal standing committees of the Board is set out below.

Group Audit Committee

Members and years of appointment to the committee (or its predecessor committee, the Group Audit and Risk Committee): Roger Marshall (Chairman) (2010), Mike Arnold (2009), Russell Edey (2004), Alan Gillespie (2010), Bongani Nqwababa (2007). Other member during part of the year: Rudi Bogni (2002). Secretary and year of appointment: Martin Murray (1999).

All members of the Group Audit Committee are independent non-executive directors. The Chairman, Roger Marshall, is a chartered accountant with a wide range of recent and current relevant financial experience. All members of this committee are expected to be financially literate and to have relevant financial experience.

Roger Marshall has submitted the following report on behalf of the Group Audit Committee:

The Committee met six times during 2011. The main matters addressed by the Committee included:

- Significant accounting and actuarial issues affecting the IFRS and MCEV financial statements. The Committee reviewed the accounting policies adopted by the Group and considered the approach to, and valuation of, assets and liabilities, including the key actuarial assumptions underpinning the insurance liabilities. The Committee considers the most significant area of judgement in preparing the 2011 accounts were:
  - the provision for Bermuda guarantees (see Note A3 to the Accounts). The Committee has reviewed, and is comfortable with, the process for determining that provision. The eventual liability under the guarantees will depend on future events, most significantly market developments, policyholder behaviour and the level of hedging undertaken. Note A3 to the Accounts also highlights the wide range of possible outcomes
  - impairment of the carrying value of US Asset Management goodwill (see Note F1 to the Accounts). The Committee reviewed the assumptions used to calculate the impairment and is comfortable with them
  - the appropriate level of tax provisions (see Note F8 to the Accounts)
  - impairment provisions at Nedbank
  - the inclusion for the first time in the consolidated results of the Group's businesses in the Rest of Africa (including Zimbabwe).
- Reports received from the internal audit function, including the results of key audits and other significant findings relating to the Group's control environment, and the adequacy of management's responses and the timeliness of resolution.
- The operation of the Group's external audit, including: audit plans for the year, key audit risks identified by external audit, changes in key external audit staff, arrangements for day-to-day management of the audit relationship, the auditors' arrangements to identify, report and manage any conflicts of interest, the nature and overall extent of non-audit services provided by the external auditors, the external auditors' engagement letter for the year and fee proposal, and any major issues that arose during the course of the audit and their resolution. As in prior years, the Committee received an evaluation of the auditors' effectiveness after the audit for 2010 had been completed, with input from the business units as well as from stakeholders at Old Mutual plc itself.
- Any significant findings or control issues of which the Committee became aware, including progress with the Financial Controls Initiative.
- Tax, litigation and contingent liabilities affecting the Group.

In addition, I sit on the Board Risk Committee, while the Chairman of that Committee also sits on the Group Audit Committee, so that the activities of the two committees can be closely co-ordinated. I also liaise as appropriate with the Chairman of the Remuneration Committee so as to ensure that I am able to draw to his attention any aspects of the Group's results that the Group Audit Committee feels ought to be taken into account in setting levels of remuneration for the executive directors and other senior executives.

The Committee also reviewed the Group's whistleblowing arrangements. These enable employees of the Group and others to report complaints on accounting, risk issues, internal controls, auditing issues and related matters. They can do this in confidence, using a dedicated hotline operated by an independent firm of accountants. Any reports are investigated and escalated to the Committee as appropriate. Efforts are made to educate staff around the Group about the existence of the whistleblowing facility and to help them detect the signs of possible fraudulent or improper activity.

The section later in this Report headed 'Auditors' contains information on our policy on auditor independence and non-audit fees and the Committee's recommendation that KPMG Audit Plc should be reappointed as the Company's auditors for 2012.

As a Committee, we hold private meetings with the external auditors once a year (or more often, if requested by the auditors) to review key issues. As Chairman of the Committee, I also have regular interaction with the external auditors and the Group Internal Audit Director, as well as with the chairmen of subsidiary audit committees and the Group Finance Director, and I have a continuing programme of visits to the Group's major subsidiaries arranged, so that I can remain abreast of issues as they arise during the year.

The Committee can confirm that it has received sufficient, reliable and timely information from management during the year to enable it to fulfil its responsibilities.

Board Risk Committee

Members and years of appointment to the committee: Mike Arnold (Chairman) (2010), Philip Broadley (2010), Eva Castillo (2011), Reuel Khoza (2010), Roger Marshall (2010), Lars Otterbeck (2010). Other member during part of the year: Nigel Andrews (2010). Secretary and year of appointment: Martin Murray (2010).

Mike Arnold has submitted the following report on behalf of the Board Risk Committee:

The Committee met seven times during the year. The Group Risk Director and the Head of Governance and Compliance attended each meeting and the Group Internal Audit Director attended as appropriate. The external auditors were invited to attend four of the meetings.

The Committee received a report at each of its meetings during 2011 from the Group Risk Director in which any changes to the Group's risk profile were identified and discussed. We also reviewed the risk appetite metrics operated by the Group and recommended to the Board some changes to the criteria to be used by the business units for their business planning over the three-year period 2012 to 2014.

In addition, during our meetings in 2011, we focused on:

- The Group's preparations for Solvency II, in particular through the integrated Capital, Risk and Financial Transformation (iCRaFT) programme. Under this programme, the Company is implementing:
  - A revised Group-wide internal capital model compliant with Solvency II requirements;
  - A Group-wide risk reporting system which facilitates easier aggregation and escalation of risks from business unit management to the Group Risk department;
  - Risk-adjusted performance metrics linked to incentive arrangements;
  - An own risk and solvency assessment;
  - Suitable education and training activities to ensure that these disciplines are well embedded and used across the organisation.
- The management of risks at Old Mutual Bermuda, in particular through the hedging programme which it has established to manage the interplay between the Guaranteed Minimum Accumulation Benefit liability under certain contracts with the asset allocations selected under those contracts, and the resulting market and liquidity risks that arise from various hedging strategies.
- Regulatory risks arising as a result of business activities, in particular the Group's regulatory environment and compliance status.
- Stress and scenario testing, focusing on particular economic and business scenarios and their potential impact on the Group's finances.
- Risks arising from material corporate transactions being considered by the Group.

In addition to its regular meetings, the Committee held two full-day workshops to enable discussions to take place on a wide range of issues relating to risk management within the Group.

At the end of the year, the Committee produced a report for the Remuneration Committee commenting on the management's observance during the year of the risk appetite metrics agreed by the Board.

The Committee also undertook a review of its terms of reference and its relationships with other Board committees. This led to some clarification of the Committee's remit and the division of responsibilities between the Committee and the Group Audit Committee.

As Roger Marshall has indicated in his report on the activities of the Group Audit Committee, I also sit on the Group Audit Committee and am therefore able to raise matters at either committee as appropriate.

I shall continue to have regular interaction with the Group Risk Officer and will attend some risk committee meetings of the Group's major subsidiaries in 2012. In this way I will remain close to any major risk issues that may arise during the coming year.

Remuneration Committee

Members and years of appointment to the committee: Russell Edey (Chairman) (2007), Eva Castillo (2011), Alan Gillespie (2010), Bongani Nqwababa (2010), Lars Otterbeck (2010). Other members for part of the year: Nigel Andrews (2002), Rudi Bogni (former Chairman of the Committee) (2005). Secretary and year of appointment: Martin Murray (1999).

Details of the role and activities of the Remuneration Committee and how it has applied the main and supporting principles and the Code Provisions in Section D of the UK Corporate Governance Code relating to remuneration matters are provided in the Remuneration Report.

Nomination Committee

Members and years of appointment to the committee: Patrick O'Sullivan (Chairman) (2010), Mike Arnold (2010), Eva Castillo (2011), Russell Edey (2005), Alan Gillespie (2010), Reuel Khoza (2010), Roger Marshall (2010), Bongani Nqwababa (2010), Lars Otterbeck (2010), Julian Roberts (2008). Other members for part of the year: Nigel Andrews (2005), Rudi Bogni (2003). Secretary and year of appointment: Martin Murray (1999).

The Nomination Committee makes recommendations to the Board in relation to the appointment of directors, the structure of the Board and membership of the Board's main standing committees. It also reviews development and succession plans for the most senior executive management of the Group and proposed appointments to the boards and standing committees of principal subsidiaries in line with the Group Operating Model. It is chaired by the Chairman of the Board, Patrick O'Sullivan, and a majority of its members (seven out of ten) 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 renewal of the Board, replacing directors who are due to retire, or adjusting the Board's balance of knowledge, skills or independence. In identifying candidates, appropriate regard is paid to ensuring that they will have sufficient time available in the light of their other commitments to discharge their duties as directors of the Company.

During 2011, the Committee oversaw the processes for completing the recruitment to the Board of Ms Castillo (who joined the Board in February 2011) and for identifying and recruiting Ms Nyembezi-Heita, who joined the Board in March 2012. It also considered and approved proposed changes to the membership of a number of subsidiary boards and reviewed succession plans for the executive directors of the Company and for various other senior positions around the Group.

Other committees

There are a number of executive committees which assist the Group Chief Executive with the day-to-day management of the Group. These include the Group Executive Committee mentioned earlier in this report, the Group Executive Risk Committee, whose responsibilities are described in the Risk and Capital Management report

Attendance record	Board (scheduled and ad hoc)	Group Audit Committee	Board Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings held:	10	6	7	7	5
Mike Arnold	10/10	6/6	7/7	–	5/5
Philip Broadley	10/10	–	7/7	–	–
Eva Castillo	9/10	–	6/6	5/6	4/4
Russell Edey	8/10	4/6	–	6/7	5/5
Alan Gillespie	10/10	5/6	–	6/7	5/5
Reuel Khoza	9/10	–	7/7	–	5/5
Roger Marshall	10/10	6/6	7/7	–	4/5
Bongani Nqwababa	8/10	5/6	–	5/7	4/5
Patrick O'Sullivan	10/10	–	–	–	5/5
Lars Otterbeck	8/10[1]	–	7/7	7/7	5/5
Julian Roberts	10/10	–	–	–	5/5
Former directors					
Nigel Andrews	4/4	–	3/3	3/3	3/3
Rudi Bogni	4/4	3/3	–	3/3	3/3

[1] Lars Otterbeck did not participate in one Board meeting (and part of another Board meeting) during the year because of potential conflicts of interest arising from his position as a director of Skandia Insurance Company Limited (publ) and Skandia Liv while the Company was in active negotiations about the sale of the Group's Nordic business.

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earlier in this document; and the Group Capital Management Committee, whose role is, *inter alia*, to agree capital allocations within certain limits (or make recommendations to the Board regarding any allocations beyond such limits) and to approve the capital plan of the Group as part of the annual business-planning process.

Attendance record

The table on the previous page sets out the number of meetings held and individual directors' attendance at meetings of the Board and its principal committees (based on membership of those committees, rather than attendance as an invitee) during 2011.

Auditors

During the year ended 31 December 2011, fees paid by the Group to KPMG Audit Plc, the Group's auditors, and its associates totalled £13.7 million for statutory audit services (2010: £14.1 million), £0.4 million for other audit and assurance services relating to Old Mutual Market Consistent Embedded Value reporting (2010: £0.5 million), and £3.4 million for tax and other services (2010: £6.0 million). In addition to the above, Nedbank Group paid a further £4.4 million (2010: £4.3 million) to Deloitte in respect of joint audit arrangements.

Detailed guidelines have been approved by the Group Audit Committee as part of the Group's policy on non-audit services and a summary of the applicable provisions can be found in the Corporate Governance section of our website.

KPMG Audit Plc have expressed their willingness to continue in office as auditors to the Company and, following a recommendation by the Group Audit Committee to the Board, a resolution proposing their reappointment will be put to the AGM. In reaching its decision to recommend the reappointment of KPMG Audit Plc as auditors, the Board took into account the fact that the firm had been the Company's auditors since the Group demutualised in 1999 and that appropriate arrangements are in place for the rotation and renewal of key audit personnel. The Company has not entered into any contractual restriction preventing it from considering a change of auditors and the choice of auditors is kept under review by the Board from year to year, taking into account appropriate benchmarking data.

Arrangements have been made, in conjunction with KPMG Audit Plc, for appropriate audit director rotation in accordance with the requirements of the UK Auditing Practices Board. The current audit engagement director in the UK, Philip Smart, assumed this role in April 2011.

Internal control environment

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 2011 and up to the date of approval of this Report.

Responsibility for internal control

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness, while the implementation of internal control systems is the responsibility of management. Executive management has implemented an internal control system designed to help ensure:

- The effective and efficient operation of the Group and its business units by enabling management to respond appropriately to significant risks to achieving the Group's business objectives;
- The safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed;
- The quality of internal and external reporting; and
- Compliance with applicable laws and regulations, and with internal policies on the conduct of business.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The process accords with the Turnbull guidance set out in 'Internal Control: Revised Guidance for Directors on the Combined Code' (the Combined Code being the previous version of the UK Corporate Governance Code) and is regularly reviewed by the Board.

The Group's actions to review the effectiveness of the system of internal control include:

- An annual review of the risk assessment procedures, control environment considerations, information and communication and monitoring procedures at Group level and within each business unit. This review covers all material controls, including financial, operational and compliance controls and the risk management systems;
- A certification process, under which all business units are required to confirm that they have undertaken risk management in accordance with the Group risk framework, that they have reviewed the effectiveness of the system of internal controls, that internal policies have been complied with and that no significant risks or issues are known which have not been reported in accordance with policy; and
- Regular reviews of the effectiveness of the system of internal control by the Group Audit Committee, which receives reports from Group Internal Audit. The Committee also receives reports from the external auditors, KPMG Audit Plc, which include details of significant internal control matters that they have identified during the course of their work.

These activities are in addition to the regular risk management activities which are performed on an ongoing basis (as described in more detail in the Risk and Capital Management report elsewhere in this document).

The certification process described above does not apply to certain joint ventures where the Group does not exercise full management control. In these cases, Old Mutual monitors the internal control environment and the potential impact on the Group through representation on the board of the entity concerned.

The Board reviewed the effectiveness of the system of internal control during and at the end of the year. Our annual internal control assessment has not highlighted any material failings. We remain committed to having a robust internal control environment across the Group.

Group Internal Audit

Group Internal Audit (GIA) is responsible for providing independent, objective assurance on the adequacy and effectiveness of Old Mutual's systems of governance, risk management and internal control to the Board and executive management and, in doing so, helps enhance the controls culture within the Group. The work of GIA is focused on the areas of greatest risk, both current and emerging, to Old Mutual as determined by a comprehensive, risk-based planning process. The Group Audit Committee approves the annual internal audit plan and any subsequent amendments.

There are internal audit teams in each of our major businesses. The heads of internal audit in the Group's wholly-owned subsidiaries report directly to the Group Internal Audit Director (GIAD). The GIAD reports functionally to the Chairman of the Group Audit Committee and administratively to the Group Finance Director. The GIAD attends all meetings of the Group Audit Committee, and has unrestricted access to the Group Chief Executive and to the Chairman of the Board, as well as open invitations to attend any meetings of the business unit Audit Committees, the Board Risk Committee and the Group Executive Risk Committee.

Internal audit teams across Old Mutual use a single audit methodology which meets the standards set by the Institute of Internal Auditors. Issues raised by internal audit during the course of its work are discussed with management, who are responsible for implementing agreed actions to address the issues identified within an appropriate and agreed timeframe.

Formal reports are submitted by the GIAD to each meeting of the Group Audit Committee, summarising the results of internal audit activity, management's progress in addressing issues and other significant matters.

An assessment of the effectiveness of GIA is carried out periodically by external advisers.

Other Directors' Report matters

Relations with shareholders and analysts

The Company gives high priority to regular, clear and direct communication with its shareholders, institutional investors and sell-side analysts by means of a proactive Investor Relations (IR) programme. The programme aims to facilitate communication with the global investment community, both equity and debt, and to keep investors updated on the Company's performance, within the constraints of the Listing, Prospectus and Disclosure and Transparency Rules.

The Company has a dedicated IR team which runs its IR programme. Old Mutual continued to increase its communication and engagement with the investment community during 2011. A total of 331 meetings were held during the year with investors and analysts in the UK, South Africa, North America and continental Europe, comprising 218 individual institutions. This compared with a total of 244 meetings held in 2010. The majority of meetings involved the Group Chief Executive, the Group Finance Director or another member of the senior management team, although greater use was made of group meetings in order to improve efficiency and provide more institutions with access to management and also to increase the efficient use of management's own time. The Company continued to target smaller institutional investors and those who manage funds for high-net-worth retail clients and charities in both Europe and South Africa with a view to diversifying its shareholder base.

In addition, the Company presented at a number of major investor conferences around the world as well as hosting international investors to a visit to the Group's South African businesses. The Company also hosted the Chairman of the Mandela Institute at its London office at an evening reception for investors and analysts to discuss the prospects of investing in Agriculture, Infrastructure and Housing in Africa. Copies of all presentations and, where appropriate, transcripts are posted on the Company's website so that they are accessible to shareholders generally.

Currently 13 sell-side analysts from Europe and South Africa actively publish research on the Company. Other sell-side analysts are encouraged to cover the Company to help investors assess the Group's valuation, its performance and the business environment in which it operates, and also to make meaningful comparisons with peers.

The Chairman makes contact with major investors and meets them as required. The Senior Independent Director is also available for interaction with shareholders.

The Board is updated regularly by the IR team on issues arising from communication with the investment community. In addition to this, an independent survey is commissioned regularly which provides the Board with the views of major investors on the Company's management and performance.

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General Meetings
The Board uses the AGM to comment on the Group's trading performance during the first quarter of the year. Shareholders also have the opportunity to ask questions of the Board. The AGM is webcast and a record of the proceedings is also made available on the Company's website shortly after the end of the meeting. All items of formal business at the AGM are conducted on a poll, rather than by a show of hands. The Company's registrars, Computershare Investor Services, ensure that all validly submitted proxy votes are counted, and a senior member of Computershare's staff acts as scrutineer to ensure that votes cast are properly received and recorded.

Each substantially separate issue at the AGM is dealt with by a separate resolution and the business of the AGM always includes a resolution relating to the receipt and adoption of the Report and Accounts. The Chairmen of the Group Audit, Board Risk, Remuneration and Nomination Committees are available at the AGM to answer any questions on the matters covered by those committees. All the directors in office at the date of the meeting attended the AGM in 2011.

The notice of AGM and related materials contained in the Report and Accounts or Summary Financial Statements are sent out to shareholders in time to arrive in the ordinary course of the post at least 20 working days before the date of the AGM.

Directors' shareholdings and share dealings
The Remuneration Committee has established guidelines on shareholdings by executive directors of the Company. Under these, the Group Chief Executive is expected to build up a holding of shares in the Company equal in value to at least 200% (increased from 150% during 2011) of his annual base salary within five years of appointment; the equivalent figure for other executive directors is 150% (increased from 100% during 2011) of their annual base salary. Further details of the executive directors' shareholdings are set out under 'Directors' Interests' earlier in this report, and their interests in awards under the Company's employee share plans are contained in the Remuneration Report. The Board has considered whether to adopt a shareholding requirement for non-executive directors, but does not consider this to be appropriate.

Directors' indemnities
The Company has entered into formal deeds of indemnity in favour of each of the directors. A specimen copy of the indemnities is available in the Corporate Governance section of the Company's website.

Supplier payment policy
In most cases, suppliers of goods or services to the Group do so under standard terms of contract that lay down terms of payment. In other cases, specific terms are agreed to beforehand. It is the Group's policy to ensure that terms of payment are notified in advance and adhered to. The Company has signed the Better Payment Practice Code, an initiative promoted by the Department for Business, Innovation and Skills in the UK to encourage prompt settlement of invoices.

The total outstanding indebtedness of the Company (and its service company subsidiary, Old Mutual Business Services Limited) to trade creditors at 31 December 2011 amounted to £11,981,365, corresponding to 43 days' payments when averaged over 2011.

Charitable contributions
The Group made a wide range of significant donations to charitable causes and social development projects during 2011, 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 £216,000 during the year (2010: £191,000).

Environmental matters
A description of the Group's environmental impact and management during 2011 is contained in the Responsible Business section of this document.

Employment policy
The Group's employment policies reflect our belief that motivated and talented individuals are critical to our ability to achieve our business objectives. We recognise the value that a diverse workforce brings and believe that it should reflect the diversity of the markets in which we operate. We promote the fair and consistent treatment of all our employees and encourage equal opportunities and diversity across the Group.

While local employment policies and procedures are developed by each business according to its own circumstances, employees are recruited, retained, developed and rewarded solely on the basis of their suitability for the job, without discrimination in terms of race, religion, national origin, colour, gender, age, marital status or sexual orientation, subject always to employment equity considerations in South Africa. Further information on employee matters is set out in the Responsible Business section of this document.

Political donations
The Group made no EU or other political donations during the year.

Dividends and dividend policy
Given the continued progress in achieving our debt repayment programme, the Board has considered the position in respect of a final dividend for 2011, and is recommending the payment of a final 2011 dividend of 3.5p per share (or its equivalent in other applicable currencies), which is equivalent to 4.0p per new ordinary share of 11$\frac{3}{7}$p once the existing shares are consolidated following the close of business on 20 April 2012. A scrip dividend alternative is not being made available in relation to this dividend in view of the complexities involved in the share

consolidation, and the Board will consider later in 2012 whether to reinstate a scrip dividend alternative for the interim dividend for the current year.

Further information on the final dividend for 2011 and of the special dividend to be paid after completion of the sale of the Group's Nordic business is contained in the Shareholder Information section of this document.

The Board intends to pursue a progressive dividend policy consistent with our strategy, having regard to overall capital requirements, liquidity and profitability, and targeting dividend cover of at least 2.5 times IFRS AOP earnings over time. In future, we expect to set interim dividends routinely as 30% of the prior year's full dividend.

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 2011 was £580,104,127.70 divided into 5,801,041,277 ordinary shares of 10 pence each (2010: £569,522,432.60 divided into 5,695,224,326 ordinary shares of 10 pence each). During the year ended 31 December 2011, 6,365,088 shares were issued under the Company's employee share option schemes at an average price of 80 pence each, 69,122,462 shares were issued under the scrip dividend alternative for the final dividend for the year ended 31 December 2010 at an effective price of £1.3254 (or its equivalent in other currencies) each and 30,329,401 shares were issued under the scrip dividend alternative for the interim dividend for the six months ended 30 June 2011 at an effective price of £1.0672 (or its equivalent in other currencies) each.

At 31 December 2011, shareholder authorities were in force enabling the Company to make market purchases of, and/or to purchase pursuant to contingent purchase contracts relating to each of the overseas exchanges on which the Company's shares are listed, its own shares up to an aggregate of 545,683,000 shares. No shares were bought back by the Company during 2011 or during the period up to 8 March 2012.

Out of the 5,801,041,277 shares in issue at 31 December 2011:

- 239,434,888 shares were held by the Company in treasury; and
- 200,170,073 shares were held by African life and asset management subsidiaries of the Company. Under UK company law, these shares cannot be voted while they are beneficially owned by subsidiaries of Old Mutual plc.

The total number of voting rights in the Company's issued ordinary share capital at 31 December 2011 (which excludes the 239,434,888 shares then held in treasury, but includes the shares held by the African life and asset management subsidiaries) was 5,561,606,389.

In the period 1 January to 8 March 2012, 748,309 further shares were issued by the Company under its employee share schemes at an average price of 62.51p each. No shares were bought back during that period and the 239,434,888 shares held in treasury were cancelled on 13 January 2012. As a result, the Company's issued share capital at 8 March 2012 was £556,235,469.80 divided into 5,562,354,698 ordinary shares of 10 pence each. The total number of voting rights at that date was also 5,562,354,698.

Rights and obligations attaching to shares and related matters

The rights and obligations attaching the Company's ordinary shares are those conventional for a publicly listed UK company, and a summary of them (along with certain other information relating to dividends, directors and amendments to the Company's Articles of Association) is available in the Corporate Governance section of the Company's website. The Company's current Articles of Association are also available there.

Significant agreements involving change of control

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:

- £1,200 million Revolving Credit Facility (the Facility) dated 21 April 2011 between the Company, various syndicate banks (the Banks) and Banc of America Securities Limited as agent (the Agent). If a person or group of persons acting in concert gains control of the Company, the Company must notify the Agent. The Agent and the Company will negotiate with a view to agreeing terms and conditions acceptable to the Company and all of the Banks for continuing the Facility. If such negotiations fail within 30-days of the original notification to the Agent by the Company, the Banks become entitled to declare any outstanding indebtedness repayable by giving notice to the Agent within 15 days of the 30-day period mentioned above. On receiving notice for payment from the Agent, the Company shall pay the outstanding sums within three business days to the relevant Bank(s).
- Old Mutual Capital Funding L.P. (the Issuer) $750 million 8% Guaranteed Cumulative Perpetual Preferred Securities (the Preferred Securities) guaranteed on a subordinated basis by the Company. Under the terms of the Preferred Securities, the Issuer is required to give notice to the holders of such securities (the Holders) in the event of a change of control of the Company. In such case the Issuer and the Company agree, to the extent that such action is within their reasonable control, to vary the terms of the Preferred Securities and the Company's guarantee (and to use all reasonable endeavours to ensure that the entity that has acquired control of the Company (the Acquirer) gives such undertakings as are necessary) in order to preserve the rights of the Holders. The Issuer and the Company shall also take such steps as are in their reasonable control to ensure that the economic interests of the Holders are not adversely affected by the actions of the Acquirer following the change of control.

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Substantial interests in voting rights

At 31 December 2011, the following substantial interests in voting rights had been declared to the Company in accordance with the Disclosure and Transparency Rules:

	31 Dec 2011 Number of voting rights	% of voting rights
Cevian Capital	410,748,581	7.38
Public Investment Corporation of the Republic of South Africa	307,212,664	5.52
Sanlam Investment Management (Pty) Limited	305,691,719	5.50
BlackRock Inc	264,286,239	4.75
Legal & General Group PLC	185,451,357	3.33
Old Mutual Life Assurance Company (South Africa) Limited	185,464,458	3.33

Between 31 December 2011 and 8 March 2012, there have been no notifications to the Company of any changes to the above disclosable interests nor any new such notifications by other shareholders.

Going concern

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Business Review. The Business Review also explains the basis on which the Group generates and preserves value over the longer term and the strategy for delivering the objectives of the Group. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Group Finance Director's Statement. In addition, Note E11 to the Accounts includes the Group's objectives, policies and processes for managing its capital and sets out details of the risks related to financial instruments and insurance risks taken on by the Group.

The Group continues to meet group and individual entity capital requirements and day-to-day liquidity needs through its available free cash and credit facilities. The Company's primary existing revolving credit facility of £1,200 million runs until April 2016. The Company also had significant cash holdings, totalling £441 million, at the year end.

A number of factors, including the levels of world equity markets, defaults in corporate bond portfolios, currency fluctuations, demand for the Group's products and other economic factors, are considered individually and in combination in the Group's forecasts and projections, taking account of reasonably possible changes in trading performance and economic conditions in the markets in which the Group operates. The results show that the Group should be able to operate, given its cash resources and its level of available credit facilities and with an adequate level of capital, both at a Group level and within each of its major regulated entities. To the extent that changes in trading performance and economic conditions prove to be more severe than thought reasonably possible, the Group has evaluated and concluded on feasible management actions that would be possible in such circumstances so as to ensure that adequate levels of liquid and capital resources are maintained.

After making enquiries, the Board of Directors has a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

Disclosure of information to the auditors

The directors who held office at the date of approval of this Directors' Report on Corporate Governance and Other Matters confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors were aware of that information.

Governing law

The Group Chief Executive's Statement, the Risk and Capital Management report, the Business Review, the Group Finance Director's Statement, the Responsible Business Report and this Directors' Report on Corporate Governance and Other Matters collectively comprise the 'directors' report' for the purposes of section 463(1)(a) of the Companies Act 2006. The Remuneration Report set out in this Annual Report is the directors' remuneration report for the purposes of section 463(1)(b) of that Act. English law governs the disclosures contained in and liability for the directors' report and the directors' remuneration report.

By order of the Board

Martin Murray
Group Company Secretary
9 March 2012

REMUNERATION REPORT

In this section, we describe the Company's remuneration practices during 2011 and its policies for 2012 and future years with particular emphasis on the remuneration arrangements for the executive directors.

Russell Edey
Chairman of the Remuneration Committee

Since I took over the Chairmanship of the Remuneration Committee (the Committee) in May 2011, executive pay has been continuously in the spotlight. There has been significant scrutiny from the media and soul-searching within companies on the issue. External governance guidelines and principles have been revised to reflect changing conditions in the financial sector, where companies have been inundated by recommendations from remuneration advisers and criticism from the public and the media.

I am pleased to say that my predecessor left me in a solid position as regards the governance of remuneration within the Company. Since early 2010, extensive work has been done to develop risk management processes that ensure rewards are appropriately aligned with both short- and long-term performance and do not encourage excessive risk-taking in the Group. All of our major business units now take account of risk-adjusted profit (Economic Profit) in the calculation of bonus pools. Outcomes from these bonus pools are linked to balanced scorecards for all senior executives that have objectives which encourage improved risk management. This approach has been adopted in line with FSA guidelines and the evolving requirements of Solvency II.

No significant change or restructuring has been made to the remuneration or incentive structure for the executive directors in 2012. However, the current long-term incentive plan, the Old Mutual Strategic Incentive Plan (OMSIP), was designed to incentivise a change in the strategic direction and restructuring of the Group over three to four years and the targets used for awards under the OMSIP were agreed for a two-year period (2010 and 2011) only. Accordingly, revised targets for annual long-term incentive awards have been agreed, as described later in this report, to provide an appropriate level of reward for sustained financial performance within agreed risk parameters.

Summary

REMUNERATION REPORT
CONTINUED

The following key points regarding executive remuneration are described in detail in the body of the report that follows:

- Basic salary increases for executive directors (and for other members of the Group Executive Committee) effective in 2012 were below inflation and in line with, or below, average increases provided to other employees across the Group
- During 2011, the short-term incentive plan resulted in awards above target, but below maximum levels, to reflect the strong financial performance, continued restructuring and sound risk management of the Group
- During 2011, the long-term incentives granted in 2008 did not vest because the three-year performance targets were not achieved. This was the third year in a row that no vesting had occurred on the long-term incentive plan
- In 2012, there will be full vesting of long-term incentives for executive directors and employees across the Group, based on the achievement of the three-year performance targets set in 2009
- Neither short-term nor long-term incentive award levels were increased for executive directors for 2012.

These actions and results are in line with the Committee's approach to ensure that executive pay does not become inflated or distorted and that it is directly linked to Group performance. When performance over the measurement period does not merit incentive payouts, they are not made. Conversely, when performance over the measurement period does merit incentive payouts, they are made.

Extensive work has been done to develop risk management processes that ensure rewards are appropriately aligned with both short- and long-term performance.

Recognising the increasing need for clarity, transparency and disclosure of remuneration and incentive arrangements, we have:

- Agreed a simple and transparent approach to performance targets for long-term incentives; and
- Restructured this report to improve clarity and give a clear view of total remuneration (awarded and paid) in 2011 as well as the policy for 2012.

Russell Edey
Chairman of the Remuneration Committee
9 March 2012

This report has been prepared by the Committee and approved by the Board. The figures included in the sections of this report headed 'Performance graphs, on pages 112 and 113, 'Executive directors' remuneration during 2011' on page 116, 'Directors' emoluments for 2011' on page 119 and 'Directors' interests under employee share plans' on page 122, have been audited by KPMG Audit Plc as required by the Large & Medium-sized Companies and Groups (Accounts & Reports) Regulations 2008. Their audit report is set out on page 241. The information in the remainder of this report has not been audited.

Remuneration Committee

The Committee is a committee of the Board. Its full terms of reference are published on the Company's website. The Committee is responsible for:

- Determining the remuneration, incentive arrangements, benefits and any compensation payments of the executive directors
- Determining the remuneration of the Chairman of the Board
- Monitoring and approving the level and structure of remuneration of the executive directors of the Company, the Group Company Secretary, senior executive employees (as identified by the Board) and those who perform a significant influence function or whose activities have, or could have, a material impact on the risk profile of the Company or as defined for compliance with regulations in accordance with the Group's remuneration policy
- Reviewing, monitoring and approving, or recommending for approval, the Company's share incentive arrangements and awards.

Membership and meetings of the Committee during 2011

The following, all of whom are or were at the relevant time independent non-executive directors of the Company, served as members of the Committee during the year:

Name of non-executive director	Position	Period on the Committee
Russell Edey	Chairman	June 2007 to date (Member until May 2011)
Eva Castillo	Member	Feb 2011 to date
Alan Gillespie	Member	November 2010 to date
Bongani Nqwababa	Member	April 2010 to date
Lars Otterbeck	Member	April 2010 to date
Rudi Bogni	Former Chairman	March 2005 to May 2011 (Member until May 2005)
Nigel Andrews	Former Member	November 2002 to May 2011

The Committee Chairman has access to and regular contact with Group HR independently of the executive directors. During 2011, the Committee met seven times. The Board accepted the recommendations made by the Committee during the year without amendment. The Group Company Secretary, Martin Murray, acted as Secretary to the Committee. Other attendees at Committee meetings to which they were respectively invited during 2011 were as follows:

Name	Position	Attendance at meetings
Philip Broadley*	Group Finance Director	1
Andrew Birrell*	Former Group Risk & Actuarial Director	1
Paul Forsythe	Assistant Company Secretary	2
Alan Judes	Independent Adviser	7
Reuel Khoza	Non-executive Director	1
Patrick O'Sullivan*	Chairman of the Board	7
Julian Roberts*	Group Chief Executive	7
Don Schneider*	Group HR Director	7
Crispin Sonn	Head of Marketing, Old Mutual Life Assurance Company (South Africa) Limited	1
Kevin Stacey	Head of Remuneration	7

* Other than when their own remuneration was being discussed.

The Committee renewed the appointment of Alan Judes as its independent adviser for 2011, through his consultancy Strategic Remuneration, and has also done so for 2012. A copy of his letter of engagement is on the Company's website. Any work that the Company wishes Alan Judes to do on its behalf, rather than for the Committee, is pre-cleared with the Committee Chairman with a view to avoiding conflicts of interest. Work undertaken by Alan Judes for the Committee included advising the Committee in connection with benchmarking of the total reward packages for the executive directors and other senior members of staff, the design of short-term and long-term incentive arrangements, updating the Committee on trends in compensation and governance matters including the FSA rules, advising in connection with possible recruitment packages for new recruits, design of performance measures and accompanying the Chairman of the Committee to meetings with shareholder representatives to discuss remuneration structures. No work was performed by Alan Judes for the Company, as distinct from the Committee, during 2011. His consultancy company's fees for 2011 totalled £72,000 excluding VAT (2010: £84,000 excluding VAT).

Don Schneider and Kevin Stacey of Group HR assisted the Committee during the year. Group HR provided supporting materials for matters that came before the Committee, including comparative data and justifications for proposed salary, benefit, annual incentive plan and share awards and criteria for performance targets and appraisals against those targets. It used the services of external advisers (including PwC) as necessary.

Subsidiary Remuneration Committees

Remuneration committees operate at subsidiary level around the Group to oversee local remuneration. In addition, the Management Remuneration Committee (MRC) co-ordinates policy and governance of executive remuneration at management tiers immediately below director and Group Executive Committee level and is responsible for the implementation of these in Group Head Office. The MRC and other subsidiary remuneration committees are supported and attended by Group HR and apply common principles, including the following:

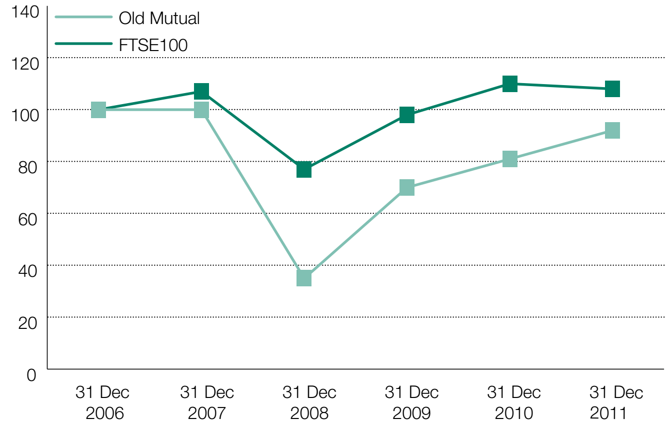
- Remuneration must support the business drivers, corporate vision, strategy and strategic priorities
- Incentives should align the interests of employees with shareholders
- Incentives should be performance-related and effectively linked to success in delivering the chosen strategy
- Pay should be set at levels that are both competitive and sustainably affordable
- Remuneration should not encourage risk that exceeds the Group's risk tolerance
- Remuneration must be viewed in conjunction with wider people-management practices to support a consistent approach to achieving desired culture and behaviour
- All pay must be compliant with local legislation
- Underperformance should be dealt with on a formal basis according to local policies.

Performance graphs

This graph shows the total shareholder return (TSR) to 31 December 2011 on £100 invested in shares in Old Mutual plc on 31 December 2006 compared with £100 invested in the FTSE100 index. The other points are the comparative returns at the intervening financial year ends.

In the opinion of the directors, the FTSE100 index is the most appropriate index against which to measure the Company's total shareholder return, as it is an index of which Old Mutual plc is a member and is located where the Company has its primary listing.

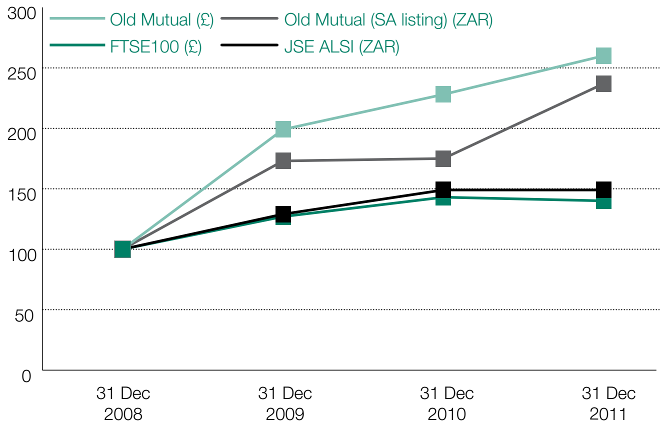
Old Mutual plc TSR Performance:
Five-year performance to 31 December 2011



Source: Datastream

This graph shows the TSR to 31 December 2011 on £100 invested in shares in Old Mutual plc on 31 December 2008 compared with £100 invested in the FTSE100 index and on R100 invested in shares in Old Mutual plc on 31 December 2008 compared with R100 invested in the JSE ALSI. The three-year period shown coincides with the measurement period for targets set on the long-term incentive awards granted in 2009 and due to vest in 2012.

Old Mutual plc TSR Performance:
Three-year performance to 31 December 2011



Source: Datastream

Remuneration policies

Remuneration policy for executive directors

The Company embraces the principles of the UK Corporate Governance Code relating to directors' remuneration and complies with its provisions. The following are the guiding principles that the Committee has applied during 2011 and intends to apply during 2012:

- 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. Large UK insurers and members of the UK FTSE100 index, with particular reference to the subset by market capitalisation, provide the benchmarks for UK-based executive directors
- To be sensitive in determining, reviewing, monitoring and approving matters under its remit in relation to pay and employment conditions around the Group, where relevant
- To make a significant percentage of total maximum potential rewards in the form of share-based incentives in order to align the executive directors' interests closely with those of shareholders
- To provide an opportunity for remuneration packages to be in the upper quartile of the comparator group through payments under short-term and long-term incentive schemes if superior performance is delivered
- To focus attention on the main drivers of shareholder value by linking performance-related remuneration to clearly defined objectives and measurable targets
- To design remuneration arrangements that will attract, retain and motivate individuals of the exceptional calibre needed to lead the Group's development.

The Committee has regard to risk-related metrics in reviewing the executive directors' short-term performance and it received and considered a report from the Group Risk and Actuarial Director, which had been approved by the Board Risk Committee, in evaluating the short-term performance outcome for 2011. It also has discretion to consider corporate performance on environmental, social and governance (ESG) issues, to the extent relevant, when setting their remuneration. It ensures regulatory requirements relating to remuneration matters are met and that remuneration policies are consistent with, and promote, effective risk management.

The Committee's policy is influenced by the need to be competitive with other international financial services groups, while avoiding any excess. This includes its approach to setting the fixed elements of remuneration at or below appropriate median levels. It reviews this policy regularly and continues to consider it to be appropriate.

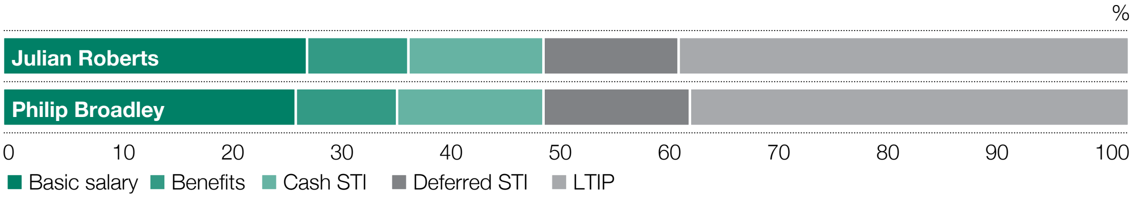
REMUNERATION REPORT
CONTINUED

Overview of executive directors' remuneration

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 is as follows:

Element	Description
Basic salary	Reviewed each January, taking into account market benchmarks and the level of increases awarded to all Group employees.
Benefits	The policy is currently to pay an allowance of 35% of basic salary to cover any benefits elected, with any balance paid in cash. Life cover of £1,000,000 and disability cover capped at an annual basic salary of £140,000 are also provided.
Short-term incentive	Payable subject to achievement of agreed financial targets and agreed scorecard objectives. The policy is currently to make a maximum award of 150% of basic salary, 50% in cash and 50% deferred in Company restricted shares for three years, subject to claw-back.
Long-term incentive	The policy is currently a maximum award of 250% of basic salary. Vesting is subject to agreed performance targets as set out in the section of this report entitled 'Long-term incentives', subject to claw-back.

The following chart depicts the overall make-up of the executive directors' respective remuneration packages for 2012, assuming on-target delivery on short-term incentives and an expected value for long-term incentives:



Executive directors' remuneration in 2012

Basic salary and benefits

With effect from 1 January 2012, Julian Roberts' basic salary was increased by 2.35%, from £850,000 to £870,000, and Philip Broadley's basic salary was increased by 2.65%, from £565,000 to £580,000. This compares with similar increases for other employees across the Group, ranging from 3% for staff in the UK, Europe and the US to in excess of 5% in South Africa, in line with the local market. Before making the decision on the increases for the executive directors, the Committee considered the salary increases for other employees in the Group as set out above, and had regard to those increases. Benefits equivalent to 35% of basic salary will continue to be payable either as contributions to agreed benefits or monthly in cash, and life cover and disability cover will continue to be provided.

Pensions

Julian Roberts and Philip Broadley will not be contributing to any employer-provided pension scheme of the Group during 2012. The Company will not be making contributions to any such scheme on their behalf.

Short-term incentive

The short-term incentive policy to be applied during the year is described above and there have been no changes to the policy from 2011 to 2012. The respective weightings attached to the Group metrics and scorecard objectives, shown as a percentage of basic salary, for the executive directors' short-term incentives for 2012 are as follows:

Elements	Julian Roberts	Philip Broadley
Group targets	Maximum	Maximum
EPS	56.25%	37.50%
RoE	56.25%	37.50%
Group targets – sub-total	**112.50%**	**75.00%**
Scorecard objectives	**37.50%**	**75.00%**
Total	**150.00%**	**150.00%**

In addition to Group targets, the executive directors, as with all senior executives, are measured annually against a balanced scorecard, that sets out objectives in four categories: (i) Financial; (ii) Strategy, Operations and Risk; (iii) Customer; and (iv) People and Culture.

In his role as Group Finance Director, Philip Broadley is responsible to the Board for all financial matters, including management control over the Group internal audit, Group compliance and Group risk functions. The scorecard elements of his short-term incentive therefore have a higher weighting than the Group Chief Executive and line management executives, as there is more emphasis on the financial risk, governance and capital management objectives that are crucial to success in his role.

Long-term incentives

The Committee approved a change in structure of long-term incentive awards for executive directors in 2010, after extensive consultation with shareholders. This included the use of a one-off award, which was specifically related to the strategic review and rationalisation of the Group, and regular annual share incentive awards, subject to agreed financial targets for awards granted in 2010 and 2011.

2012 Award Targets

Accordingly, revised targets for annual long-term incentive awards have been agreed by the Committee from 2012 onwards, taking into account the market context of the Company and advice received, which emphasised the need for long-term metrics to be:

- Transparent, clear and simple for both shareholders and executives
- Stretching but attainable (so that executives are appropriately rewarded for delivery and not paid for failure)
- Aligned with shareholder interests.

Various approaches were considered and, given the current context and strategic intention of the Group, the following approach was agreed to be most appropriate:

- The primary target will be based on cumulative growth over three years in Adjusted Operating Profit (AOP) on a constant-currency basis. This was chosen to incentivise significant growth in operating profit across the Group's principal business units. An adjustment to this outcome will be made based on the relative total shareholder return (TSR) over the three-year period, calculated 50% against the FTSE100 index and 50% against the JSE ALSI. This takes into account relative performance against other listed companies. TSR will be averaged at the start (Q4 2011) and end (Q4 2014) of the three-year performance period.
- In addition, discretionary downward adjustments to the formulaic outcome on the AOP metrics will be considered by the Committee where:
  - there are any negative financial impacts or underperformance in the Group not adequately reflected in AOP, giving the Committee discretion to take broad performance into account; or
  - there is under-performance in the management of Group risk or the agreed risk appetite levels are exceeded. This enables the Committee to factor in the requirement of the FSA and ABI to take account of company risk as a factor in performance measurement.

The level at which the awards vest will be determined by reference to the total aggregate AOP in constant currency achieved over the three-year period, shown in the table below.

AOP Targets – Aggregated over three years

	Threshold		Maximum
AOP (£bn)	2.9		3.5
% Vesting	0%	|–––––––Interpolated–––––––|	100%

Multiplied by

Relative TSR Performance*

	Relative TSR vs index	Multiplier
Threshold	4% or more below index	0.85
Target	equal to index	1.00
Maximum	4% or more above index	1.15

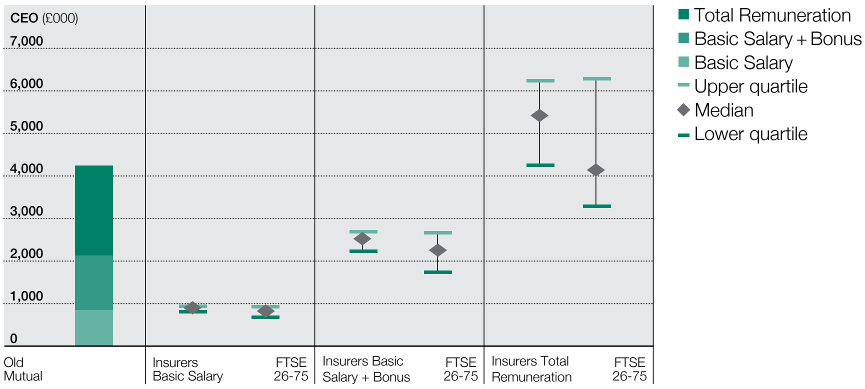
* Relative TSR performance against the above ranges, with a multiplier being set on a straight-line basis between the points.

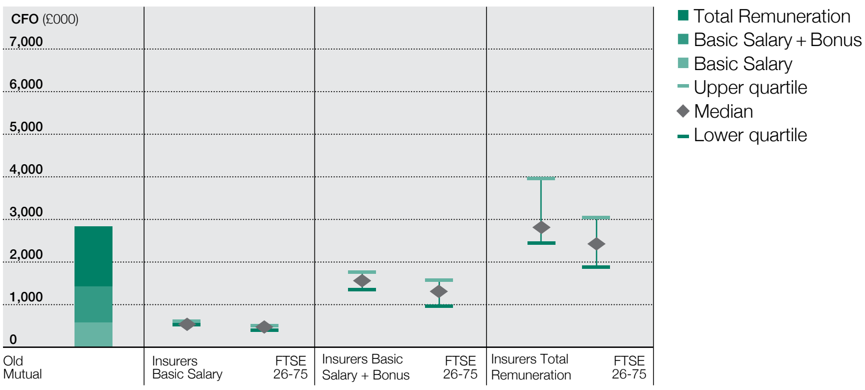
The maximum award for the executive directors, inclusive of the TSR multiplier above, remains at 250% of basic salary at the date of award.

REMUNERATION REPORT
CONTINUED

2012 Executive directors' market benchmarks

The following graphics reflect the market comparisons for Julian Roberts' and Philip Broadley's respective remuneration packages for 2012, based on basic salary and the maximum face value of short-term and long-term incentive awards for the year, against a similar analysis of the UK insurers and the FTSE 26-75 companies by market capitalisation:





Notes
Bonus = Cash + Deferred
Total Remuneration = Basic Salary + Bonus + Bonus Match + LTIP

Executive directors' remuneration during 2011

Basic Salary and benefits

Julian Roberts' basic salary was £850,000 and Philip Broadley's basic salary was £565,000. Benefits equivalent to 35% of basic salary were paid monthly in cash. Life cover of £1,000,000 and disability cover capped at an annual basic salary of £140,000 was also provided at a cost of approximately £2,000 each.

Pensions

Julian Roberts is a deferred member of the defined contribution section of the Old Mutual Staff Pension Fund (OMSPF). The accumulated value of Julian Roberts' funds in the OMSPF was £281,900 at 31 December 2011 (£294,700 at 31 December 2010). Philip Broadley does not participate in any employer-provided pension scheme of the Group.

Short-term incentive targets for performance year 2011

The payment of short-term incentives is subject to the achievement of pre-determined financial targets and scorecard objectives based on the key deliverables for each executive director, as reviewed and approved by the Committee. Details of the structure and outcomes of the metrics for Julian Roberts' and Philip Broadley's short-term incentives for 2011 are set out in the following table:

	Julian Roberts		Philip Broadley	
Elements as % of salary	Maximum %	Achieved %	Maximum %	Achieved %
Group Targets				
EPS	56.25	56.25	37.50	37.50
RoE	56.25	46.13	37.50	30.75
Group targets – sub-total	**112.50**	**102.38**	**75.00**	**68.25**
Scorecard objectives	**37.50**	**35.25**	**75.00**	**66.00**
Total	**150.00**	**137.63**	**150.00**	**134.25**
£000 incentive for period	1,275	1,170*	848	759*
Achieved incentive as % of max		91.75		89.50

* These amounts are as reflected in the Directors' emoluments for 2011 table on page 119 and will be paid 50% in cash and 50% deferred for three years in the form of forfeitable shares awards.

Summary of Remuneration paid in 2011

The following table shows the value of remuneration received by the executive directors on a cash basis in 2011. It reflects the gross (pre-tax) value of salary and benefits received in the year, the cash bonus paid in March 2011 (in relation to 2010 performance) and the value of any shares vested together with gains from share options exercised in the year.

	Julian Roberts	Philip Broadley
Basic Salary	£850,000	£565,000
Benefits Allowance	£297,500	£197,750
STI – cash*	£610,050	£387,750
DSTI proceeds**	£130,020	£0
LTI proceeds***	£40,174	£659,868
Total	**£1,927,744**	**£1,810,368**

* 2010 cash short-term incentive paid in March 2011
** Vesting of 2008 deferred short-term incentive award
*** Gain on exercise of share options

Long-term incentives

Overview

Long-term incentive awards are made annually and, in selected cases, upon joining the Group. Vesting is based on the attainment of performance targets over the following three-year period, to incentivise executives to achieve these long-term goals. Below is the vesting history of the most recent awards:

Plan	Award date	Vesting date	Performance targets	% vested
Bonus Matching	29 March 2006	29 March 2009	Growth in EPS	0%
Bonus Matching	30 March 2007	30 March 2010	Growth in EPS	0%
Bonus Matching	3 April 2008	3 April 2011	Growth in EPS	0%
Bonus Matching	8 April 2009	8 April 2012	50% RoE and 50% EPS	100%

2009 Bonus-Matching and Joining Share Options and Forfeitable Shares Awards

Bonus-matching share options and forfeitable shares awards and certain joining awards, originally granted in 2009, were based on two performance measures: 50% dependent on the attainment of RoE and 50% dependent on EPS targets. Vesting of one-third of each award was subject to attainment of RoE and EPS targets at each tier as set out below, with pro-rata vesting between tiers, after tier one had been attained. Targets were tested on a once-only basis after three years from the year prior to the grant.

The targets are set out in the table below, together with the vesting outcome:

Performance Measure	Tier 1**	Tier 2**	Tier 3**	Performance	Vesting
RoE (50% weighting)	10%	11%	12%	14.6%	100%
EPS* (50% weighting)	14.8p	15.2p	15.6p	15.7p	100%
*Growth above UK RPI over 3 years	9%	12%	15%		

* Base year EPS for 2008 was 12.2p. This metric provided for a scaling back of percentages, if weighted growth in stock markets (JSE ALSI and FTSE100 index) over the three years was lower than 50%. Performance exceeded the highest level on the scale.
** One third of each award vests at each tier.

2010 and 2011 OMSIP awards

The OMSIP was implemented for the executive directors and certain other senior members of management in 2010 under the Old Mutual plc Performance Share Plan – Restricted Shares, to align long-term incentives to the strategy announced in March 2010. The 2010 OMSIP award was made in two parts as follows:

- The first part was a one-time award based on rationalising objectives and debt reduction
- The second part was an annual award based on key financial objectives in relation to the restructuring of the Group.

The 2011 awards used the same financial targets as the annual awards granted in 2010. Targets for 2010 and 2011 are set out below. The awards made to the executive directors under the OMSIP in 2011 had a face value of 250% of basic salary.

Plan	Award date	Vesting date	Performance targets
OMSIP – one-off	13 May 2010	50% 13 May 2013 50% 13 May 2014	Rationalising objectives and debt reduction
OMSIP – annual	13 May 2010	50% 13 May 2013 50% 13 May 2014	50% AOP, RoE, NCCF/AUM 50% Absolute TSR
OMSIP – annual	11 April 2011	50% 11 April 2014 50% 11 April 2015	50% AOP, RoE, NCCF/AUM 50% Absolute TSR

Rationalising Objectives for OMSIP (2010 one-time awards)

Component	Objective	Measurements
Significant rationalising initiatives	Rationalise the Group by achieving strategic initiatives in accordance with the Group's strategy statement to streamline the Group, unlock value and reduce debt	Based on the Committee's evaluation of the following three factors: 1. Total value released relative to available benchmark transactions 2. Quality of execution including risk, reputation and other non-financial impacts 3. Amount available to reduce debt from the proceeds of rationalisation.

At the end of the three-year measurement period, the Committee will assess the sum of the evaluations of the individual initiatives when determining total achievement of the rationalising objectives component, and may exercise its discretion to reduce the vesting level of the award when factoring in total achievement toward debt reduction and any new information arising which suggests a different performance assessment.

The Committee assesses achievement of the individual initiatives once each has been completed. The sale of the US Life business was agreed to be a rationalising objective and during 2011 the sale was completed. The Committee evaluated this achievement against the three measurement criteria listed above and determined that this initiative was 100% achieved. The Committee will include this assessment, with assessments of any other initiatives that are completed during 2012, when it makes its final assessment of the total achievement of the rationalising objectives for vesting purposes early in 2013.

Financial Objectives for the OMSIP (2010 and 2011 awards)

This part of the award relates to key financial goals split equally between the financial performance of the Company's Long-Term Savings business post-restructuring and absolute TSR targets, as set out below:

Long-Term Savings business performance (50%)

Weighting	Metric		Below Threshold	Threshold	Maximum
40%	Cumulative IFRS AOP Growth[1]	2010 Award	< 30%	30%	70%
		2011 Award	< 42%	42%	103%
40%	Return On Equity[2]		< 15%	15%	18%
20%	Average ratio of NCCF/AUM[3]		< 2%	2%	6%
		Vesting %*	0%	20%	100%

* Straight-line interpolation between Threshold and Maximum

[1] Growth in Adjusted Operating Profit (AOP) excluding Long-Term Investment Return on a constant-currency basis over a three-year performance period for the 2010 awards and over a four-year performance period for the 2011 awards.
[2] IFRS AOP over aggregate equity allocated to the Company's Long-Term Savings business in the final year of the respective performance periods.
[3] The ratio of the Net Client Cash Flow (NCCF) over Assets under Management (AUM) will be calculated on a simple average basis over the full three years.

Absolute TSR (50%)

TSR will be measured on an absolute basis, 50% in rand and 50% in sterling, and will be averaged at the start (Q4 2009 and Q4 2010) and end (Q4 2012 and Q4 2013) of the three-year performance periods. Old Mutual's TSR growth will then be compared with the vesting schedule set out below to determine the outcome:

Metric		Below Threshold	Threshold	Maximum
Annual Growth in Absolute TSR (% p.a.)		<10%	10%	20%
	Vesting %*	0%	20%	100%

* Straight-line interpolation between Threshold and Maximum

The Committee must be satisfied that the Company's TSR performance reasonably reflects its underlying financial performance over the period. Threshold performance is aligned with Old Mutual's cost of equity and the maximum is aligned with performance in excess of the historic upper-quartile performance within the insurance sector.

The 2010 OMSIP award will vest based on performance over the period 2010 to 2012 and the Committee will report the outcome in 2013. The 2011 OMSIP award will vest based on performance over the period 2011 to 2013 (for AOP over the four-year period 2010 to 2013) and the Committee will report the outcome in 2014.

The Committee obtains external audit sign-off as part of its oversight procedures. The Company undertakes the performance measurement for each specific award and obtains agreement to the calculations from KPMG Audit Plc.

Directors' emoluments for 2011

Directors' remuneration for the year ended 31 December 2011 and the preceding financial year, including, in each case, remuneration from offices held with the Company's subsidiaries where relevant, was as follows:

	2011					2010
	Salary and Fees	Short-term Incentive[1]	Benefits and benefit allowance[2]	Pension	Total	Total
	£000	**£000**	**£000**	**£000**	**£000**	£000
Chairman						
Patrick O'Sullivan	**350**	**–**	**–**	**–**	**350**	350
Executive directors						
Philip Broadley	**565**	**759**	**215**	**–**	**1,539**	1,518
Julian Roberts	**850**	**1,170**	**330**	**–**	**2,350**	2,379
Non-executive directors						
Mike Arnold	**93**	**–**	**–**	**–**	**93**	86
Eva Castillo	**65**	**–**	**–**	**–**	**65**	-
Russell Edey	**83**	**–**	**–**	**–**	**83**	73
Alan Gillespie	**80**	**–**	**–**	**–**	**80**	12
Reuel Khoza	**382**[3]	**–**	**–**	**–**	**382**	367
Roger Marshall	**96**	**–**	**–**	**–**	**96**	38
Bongani Nqwababa	**74**	**–**	**–**	**–**	**74**	72
Lars Otterbeck	**238**[4]	**–**	**–**	**–**	**238**	227
Former non-executive directors						
Nigel Andrews	**73**[5]	**–**	**–**	**–**	**73**	113
Rudi Bogni	**36**	**–**	**–**	**–**	**36**	94
Total emoluments	**2,985**	**1,929**	**545**	**–**	**5,459**	5,329[6]

[1] The total short-term incentives are payable 50% in cash and 50% deferred for three years in the form of forfeitable shares awards. The figures quoted represent both elements of the short-term incentives.
[2] Benefits include cash allowances payable to the executive directors, as well as travel costs for directors' spouses to accompany them to certain Board meetings or other corporate events of the Company and its major subsidiaries. The amount of this expenditure is reported to and considered by the Committee, and procedures are in place for such costs to be authorised. The Committee is satisfied that such expenditure is reasonable and in the interests of the Company.
[3] Includes fees of £316,000 (£304,000 in 2010) from Nedbank Group Limited.
[4] Includes fees of £166,000 (£159,000 in 2010) from Skandia Insurance Company Limited, Skandiabanken and Skandia Liv.
[5] Includes fees of £47,000 (£42,000 in 2010) from Old Mutual (US) Holdings Inc.
[6] The prior-year comparative number as published in the Remuneration Report for 2010 was £5,391,000, which included £62,000 paid to the former non-executive director, Richard Pym.

The executive directors were required to waive fees for non-executive directorships held in subsidiary companies totalling £29,100 during the year ended 31 December 2011 (2010: £30,400) in favour of the Company or its subsidiaries. These waivers are expected to remain in force in the future.

REMUNERATION REPORT
CONTINUED

Chairman and non-executive directors' remuneration

The Company's policy on remuneration for non-executive directors is that this should be:

- Fee-based
- Market-related
- Not linked to share price or Company performance.

There was no increase between 2011 and 2012 in the annual fees payable to the Chairman or to other non-executive directors. The relevant fees, applicable for both years, by role are set out below:

	£
Chairman	350,000
Non-executive directors	
- Base fee	55,000
- Senior independent director additional fee	10,000
Additional fees payable for Committees	
Board Risk Committee	
- Chairman	25,000
- Member	8,000
Group Audit Committee	
- Chairman	30,000
- Member	10,000
Nomination Committee	
- Member	3,000
Remuneration Committee	
- Chairman	20,000
- Member	6,000

None of the non-executive directors of the Company (including the Chairman) contributed to any Group pension fund during 2011 or had any accrued pension fund benefits in any Group pension fund at 31 December 2011.

Employee share plans

A summary of the employee share plans currently operated by the Company and its wholly-owned subsidiaries can be found on the Old Mutual plc website.

Change of control

Under the rules of the Company share plans in which the executive directors are participants, in the event of a change of control of Old Mutual plc:

- Forfeitable shares awards and share options granted under the Old Mutual plc Share Reward Plan (SRP) would vest in full as awards granted under the SRP represent deferred short-term incentive awards that have already been earned
- Performance shares and share options granted under the Old Mutual plc Performance Share Plan (PSP) would vest: (i) to the extent that the performance criteria to which such awards or 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
- Share options granted under the Old Mutual plc 2008 Sharesave Plan (SAYE) would become exercisable to the extent of the savings accumulated.

The Committee has reviewed the operation of the share incentive schemes, including how discretion is exercised and the grant levels currently applicable, and considers these to be appropriate to the Company's circumstances and prospects.

Employee Share Ownership Trusts

The Group operates a number of Employee Share Ownership Trusts (ESOTs) through which it collateralises some of its obligations under its employee share plans. At 31 December 2011, 200,472,120 shares in the Company were held in ESOTs as shown below, and 175,801,192 shares in the Company were held under award to be settled by these ESOTs.

Trust	Country	Old Mutual plc shares held in trust
Capital Growth Investment Trust	Zimbabwe	1,261,986
Mutual & Federal Broad-Based Trust	South Africa	5,630
Mutual & Federal Management Incentive Trust	South Africa	24,855,847
Mutual & Federal Senior Black Management Trust	South Africa	4,952,721
Mutual & Federal Namibia Broad-Based Trust	Namibia	12,709
Mutual & Federal Namibia Management Incentive Trust	Namibia	211,520
Mutual & Federal Namibia Senior Black Management Trust	Namibia	168,296
Old Mutual plc Employee Share Trust	Guernsey	36,427,689
OMN Broad-Based Employee Share Trust	Namibia	748,201
OMN Management Incentive Trust	Namibia	2,086,497
OMSA Broad-Based Employee Share Trust	South Africa	17,358,840
OMSA Management Incentive Trust	South Africa	78,944,918
OMSA Share Trust	South Africa	33,437,266
Total		**200,472,120**

The strategy for all non-BEE-related ESOTs has historically been to ensure that sufficient shares were acquired to match at least 90% 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 (save for BEE-related trusts) is not to vote the shares held at shareholder meetings, although beneficiaries of restricted share awards or forfeitable shares awards may in principle give directions for those shares to be voted. However, with respect to the OMSA Broad-Based Employee Share Trust, the OMSA Management Incentive Trust, the OMN Broad-Based Employee Share Trust, the OMN Management Incentive Trust, the Mutual & Federal Management Incentive Trust, the Mutual & Federal Senior Black Management Trust, the Mutual & Federal Broad-Based Trust, the Mutual & Federal Namibia Management Incentive Trust, the Mutual & Federal Namibia Senior Black Management Trust and the Mutual & Federal Namibia Broad-Based Trust, the Trustees may, because of BEE considerations, vote any unallocated shares held in these trusts as well as those shares held in respect of any unexercised share options. The beneficiaries of any restricted shares allocated by these BEE employee share trusts are entitled to vote their relevant shares.

Share options (excluding nil-cost options) granted under the Company's Sharesave Plans, the SRP and the PSP are currently intended to be settled by the issue of new shares rather than using shares held in an ESOT and there are currently 49,577,295 shares held under option in this respect. In respect of the vesting of share options on 8 April 2012, certain unapproved share options originally granted to UK employees in 2009 may be cash-settled on exercise, rather than settled with newly issued shares.

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 share option that has lapsed are disregarded. The Company has complied with these limits at all times.

At 31 December 2011, the Company had 1.68% of share capital available under the 5%-in-10-years limit applicable to discretionary share incentive schemes and 6.08% of share capital available under the 10%-in-10-years limit applicable to all share incentive schemes.

REMUNERATION REPORT

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Directors' interests under employee share plans

The following share options and rights over shares in the Company granted under various employee share schemes were outstanding at 1 January and 31 December 2011 in favour of the executive directors. Those granted during 2011 are highlighted in bold and those vested, released, exercised or lapsed during 2011 are shown in italics:

Award type and plan	Reason for award	Performance targets to be met	Grant Date	Market value per share at grant (p)	At 1 Jan 11	Granted	Exercised, Released, Lapsed	At 31 Dec 11	Exercise price per share (p)	Share price at date of exercise/ release (p)	Gain made on exercise / release (£)	Exercised or released or from which exercisable or releasable	Expiry or vesting date
Mr P Broadley													
Option (SRP)	*Joining*[1]	*No*	*10-Nov-08*	*57.00*	*1,315,789*	–	*1,315,789*	–	*57.00*	*107.15*	*659,868*		
Shares (SRP)	DSTI[2]	No	08-Apr-09	54.10	44,235	–	–	44,235	–	–	–	08-Apr-12	08-Apr-12
	DSTI[2,3]	No	23-Mar-10	125.70	262,530	–	–	262,530	–	–	–	23-Mar-13	23-Mar-13
	DSTI [2,3]	**No**	**11-Apr-11**	**144.70**	**–**	**267,969**	**–**	**267,969**	**–**	**–**	**–**	**11-Apr-14**	**11-Apr-14**
Option (PSP)	Match[4]	Yes	08-Apr-09	54.10	442,357	–	–	442,357	54.10	–	–	08-Apr-12	08-Apr-15
Shares (PSP)	Match[4]	Yes	08-Apr-09	55.78	85,805	–	–	85,805	–	–	–	08-Apr-12	08-Apr-12
	Joining[4]	Yes	08-Apr-09	54.10	739,372	–	–	739,372	–	–	–	08-Apr-12	08-Apr-12
Nil cost options OMSIP (PSP)	Rationalising[3,5]	Yes	13-May-10	119.00	577,732	–	–	577,732	–	–	–	13-May-13	12-May-20
	Rationalising[3,5]	Yes	13-May-10	119.00	577,731	–	–	577,731	–	–	–	13-May-14	12-May-20
	Financial Objectives[3,6]	Yes	13-May-10	119.00	577,732	–	–	577,732	–	–	–	13-May-13	12-May-20
	Financial Objectives[3,6]	Yes	13-May-10	119.00	577,731	–	–	577,731	–	–	–	13-May-14	12-May-20
	Financial Objectives[3,6]	**Yes**	**11-Apr-11**	**144.70**	**–**	**488,079**	**–**	**488,079**	**–**	**–**	**–**	**11-Apr-14**	**10-Apr-16**
	Financial Objectives[3,6]	**Yes**	**11-Apr-11**	**144.70**	**–**	**488,079**	**–**	**488,079**	**–**	**–**	**–**	**11-Apr-15**	**10-Apr-16**
Total					**5,201,014**	**1,244,127**	**1,315,789**	**5,129,352**			**659,868**		
Mr J Roberts													
Shares (SRP)	DSTI[2]	No	08-Apr-09	54.10	301,594	–	–	301,594	–	–	–	08-Apr-12	08-Apr-12
	DSTI[2,3]	No	23-Mar-10	125.70	378,849	–	–	378,849	–	–	–	23-Mar-13	23-Mar-13
	DSTI[2,3]	**No**	**11-Apr-11**	**144.70**	**–**	**421,597**	**–**	**421,597**	**–**	**–**	**–**	**11-Apr-14**	**11-Apr-14**
Option (PSP)	Match[4]	Yes	08-Apr-09	54.10	4,436,229	–	–	4,436,229	54.10	–	–	08-Apr-12	08-Apr-15
Shares (PSP)	Match[4]	Yes	08-Apr-09	55.78	860,508	–	–	860,508	–	–	–	08-Apr-12	08-Apr-12
Nil cost options OMSIP (PSP)	Rationalising[3,5]	Yes	13-May-10	119.00	871,849	–	–	871,849	–	–	–	13-May-13	12-May-20
	Rationalising[3,5]	Yes	13-May-10	119.00	871,849	–	–	871,849	–	–	–	13-May-14	12-May-20
	Financial Objectives[3,6]	Yes	13-May-10	119.00	871,849	–	–	871,849	–	–	–	13-May-13	12-May-20
	Financial Objectives[3,6]	Yes	13-May-10	119.00	871,849	–	–	871,849	–	–	–	13-May-14	12-May-20
	Financial Objectives[3,6]	**Yes**	**11-Apr-11**	**144.70**	**–**	**734,278**	**–**	**734,278**	**–**	**–**	**–**	**11-Apr-14**	**10-Apr-16**
	Financial Objectives[3,6]	**Yes**	**11-Apr-11**	**144.70**	**–**	**734,278**	**–**	**734,278**	**–**	**–**	**–**	**11-Apr-15**	**10-Apr-16**
Option (SOP)	*LTI*[7]	*Yes*	*26-Apr-05*	*126.50*	*304,348*	–	*304,348*	–	*126.50*	*139.70*	*40,174*		
	LTI[8]	*Yes*	*03-Apr-08*	*123.20*	*426,137*	–	*426,137*	–	*123.20*	–	–		
Shares (RSP)	*DSTI*[9]	*No*	*03-Apr-08*	*123.20*	*93,104*	–	*93,104*	–	–	*139.65*	*130,020*		
	Match[8]	*Yes*	*03-Apr-08*	*122.89*	*186,661*	–	*186,661*	–	–	–	–		
Option (SAYE)	[10]	No	09-Apr-09	63.30	48,906	–	–	48,906	32.00	–	–	01-Jun-14	30-Nov-14
Total					**10,523,732**	**1,890,153**	**1,010,250**	**11,403,635**			**170,194**		

1 On 10 November 2011, Mr Broadley exercised his share option granted on 10 November 2008. Mr Broadley sold 1,024,800 shares to cover the costs of exercise and his income tax and employees' National Insurance Contribution liabilities and retained 290,989 shares.

2 Dividends are paid and the directors can vote the shares held under award during the vesting period.

3 Awards are subject to a claw-back provision under which the Committee may reduce the number of shares under option or award if financial results or business performance for which the director is responsible is found to have been materially incorrect or misleading or if undue risk was taken, resulting in financial loss to the Company.

4 As a result of the EPS and RoE based performance targets being met, the share options and forfeitable shares awards granted under the PSP on 8 April 2009 will vest on 8 April 2012.

5 Subject to the achievement of certain initiatives relating to the restructuring of the Group.

6 Subject to the fulfilment of performance targets, under which 50% of the award is subject to the financial performance of the Company's Long-Term Savings business post restructuring and 50% of the award is subject to absolute TSR.

7 On 4 April 2011, Mr Roberts exercised his share option granted on 26 April 2005. Mr Roberts sold 291,569 shares to cover the costs of exercise and his income tax and employees' National Insurance Contribution liabilities and retained 12,779 shares.

8 As a result of the EPS-based performance targets not being met, the share options and bonus-matching restricted share awards granted on 3 April 2008 lapsed on 8 March 2011.

9 On 4 April 2011, 93,104 shares were released to Mr Roberts in respect of the deferred short-term incentive restricted share award originally granted in April 2008. Mr Roberts sold 47,590 of these shares to cover his income tax and employees' National Insurance Contribution liabilities and retained 45,514 shares.

10 The SAYE option price was determined as 20% below the average of the Company's share price between 16 and 18 March 2009. The Company's share price at the date of grant (9 April 2009) was 63.3p.

Company share price performance

The market price of the Company's shares was 135.50p at 30 December 2011 and ranged from a low of 98.05p to a high of 144.80p during 2011.

Executive directors' shareholding requirements

During the year, the Committee reviewed and amended the guidelines on shareholdings by the executive directors of the Company. Under these, the Group Chief Executive is now expected to build up a holding of shares in the Company equal in value to at least 200% (formerly 150%) of his annual basic salary within five years of appointment and the equivalent figure for other executive directors is 150% (formerly 100%) of their annual basic salaries. For the purposes of the calculations, share options and forfeitable shares awards are excluded.

The following table shows shares owned outright (including holdings by connected persons):

	Salary at 31 Dec 2011 (£)	Price at 30 Dec 2011 (p)	Percentage holding required	Minimum number of shares required to be held*	Personal shares held at 31 Dec 2011	Personal shares held at 31 Dec 2011 as a percentage of basic salary*
Julian Roberts	850,000	135.50	200%	1,254,613	1,128,633	180%
Philip Broadley	565,000	135.50	150%	625,461	412,178	99%

* Calculated using the market price of Old Mutual plc shares on 30 December 2011, namely 135.50p, and the basic salaries of the executive directors at 31 December 2011.

Further information

Terms of engagement – executive directors

The terms of engagement of the executive directors are considered by the Committee to provide a proper balance of responsibilities and security between the parties. The following is a summary of the main provisions:

Provision	Service contract
Contract dates	Julian Roberts – 23 January 2009, as amended on 22 November 2011 Philip Broadley – 10 November 2008, as amended on 22 November 2011
Notice Period	Julian Roberts – 12 months by either the Company or the director Philip Broadley – 12 months by the Company and 6 months by the director
Compensation for loss of office	Tailored to reflect the Company's contractual obligations and the obligation on the part of the employee to mitigate loss
Compensation payable on early termination	No contractual provision

Terms of engagement – Chairman and non-executive directors

Patrick O'Sullivan entered into an engagement letter with the Company in August 2009 (as amended in December 2011) setting out the terms applicable to his role as Chairman from January 2010. Under these terms, subject to: (a) 12 months' notice at any time given by either the Company or Patrick O'Sullivan, (b) his being duly re-elected at Annual General Meetings, and (c) the provisions of the Company's Articles of Association relating to the removal of directors, his appointment is for an initial term of three years, renewable thereafter for a further three years (subject to the same provisos), followed by up to three additional one-year terms.

The other non-executive directors are engaged on terms that may be terminated by either side without notice. However, it is envisaged that they will remain in place on a three-year cycle, in order to provide assurance to both the Company and the non-executive director concerned that the appointment is likely to continue. The renewal of non-executive directors' terms for successive three-year cycles is not automatic, with the continued suitability of each non-executive director being assessed by the Nomination Committee. The Board has determined that, with effect from January 2012, non-executive directors' engagements will be extended on an annual basis (for a maximum of three years) from the end of their second three-year cycle.

REMUNERATION REPORT
CONTINUED

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
Mike Arnold	1 Sep 2009	1 Sep 2009	1st	1 Sep 2012
Eva Castillo	2 Feb 2011	2 Feb 2011	1st	2 Feb 2014
Russell Edey	24 Jun 2004	24 Jun 2010	3rd	24 Jun 2013
Alan Gillespie	3 Nov 2010	3 Nov 2010	1st	3 Nov 2013
Reuel Khoza	27 Jan 2006	27 Jan 2012	3rd (1st year)	27 Jan 2013
Roger Marshall	5 Aug 2010	5 Aug 2010	1st	5 Aug 2013
Bongani Nqwababa	1 Apr 2007	1 Apr 2010	2nd	1 Apr 2013
Nku Nyembezi-Heita	9 March 2012	9 March 2012	1st	9 March 2015
Lars Otterbeck	14 Nov 2006	14 Nov 2009	2nd	14 Nov 2012

Shareholder approval of the Remuneration Report
An advisory vote on the Remuneration Report will be put to shareholders at the AGM on 10 May 2012.

Russell Edey
Chairman of the Remuneration Committee
On behalf of the Board
9 March 2012

FINANCIAL STATEMENTS

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in respect of the Annual Report and the financial statements

The directors are responsible for preparing the Annual Report and the Group and Parent Company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Parent Company financial statements for each financial year. Under that law they are required to prepare the Group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the Parent Company financial statements on the same basis.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of their profit or loss for that period. In preparing each of the Group and Parent Company financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the Parent Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent Company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Directors' Report includes a fair review of the development and performance of the business and the position of Old Mutual plc and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Julian Roberts
Group Chief Executive
9 March 2012

Philip Broadley
Group Finance Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011	Year ended 31 December 2010*
			£m
Revenue			
Gross earned premiums	B2	**3,584**	3,460
Outward reinsurance		**(325)**	(300)
Net earned premiums		**3,259**	3,160
Investment return (non-banking)	D2	**(567)**	9,553
Banking interest and similar income	D3	**3,669**	3,913
Banking trading, investment and similar income	D4	**217**	199
Fee and commission income, and income from service activities	D5	**3,035**	2,823
Other income		**171**	149
Total revenues		**9,784**	19,797
Expenses			
Claims and benefits (including change in insurance contract provisions)		**(3,331)**	(4,956)
Reinsurance recoveries		**123**	222
Net claims and benefits incurred		**(3,208)**	(4,734)
Change in investment contract liabilities		**1,889**	(5,833)
Losses on loans and advances		**(458)**	(548)
Finance costs	D6	**(58)**	(269)
Banking interest payable and similar expenses	D7	**(2,095)**	(2,441)
Fee and commission expenses, and other acquisition costs	D8	**(1,007)**	(917)
Other operating and administrative expenses	D9	**(3,852)**	(3,643)
Goodwill impairment	C1(b)	**(264)**	(1)
Change in third-party interest in consolidated funds		**2**	(299)
Total expenses		**(9,051)**	(18,685)
Share of associated undertakings and joint ventures' profit after tax	G5(b)	**10**	5
Profit/(loss) on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	**251**	(22)
Profit before tax		**994**	1,095
Income tax expense	D1(a)	**(225)**	(391)
Profit from continuing operations after tax		**769**	704
Discontinued operations			
Profit/(loss) from discontinued operations after tax	H1(a)	**198**	(728)
Profit/(loss) after tax for the financial year		**967**	(24)
Attributable to			
Equity holders of the parent		**667**	(282)
Non-controlling interests			
Ordinary shares	F11(a)	**238**	196
Preferred securities	F11(a)	**62**	62
Profit/(loss) after tax for the financial year		**967**	(24)
Earnings per share			
Basic earnings per share based on profit from continuing operations (pence)		**8.9**	8.5
Basic earnings per share based on profit/(loss) from discontinued operations (pence)		**4.0**	(15.0)
Basic earnings per ordinary share (pence)	C3(a)	**12.9**	(6.5)
Diluted earnings per share based on profit from continuing operations (pence)		**8.0**	7.7
Diluted earnings per share based on profit/(loss) from discontinued operations (pence)		**3.7**	(13.8)
Diluted earnings per ordinary share (pence)	C3(a)	**11.7**	(6.1)
Weighted average number of shares – millions	C3(a)	**4,935**	4,859

* The year ended 31 December 2010 has been restated to reflect Nordic as discontinued (see note A2).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011	£m Year ended 31 December 2010*
Profit/(loss) after tax for the financial year		**967**	(24)
Other comprehensive income for the financial year			
Fair value gain/(losses)			
Property revaluation		**39**	26
Net investment hedge		**28**	(87)
Available-for-sale investments			
Fair value (losses)/gains		**(1)**	37
Recycled to the income statement		**(6)**	–
Shadow accounting		**(22)**	(15)
Currency translation differences/exchange differences on translating foreign operations		**(1,240)**	882
Other movements		**(49)**	17
Income tax relating to components of other comprehensive income	D1(c)	**12**	13
Total other comprehensive income for the financial year from continuing operations		**(1,239)**	873
Total other comprehensive income for the financial year from discontinued operations	H1(b)	**(161)**	278
Total other comprehensive income for the financial year		**(1,400)**	1,151
Total comprehensive income for the financial year		**(433)**	1,127
Attributable to			
Equity holders of the parent		**(408)**	594
Non-controlling interests			
Ordinary shares		**(87)**	428
Preferred securities		**62**	105
Total comprehensive income for the financial year		**(433)**	1,127

* The year ended 31 December 2010 has been restated to reflect Nordic as discontinued (see note A2).

RECONCILIATION OF ADJUSTED OPERATING PROFIT TO PROFIT AFTER TAX

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £m	Year ended 31 December 2010* £m
Core operations			
Long-Term Savings	B3	**793**	787
Nedbank	B3	**755**	601
Mutual & Federal	B3	**89**	103
USAM	B3	**67**	72
		1,704	1,563
Finance costs		**(128)**	(128)
Long-term investment return on excess assets		**37**	31
Net interest payable to non-core operations		**(23)**	(39)
Corporate costs		**(57)**	(60)
Other net (expenses)/income		**(18)**	4
Adjusted operating profit before tax		**1,515**	1,371
Adjusting items	C1(a)	**(329)**	(392)
Non-core operations	B3	**(183)**	15
Profit before tax (net of policyholder tax)		**1,003**	994
Income tax attributable to policyholder returns	B3	**(9)**	101
Profit before tax		**994**	1,095
Total tax expense	D1(a)	**(225)**	(391)
Profit from continuing operations after tax		**769**	704
Profit/(loss) from discontinued operations after tax	H1(a)	**198**	(728)
Profit/(loss) after tax for the financial year		**967**	(24)

Adjusted operating profit after tax attributable to ordinary equity holders of the parent

	Notes	Year ended 31 December 2011 £m	Year ended 31 December 2010* £m
Adjusted operating profit before tax		**1,515**	1,371
Tax on adjusted operating profit	D1(d)	**(341)**	(327)
Adjusted operating profit after tax		**1,174**	1,044
Non-controlling interests – ordinary shares	F11(a)	**(257)**	(217)
Non-controlling – preferred securities	F11(a)	**(62)**	(62)
Adjusted operating profit after tax attributable to ordinary equity holders of the parent		**855**	765
Adjusted weighted average number of shares (millions)	C3(a)	**5,435**	5,359
Adjusted operating earnings per share (pence)	C3(b)	**15.7**	14.3

* The year ended 31 December 2010 has been restated to reflect Nordic as discontinued and non-core (see note A2).

Basis of preparation

The reconciliation of adjusted operating profit has been prepared so as to reflect the directors' view of the underlying long-term performance of the Group. The statement reconciles adjusted operating profit to profit after tax as reported under IFRS as adopted by the EU.

For core life assurance and general insurance businesses, adjusted operating profit is based on a long-term investment return, including investment returns on life funds' investments in Group equity and debt instruments, and is stated net of income tax attributable to policyholder returns. For the US Asset Management business it includes compensation costs in respect of certain long-term incentive schemes defined as non-controlling interests in accordance with IFRS. For all core businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, revaluations of put options related to long-term incentive schemes, profit/(loss) on acquisition/disposal of subsidiaries, associated undertakings and strategic investments, and fair value profits/(losses) on certain Group debt movements but includes dividends declared to holders of perpetual preferred callable securities. Bermuda, which is non-core, and Nordic and US Life, which are discontinued and non-core, are not included in adjusted operating profit.

Adjusted operating earnings per share is calculated on the same basis as adjusted operating profit. It is stated after tax attributable to adjusted operating profit and non-controlling interests. It excludes income attributable to Black Economic Empowerment trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and Black Economic Empowerment trusts.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	At 31 December 2011	At 31 December 2010
			£m
Assets			
Goodwill and other intangible assets	F1	**3,358**	4,965
Mandatory reserve deposits with central banks		**951**	1,079
Property, plant and equipment	F2	**925**	1,015
Investment property	F3	**2,064**	2,040
Deferred tax assets	F8(a)	**339**	416
Investments in associated undertakings and joint ventures	G5	**111**	162
Deferred acquisition costs	F4	**1,351**	1,534
Reinsurers' share of policyholder liabilities	E8	**989**	1,104
Loans and advances	E3	**39,764**	51,778
Investments and securities	E4	**81,253**	106,153
Current tax receivable		**138**	156
Client indebtedness for acceptances		**237**	190
Trade, other receivables and other assets	F5	**3,348**	3,934
Derivative financial instruments – assets	E6	**1,795**	2,503
Cash and cash equivalents		**3,624**	4,132
Non-current assets held for sale	H2	**22,138**	12,391
Total assets		**162,385**	193,552
Liabilities			
Life assurance policyholder liabilities	E8	**76,350**	98,631
General insurance liabilities	E8	**325**	397
Third-party interests in consolidated funds		**1,893**	3,584
Borrowed funds	E9	**3,656**	4,204
Provisions	F6	**269**	260
Deferred revenue	F7	**701**	730
Deferred tax liabilities	F8(b)	**504**	858
Current tax payable		**199**	238
Trade, other payables and other liabilities	F9	**4,243**	5,661
Liabilities under acceptances		**237**	190
Amounts owed to bank depositors	E10	**40,978**	53,236
Derivative financial instruments – liabilities	E6	**1,755**	1,870
Non-current liabilities held for sale	H2	**20,417**	12,219
Total liabilities		**151,527**	182,078
Net assets		**10,858**	11,474
Shareholders' equity			
Equity attributable to equity holders of the parent	F10	**8,488**	8,951
Non-controlling interests			
Ordinary shares	F11(b)	**1,652**	1,763
Preferred securities	F11(b)	**718**	760
Total non-controlling interests		**2,370**	2,523
Total equity		**10,858**	11,474

The consolidated financial statements on pages 127 to 231 were approved by the Board of Directors on 9 March 2012.

Julian Roberts
Group Chief Executive

Philip Broadley
Group Finance Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Year ended 31 December 2011	£m Year ended 31 December 2010*
Cash flows from operating activities – continuing operations		
Profit before tax	**994**	1,095
Non-cash movements in profit before tax	**1,372**	(515)
Changes in working capital	**(1,415)**	3,195
Taxation paid	**(402)**	(356)
Net cash inflow from operating activities – continuing operations	**549**	3,419
Cash flows from investing activities		
Net disposals/(acquisitions) of financial investments	**43**	(2,349)
Acquisition of investment properties	**(57)**	(162)
Proceeds from disposal of investment properties	**6**	272
Acquisition of property, plant and equipment	**(184)**	(145)
Proceeds from disposal of property, plant and equipment	**43**	–
Acquisition of intangible assets	**(91)**	(76)
Acquisition of interests in subsidiaries, associated undertakings and strategic investments	**103**	(75)
Disposal of interests in subsidiaries, associated undertakings and strategic investments	**(329)**	(16)
Net cash outflow from investing activities – continuing operations	**(466)**	(2,551)
Cash flows from financing activities		
Dividends paid to		
Ordinary equity holders of the Company	**(97)**	(102)
Non-controlling interests and preferred security interests	**(206)**	(196)
Interest paid (excluding banking interest paid)	**(87)**	(79)
Proceeds from issue of ordinary shares (including by subsidiaries to non-controlling interests)	**10**	5
Net acquisition of treasury shares	**(17)**	(25)
Issue of subordinated and other debt	**890**	492
Subordinated and other debt repaid	**(905)**	(104)
Net cash outflow from financing activities – continuing operations	**(412)**	(9)
Net (decrease)/increase in cash and cash equivalents – continuing operations	**(329)**	859
Net increase/(decrease) in cash and cash equivalents – discontinued operations	**346**	(364)
Effects of exchange rate changes on cash and cash equivalents	**(594)**	376
Cash and cash equivalents at beginning of the year	**5,632**	4,761
Cash and cash equivalents at end of the year	**5,055**	5,632
Consisting of		
Cash and cash equivalents in the statement of financial position	**3,624**	4,132
Mandatory reserve deposits with central banks	**951**	1,079
Cash and cash equivalents included in assets held for sale	**480**	421
Total	**5,055**	5,632

* The year ended 31 December 2010 has been restated to reflect Nordic as discontinued (see note A2).

Cash flows presented in this statement include all cash flows relating to policyholders' funds for life assurance.

Except for mandatory reserve deposits with central banks of £951 million (2010: £1,079 million) and cash and cash equivalents subject to consolidation of funds of £756 million (2010: £689 million), management do not consider that there are any material amounts of cash and cash equivalents which are not available for use in the Group's day-to-day operations. Mandatory reserve deposits are, however, included in cash and cash equivalents for the purposes of the cash flow statement in line with market practice in South Africa.

Included within the above is interest income received (including banking interest) of £4,936 million (2010: £5,196 million), dividend income received of £371 million (2010: £360 million) and interest paid (including banking interest) of £2,143 million (2010: £2,198 million).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

Year ended 31 December 2011	Notes	Millions Number of shares issued and fully paid	£m Share capital	Share premium	Merger reserve	Available-for-sale reserve
Shareholders' equity at beginning of the year		**5,695**	**570**	**795**	**2,845**	**225**
Profit after tax for the financial year		–	–	–	–	–
Other comprehensive income						
Fair value gains/(losses)						
Property revaluation		–	–	–	–	–
Net investment hedge		–	–	–	–	–
Available-for-sale investments						
Fair value gains		–	–	–	–	**51**
Recycled to the income statement		–	–	–	–	**(10)**
Realised on disposal		–	–	–	–	**(157)**
Exchange differences realised on disposal		–	–	–	–	–
Shadow accounting		–	–	–	–	**(58)**
Currency translation differences/exchange differences on translating foreign operations		–	–	–	–	–
Other movements		–	–	–	–	–
Income tax relating to components of other comprehensive income	D1(c)	–	–	–	–	**2**
Total comprehensive income for the financial year		–	–	–	–	**(172)**
Dividends for the year	C4	–	–	–	–	–
Other movements in share capital and share-based payment reserve		**7**	–	**10**	–	–
Merger reserve realised in the year		–	–	–	**(313)**	–
Change in participation in subsidiaries	F11	–	–	–	–	–
Reclassification of translation differences on non-controlling interests		–	–	–	–	–
Shares issued in lieu of cash dividends		**99**	**10**	–	–	–
Transactions with shareholders		**106**	**10**	**10**	**(313)**	–
Shareholders' equity at end of the year		**5,801**	**580**	**805**	**2,532**	**53**

Year ended 31 December 2010	Notes	Millions Number of shares issued and fully paid	£m Share capital	Share premium	Merger reserve	Available-for-sale reserve
Shareholders' equity at beginning of the year		5,518	552	771	2,716	82
Loss after tax for the financial year		–	–	–	–	–
Other comprehensive income						
Fair value gains/(losses)						
Property revaluation		–	–	–	–	–
Net investment hedge		–	–	–	–	–
Available-for-sale investments						
Fair value gains		–	–	–	–	562
Recycled to the income statement		–	–	–	–	(12)
Shadow accounting		–	–	–	–	(343)
Currency translation differences/exchange differences on translating foreign operations		–	–	–	–	–
Other movements		–	–	–	–	2
Income tax relating to components of other comprehensive income	D1(c)	–	–	–	–	(66)
Total comprehensive income for the financial year		–	–	–	–	143
Dividends for the year	C4	–	–	–	–	–
Other movements in share capital and share-based payment reserve		6	1	7	–	–
Acquisition of non-controlling interest in Mutual & Federal	F11	147	15	–	129	–
Change in participation in other subsidiaries	F11	–	–	–	–	–
Shares issued in lieu of cash dividends		24	2	17	–	–
Transactions with shareholders		177	18	24	129	–
Shareholders' equity at end of the year		5,695	570	795	2,845	225

								£m
Property revaluation reserve	**Share-based payments reserve**	**Other reserves**	**Translation reserve**	**Retained earnings**	**Perpetual preferred callable securities**	**Attributable to equity holders of the parent**	**Total non-controlling interests**	**Total equity**
101	**215**	**5**	**1,176**	**2,331**	**688**	**8,951**	**2,523**	**11,474**
–	**–**	**–**	**–**	**635**	**32**	**667**	**300**	**967**
30	**–**	**–**	**–**	**–**	**–**	**30**	**9**	**39**
–	**–**	**–**	**28**	**–**	**–**	**28**	**–**	**28**
–	**–**	**–**	**–**	**–**	**–**	**51**	**(1)**	**50**
–	**(1)**	**–**	**–**	**–**	**–**	**(11)**	**–**	**(11)**
–	**–**	**–**	**–**	**–**	**–**	**(157)**	**–**	**(157)**
–	**–**	**–**	**24**	**–**	**–**	**24**	**–**	**24**
(7)	**–**	**–**	**–**	**–**	**–**	**(65)**	**–**	**(65)**
–	**–**	**–**	**(970)**	**–**	**–**	**(970)**	**(313)**	**(1,283)**
–	**(34)**	**–**	**–**	**15**	**–**	**(19)**	**(20)**	**(39)**
–	**–**	**–**	**–**	**–**	**12**	**14**	**–**	**14**
23	**(35)**	**–**	**(918)**	**650**	**44**	**(408)**	**(25)**	**(433)**
–	**–**	**–**	**–**	**(221)**	**(44)**	**(265)**	**(162)**	**(427)**
–	**50**	**–**	**–**	**(17)**	**–**	**43**	**16**	**59**
–	**–**	**–**	**–**	**313**	**–**	**–**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**	**–**	**61**	**61**
–	**–**	**–**	**43**	**–**	**–**	**43**	**(43)**	**–**
–	**–**	**–**	**–**	**114**	**–**	**124**	**–**	**124**
–	**50**	**–**	**43**	**189**	**(44)**	**(55)**	**(128)**	**(183)**
124	**230**	**5**	**301**	**3,170**	**688**	**8,488**	**2,370**	**10,858**

								£m
Property revaluation reserve	Share-based payments reserve	Other reserves	Translation reserve	Retained earnings	Perpetual preferred callable securities	Attributable to equity holders of the parent	Total non-controlling interests	Total equity
87	191	11	469	2,897	688	8,464	2,247	10,711
–	–	–	–	(314)	32	(282)	258	(24)
21	–	–	–	–	–	21	5	26
–	–	–	(87)	–	–	(87)	–	(87)
–	–	–	–	–	–	562	–	562
–	–	–	–	–	–	(12)	–	(12)
(6)	–	–	–	–	–	(349)	–	(349)
–	–	–	794	–	–	794	274	1,068
(1)	20	(6)	–	(14)	–	1	(4)	(3)
–	–	–	–	–	12	(54)	–	(54)
14	20	(6)	707	(328)	44	594	533	1,127
			–	(131)	(44)	(175)	(152)	(327)
–	4	–	–	(25)	–	(13)	3	(10)
–	–	–	–	(93)	–	51	(51)	–
–	–	–	–	–	–	–	(57)	(57)
–	–	–	–	11	–	30	–	30
–	4	–	–	(238)	(44)	(107)	(257)	(364)
101	215	5	1,176	2,331	688	8,951	2,523	11,474

Retained earnings were reduced in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings at 31 December 2011 by £501 million (2010: £478 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

A: Significant accounting policies

A1: Basis of preparation

Statement of compliance

Old Mutual plc (the Company) is a company incorporated in England and Wales.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group') and equity account the Group's interest in associates and jointly controlled entities (other than those held by life assurance funds which are accounted for as investments). The Parent Company financial statements present information about the Company as a separate entity and not about the Group.

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU. On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies adopted by the Company and Group, unless otherwise stated, have 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 assets and liabilities designated as fair value through the income statement or as available-for-sale, owner-occupied property and investment property. Non-current assets and disposal groups held for sale are stated at the lower of the previous carrying amount and the fair value less costs to sell.

The Parent Company financial statements are prepared in accordance with these accounting policies, other than for investments in subsidiary undertakings and associates, which are stated at cost less impairments (see note A5(n)), in accordance with IAS 27.

The Company and Group financial statements have been prepared on the going concern basis which the directors believe to be appropriate having taken into consideration the points as set out in the Directors' Report in the section headed Going concern.

Judgements made by the directors in the applications of these accounting policies that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note A3.

Translation of foreign operations

The assets and liabilities of foreign operations are translated from their respective functional currencies into the Group's presentation currency using the year end exchange rates, and their income and expenses using the average exchange rates. Other than in respect of cumulative translation gains and losses up to 1 January 2004, cumulative unrealised gains or losses resulting from translation of functional currencies to the presentation currency are included as a separate component of shareholders' equity. To the extent that these gains and losses are effectively hedged, the cumulative effect of such gains and losses arising on the hedging instruments are also included in that component of shareholders' equity. Upon the disposal of subsidiaries the cumulative amount of exchange differences deferred in shareholders' equity, net of attributable amounts in relation to net investments, is recognised in the income statement. Cumulative translation gains and losses up to 1 January 2004 were reset to zero.

Developments during 2011

Other than changes arising from new accounting developments as mentioned in note A9, the Group has not made any changes to the accounting policies during the year. Disclosures about the impact of future standards can be found in note A10.

These financial statements describe those accounting policies which involve significant judgement, optionality in application and are material to the Group's overall financial statements. As such items which are immaterial or duplicated elsewhere in the annual report have been removed from these financial statements.

A detailed list of the Group's accounting policies can be found at **www.oldmutual.com**. The contents of the website are not subject to audit.

A2: Significant corporate activity and business changes

Disposal of US Life

As previously reported, at 31 December 2010 the Group was in advanced stage negotiations for the disposal of its life assurance operations in the United States, which represented almost the entirety of the US Life operating segment. Following US regulatory approval the disposal of US Life was completed on 7 April 2011. The sale represented the Group's exit from the life assurance market in the United States and therefore met the criteria of a discontinued operation. For the purposes of adjusted operating profit US Life has been classified as a discontinued and non-core operation and consequently is not included.

Skandia Liv and the disposal of Nordic

In line with previous periods the consolidated financial statements do not include the 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.

As announced on 15 December 2011, the Group has agreed to sell the Nordic business unit comprising the life assurance, asset management and banking operations in Sweden, Denmark and Norway to Skandia Liv. As a result the assets and liabilities of the Nordic disposal group have been classified as held for sale in the statement of financial position for the current year in accordance with IFRS 5. This sale will result in the Group's exit from the life assurance, asset management and banking operations in the Nordic region and therefore meets the criteria of a discontinued operation. Consequently the comparative information in the income statement, statement of comprehensive income, statement of cash flows and the related notes have been restated where applicable to reflect this. For the purposes of adjusted operating profit, Nordic has been reclassified as a discontinued and non-core operation for the year ended 31 December 2011 with the comparative restated accordingly.

Disposal of the Finnish branch in Wealth Management

On 21 December 2011 the Group announced that it had agreed terms to sell the Finnish branch of Wealth Management to OP-Pohjola osk. As a result of this the assets and liabilities of the Finnish branch have been classified as held for sale in the statement of financial position for the current year.

Further details of the impact for discontinued operations and disposal groups are provided in notes H1 and H2. In addition, certain comparative information has been revised in accordance with changes to presentation made in the current year.

Consolidation of other African businesses

In preparing the consolidated financial statements for the year ended 31 December 2010 the Emerging Markets segment included its South African and Namibian businesses but excluded all other African businesses. This was consistent with prior periods. Nedbank and Mutual & Federal consolidated the results of all African businesses under their control.

Following a period of greater political and currency stability in Zimbabwe and an expectation that the Group will be able to extract benefits from its Zimbabwean business the Group re-evaluated its ability to control this business within the meaning of accounting standards. As a result the Group's Zimbabwean business has been consolidated for the first time together with operations in Kenya, Malawi, Swaziland and Nigeria (collectively the other African businesses), with this being effective from 1 January 2011.

The acquisition has been accounted for at the net asset value of the underlying businesses on 1 January 2011, being the fair value of the Group's investment in these operations for the assets and liabilities acquired. Deemed consideration for the acquisition is the fair value of the Group's investment immediately prior to control. The result was a gain for the Group in these businesses that is accounted for as a profit on acquisition in the year. This profit has been excluded from adjusted operating profit. On initial recognition the assets directly associated with other African businesses consisted of £290 million of investment property, £576 million of investments and securities and £115 million of other assets, with liabilities at this time being £624 million of policyholder liabilities and £108 million of other liabilities.

The trading results of the other African businesses for the year ending 31 December 2011 have been included in the Group's income statement and adjusted operating profit. In anticipation of the indigenisation of the Zimbabwe business a non-controlling interest adjustment has been included for this operation in respect of adjusted operating profit to reflect the most likely expected indigenous shareholding to be provided. At 31 December 2011 the Group retained a 100% holding in the ordinary shares of Zimbabwe and consequently the operation has been consolidated as a wholly owned subsidiary for the purposes of IFRS reporting.

A3: Critical accounting estimates and judgements

In the preparation of the financial statements the Group is required to make estimates and judgements that affect items reported in the consolidated income statement, statement of financial position, other primary statements and related supporting notes.

A: Significant accounting policies continued

A3: Critical accounting estimates and judgements continued

Critical accounting estimates and judgements are those which involve the most complex or subjective judgements or assessments, with estimates based on knowledge of the current situation and circumstances and assumptions based on that knowledge and predictions of future events and actions. The areas of the Group's business that typically require such estimates and the relevant accounting policies and notes are as follows:

Area	Accounting policy	Note
Life insurance contract provisions	A4	E8
Deferred acquisition costs	A4	F4
Fair value for financial assets and liabilities	A5	E1
Intangible assets and goodwill	A6	F1
Non consolidation of wholly owned mutual life insurance undertaking	A2	G3

Specific areas requiring estimates and judgements are provided in more detail below.

(a) Bermuda guarantees

Old Mutual Bermuda, which is closed to new business, previously offered variable annuity products with a number of these remaining in place. For variable annuity contracts with guaranteed minimum accumulation benefits (GMABs) there are risks to the Group, with significant volatility in financial results possible due to changes in key market and economic variables, as well as unexpected policyholder behaviour.

Short-term liquidity risk in relation to the GMABs is further increased by potentially significant product top-ups in 2012 and 2013 on the fifth anniversary of the Universal Guarantee Option (UGO) contracts. The top ups relate to an automatic exercise feature included in these products under which policyholders receive any shortfall between the account value and 105% of the original premium paid by the policyholder on the fifth anniversary of the contract. In addition for UGO contracts there are 120% top ups for the tenth anniversary, plus any high water mark features if elected.

Analysis of Bermuda policyholder liabilities is detailed below:

£m	At 31 December 2011	At 31 December 2010
Variable annuity contract balances	**2,012**	2,895
GMAB provision	**682**	433
Deferred and fixed index annuities	**412**	605
Total insurance liabilities – Bermuda	**3,106**	3,933

GMAB and guaranteed minimum death benefit reserve calculations rely on the mapping of policyholder investment funds to hedgeable indices to determine market consistent assumptions and are performed at least quarterly. Regular fund mapping ensures that exposures to relevant markets are accurately reflected in the determination of the reserves. The fund mapping is especially important to identify exposures to Asian and other emerging markets which require higher levels of reserving given their higher inherent volatility.

Bermuda's current best estimate for future cash flow requirements at 31 December 2011 is that £619 million of its holding in affiliated notes issued by the Parent may eventually need to be converted to cash. The notes are forecast to be redeemed starting from 2013, with £86 million required before 2017, £488 million between 2017 and 2018 and an additional £45 million up to 2029. The increase in this estimate from 31 December 2010 is due to lower initial assets and lower expected future income. Taking an average of the 10% worst case scenarios it would be expected that £1,125 million is required, being an additional requirement of £506 million, which would exceed the current value of notes held and forecast interest to be earned by 2017 and so require additional funding from the Group. Statutory capital reduced to £187 million at 31 December 2011 reflecting the loss for the year (2010: £402 million).

Surrenders of variable annuity contracts with GMABs are influenced by the differential between the account value of the underlying funds and the nominal level of the guarantee, along with the financial circumstances of each policyholder. Despite the volatility experienced in the markets during the second half of 2011, the actual surrenders of UGO contracts for the year ended 31 December 2011 increased by over 250% compared to the prior year. This increase was partially attributable to special surrender and asset transfer offers made to policyholders as part of de-risking initiatives implemented during 2011.

Surrender activity will have a significant impact on the speed of the run-off as well as the extent and timing of any associated capital requirements in the form of cash released from investments for this business. Group and local management actively monitor surrender behaviour and manage liquidity risk.

Bermuda is continuing its run-off strategy with attention to the adequacy of the hedging strategy, focusing on market segments that are considered vulnerable whilst conserving liquidity by removing hedges on stronger market segments. The hedging programme is dynamically managed to strike a balance between reserve and income statement volatility, liquidity and transactional costs. Exposures are primarily to Asian equities and currencies versus the US dollar. At 31 December 2011 this strategy meant the hedge coverage over equities was approximately 54% (2010: 57%), over foreign exchange was 53% (2010: 39%), whilst interest rates remain unhedged (2010: nil). The dynamic management of these risks includes evaluating the most appropriate level of hedges on a continuing basis, with any proposed changes to the strategy subject to strict oversight. The stop-loss protocol continues to be monitored daily by local management and Group to measure the impact of equity and exchange rate movements on the GMAB reserves and hedging assets.

In March 2012 Bermuda enhanced its hedging strategy by implementing an option based hedging arrangement to protect against downside risk from equity market movements relating to the five year anniversary of UGO contract top-up obligations, replacing the futures based hedging strategy previously employed. The existing hedging strategy will remain in place for the rest of the variable annuity book, with the exposure to currency movements impacting the five year anniversary top-ups continuing to be dynamically hedged. The enhanced hedging strategy aims to provide greater cash flow certainty over the period when the five year anniversary UGO top-up payments fall due.

(b) US Asset Management goodwill impairment

The impairment test in respect of the US Asset Management (USAM) has been performed by comparing USAM's carrying amount to its recoverable amount, which is the higher of its fair value less costs to sell and its value-in-use. Value-in-use has been determined using a discounted cash flow methodology. The key assumptions used in the value-in-use calculations for USAM are as follows:

- The three year business plan and two further years have growth rate assumptions based on management's expectation of performance over this period. A terminal value, using a long-term growth rate of 4% (2010: 6%) is added for the value of cash flows beyond five years. The assumed long-term growth rate was determined with reference to nominal historical gross domestic product (GDP) growth in the US, and the outlook for nominal GDP growth for the US.
- The risk-adjusted discount rate applied was 12% (2010: 12.9%).

Based on the expected impact from the adverse outlook for US nominal GDP growth and net cash outflows experienced by USAM in 2011 the long-term growth rate was reduced for the purposes of the 2011 impairment test. As a result of the change in the growth rate assumptions and the reduction in near term client cash flows, an impairment charge has been recognised to reflect the reduction in value-in-use for USAM with a charge of £264 million being recognised in the year (2010: £nil).

(c) Discretionary reserves

Management has discretion in managing exposure to financial options and guarantees, particularly within participating business. As required by the applicable Actuarial Society of South Africa guidance note, the time value of the financial options and guarantees included in the statutory reserves in the Emerging Markets businesses at 31 December 2011 have been valued using a risk-neutral market consistent asset model and is referred to as the Investment Guarantee Reserve (IGR). This reserve includes a discretionary margin as defined by local guidelines to allow for the sensitivity of the reserve to future interest rate and equity market movements. Further detail is provided in the Old Mutual audited Market Consistent Embedded Value supplementary basis information section.

(d) Provisions for impairment of loans and advances

The majority of loans and advances are in respect of Nedbank, which assesses its loan portfolios for impairment at each financial reporting data.

The impairment for performing loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

For portfolios which comprise large numbers of small homogenous assets with similar risk characteristics where credit scoring techniques are generally used, statistical techniques are used to calculate impairment allowances on the portfolio, based on historical recovery rates and assumed emergence periods. There are many models in use, each tailored to a product, line of business or client category. Judgement and knowledge is needed in selecting the statistical methods to use when the models are developed or revised.

For larger exposures impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account. The level of impairment allowance is the difference between the value of the discounted expected future cash flows and its carrying amount. Subjective judgements are made in the calculations of future cash flows and change with time as new information becomes available or as strategies evolve, resulting in frequent revisions to the impairment provision as individual decisions are taken.

Further detail is provided in note E3.

A: Significant accounting policies continued

A3: Critical accounting estimates and judgements continued

(e) Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is correspondingly recognised in other comprehensive income.

The Group is regularly in discussion with the respective tax authorities in each of the jurisdictions where the Group is active. In certain circumstances the Group applies its judgement to determine if a provision for future tax should be raised. The Group reviews any potential exposure to tax authorities under the requirements of IAS 37 to determine if a provision should be recognised. The measurement of any provisions for future taxes is based on the Group's assessment of the specific circumstances and it applies judgement to determine the most likely outcome of its discussions with the relevant tax authorities. As these provisions are based on estimates and rely on judgements made by the Group, the actual amount of future taxes paid by the Group could be different to the amounts provided.

A4: Insurance and investment contracts

Life assurance

(a) Classification of contracts

Contracts sold as life assurance (with the exception of unit-linked assurance contracts) are categorised into insurance contracts, contracts with a discretionary participation feature or investment contracts, being in accordance with the classification criteria set out in the following paragraphs.

For the Group's unit-linked assurance business, contracts are separated into an insurance component and an investment component (known as 'unbundling'), and each unbundled component is accounted for separately in accordance with the accounting policy for that component. Unit-linked assurance contracts are savings contracts with a small or insignificant component of insurance risk.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts. Such contracts include savings and/or investment contracts sold without life assurance protection.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is risk other than financial risk. Contracts accounted for as insurance contracts include life assurance contracts and savings contracts providing more than an insignificant amount of life assurance protection.

Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, security index, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts with a discretionary participating feature are those under which the policyholder holds a contractual right to receive additional payments as a supplement to guaranteed minimum payments. These additional payments, the amount or timing of which is at the Group's discretion, represent a significant portion of the total contractual payments and are contractually based on (1) the performance of a specified pool of contracts or a specified type of contract, (2) realised and/or unrealised investment returns on a specified pool of assets held by the Group or (3) the profit or loss of the Group. Investment contracts with discretionary participating features, which have no life assurance protection in the policy terms, are accounted for in the same manner as insurance contracts.

(b) Premiums on life assurance

Premiums and annuity considerations receivable under insurance contracts and investment contracts with a discretionary participating feature are stated gross of commission, and exclude taxes and levies. Premiums in respect of linked insurance contracts are recognised when the liability is established. Premiums in respect of other insurance contracts and investment contracts with a discretionary participation feature are recognised when due for payment.

Outward reinsurance premiums are recognised when due for payment.

Amounts received under investment contracts other than those with a discretionary participating feature and unit-linked assurance contracts are recorded as deposits and credited directly to investment contract liabilities.

(c) Revenue on investment management service contracts

Fees charged for investment management services provided in conjunction with an investment contract are recognised as revenue as the services are provided. Initial fees, which exceed the level of recurring fees and relate to the future provision of services, are deferred and amortised over the anticipated period in which services will be provided. Fees charged for investment management service contracts by asset management businesses are also recognised on this basis.

(d) Claims paid on life assurance

Claims paid under insurance contracts and investment contracts with a discretionary participating feature include maturities, annuities, surrenders, death and disability payments.

Maturity and annuity claims are recorded as they fall due for payment. Death and disability claims and surrenders are accounted for when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Amounts paid under investment contracts other than those with a discretionary participating feature and unit-linked assurance contracts are recorded as deductions from investment contract liabilities.

(e) Insurance contract provisions

Insurance contract provisions for African businesses have been computed using a gross premium valuation method. Provisions in respect of African business have been made in accordance with the Financial Soundness Valuation basis as set out in the guidelines issued by the Actuarial Society of South Africa in Professional Guidance Note (PGN) 104 (2001). Under this guideline, provisions are valued using realistic expectations of future experience, with margins for prudence and deferral of profit emergence.

Provisions for investment contracts with a discretionary participating feature are also computed using the gross premium valuation method in accordance with the Financial Soundness Valuation basis. Surplus allocated to policyholders but not yet distributed related to these contracts is included as part of life assurance policyholder liabilities.

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 at a business unit level 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.

In respect of the South Africa life assurance, shadow accounting is applied to insurance contract provisions where the underlying measurement of the policyholder liability depends directly on the value of owner-occupied property and the unrealised gains and losses on such property, which are recognised in other comprehensive income. The shadow accounting adjustment to insurance contract provisions is recognised in other comprehensive income to the extent that the unrealised gains or losses on owner-occupied property backing insurance contract provisions are also recognised directly in other comprehensive income.

Financial guarantee contracts are recognised as insurance contracts. Liability adequacy testing is performed to ensure that the carrying amount of the liability for financial guarantee contracts is sufficient.

(f) Investment contract liabilities

Investment contract liabilities in respect of the Group's non-linked business are recorded at amortised cost unless they are designated at fair value through the income statement in order to eliminate or significantly reduce a measurement or recognition inconsistency, for example where the corresponding assets are recorded at fair value through the income statement.

Investment contract liabilities in respect of the Group's linked business are recorded at fair value. For such liabilities, including the deposit component of unbundled unit-linked assurance contracts, fair value is calculated as the account balance, which is the value of the units allocated to the policyholder, based on the bid price of the assets in the underlying fund (adjusted for tax).

Investment contract liabilities measured at fair value are subject to a 'deposit floor' such that the liability established cannot be less than the amount repayable on demand.

A: Significant accounting policies continued

A4: Insurance and investment contracts continued

(g) Acquisition costs

Acquisition costs for insurance contracts comprise all direct and indirect costs arising from the sale of insurance contracts.

As the gross premium valuation method used in African territories to determine insurance contract provisions makes implicit allowance for the deferral of acquisition costs, no explicit deferred acquisition cost asset is recognised in the statement of financial position for the contracts issued in these areas.

Deferral of costs on insurance business in other territories is limited to the extent that they are deemed recoverable from available future margins.

(h) Costs incurred in acquiring investment management service contracts

Incremental costs that are directly attributable to securing an investment management service contract are recognised as an asset if they can be identified separately and measured reliably and it is probable that they will be recovered. Deferred acquisition costs represent the contractual right to benefit from providing investment management services and are amortised as the related revenue is recognised. Costs attributable to investment management service contracts in the asset management businesses are also recognised on this basis.

General insurance

Contracts under which the Group accepts significant insurance risk from another party and are not classified as Life Insurance are classified as General insurance. All classes of general insurance business are accounted for on an annual basis.

(i) Premiums on general insurance

Premiums stated gross of commissions exclude taxes and levies and are accounted for in the period in which the risk commences. The proportion of the premiums written relating to periods of risk after the reporting date is carried forward to subsequent accounting periods as unearned premiums, so that earned premiums relate to risks carried during the accounting period.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance.

(j) Claims on general insurance

Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising during the year and adjustments to prior year claim provisions. Outstanding claims comprise claims incurred up to, but not paid, at the end of the accounting period, whether reported or not.

Outstanding claims do not include any provision for possible future claims where the claims arise under contracts not in existence at the reporting date.

The Group performs liability adequacy testing at a business unit level on its claim liabilities to ensure that the carrying amount of its liabilities (less related deferred acquisition costs and the unearned premium reserve) is sufficient in view of estimated future cash flows.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events, and may result in significant adjustments to the amount provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used and estimates made are reviewed regularly.

(k) Acquisition costs on general insurance

Acquisition costs, which represent commission and other related expenses, are deferred and amortised over the period in which the related premiums are earned.

(l) Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets.

The net amounts paid to a reinsurer at the inception of a contract may be less than the reinsurance assets recognised by the Group in respect of its rights under such contracts. Any difference between the premium due to the reinsurer and the reinsurance asset recognised is included in the income statement in the period in which the reinsurance premium is due.

The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts. Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid.

Reinsurance assets are assessed for impairment at each reporting date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

A5: Financial instruments

(a) Recognition and de-recognition

A financial asset or liability is recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.

The Group de-recognises a financial asset when, and only when:

- The contractual rights to the cash flows arising from the financial assets have expired or been forfeited by the Group; or
- It transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
- It no longer controls the financial asset nor retains substantially all the risks and rewards of ownership, regardless of whether it has transferred the asset.

A financial liability is de-recognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, assigned, cancelled or has expired.

The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to another party and consideration received, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

All purchases and sales of financial assets that require delivery within the timeframe established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs. Loans and receivables are recognised (at fair value plus attributable transaction costs) when cash is advanced to borrowers.

(b) Initial measurement

Financial instruments are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through the income statement, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

(c) Derivative financial instruments

Derivative financial instruments are recognised in the statement of financial position at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives not designated as hedges for hedge accounting purposes are included in investment income or finance costs as appropriate.

(d) Hedge accounting

Qualifying hedging instruments must either be derivative financial instruments or non-derivative financial instruments used to hedge the risk of changes in foreign currency exchange rates, changes in fair value or changes in cash flows. Changes in the value of the financial instrument should be expected to offset changes in the fair value or cash flows of the underlying hedged item.

The Group designates certain qualifying hedging instruments as either (1) a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (fair value hedge); (2) a hedge of a future cash flow attributable to a recognised asset or liability, or a forecasted transaction, and could affect profit or loss (cash flow hedge); or, (3) a hedge of a net investment in a foreign operation. Hedge accounting is used for qualifying hedging instruments designated in this way provided certain criteria are met.

A: Significant accounting policies continued

A5: Financial instruments continued

The Group's criteria in accordance with reporting standards for a qualifying hedging instrument to be accounted for as a hedge include:

- Upfront formal documentation of the hedging instrument, hedged item or transaction, risk management objective and strategy, the nature of the risk being hedged and the effectiveness measurement methodology that will be applied is prepared before hedge accounting is adopted.
- The hedge is documented showing that it is expected to be highly effective in offsetting the changes in the fair value or cash flows attributable to the hedged risk, consistent with the risk management and strategy detailed in the upfront hedge documentation.
- The effectiveness of the hedge can be reliably measured.
- The hedge is assessed and determined to have been highly effective on an ongoing basis.
- For cash flow hedges of a forecast transaction, an assessment that it is highly probable that the hedged transaction will occur and will carry profit and loss risk.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges or hedges of a net investment in a foreign operation and that prove to be highly effective in relation to the hedged risk are recognised in other comprehensive income.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. Any previous adjustment to the carrying amount of a hedged interest-bearing financial instrument carried at amortised cost (as a result of previous hedge accounting) is amortised in the income statement from the date hedge accounting ceases, to the maturity date of the financial instrument, based on the effective interest method.

For hedges of a net investment in a foreign operation, any cumulative gains or losses in equity are recognised in the income statement on disposal of the foreign operation.

(e) Embedded derivatives

Certain derivatives embedded in financial and non-financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives and recognised as such on a stand alone basis, when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in the income statement. If it is not possible to determine the fair value of the embedded derivative, the entire hybrid instrument is categorised as fair value through the income statement and measured at fair value.

(f) Offsetting financial instruments and related income

Financial assets and liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to set off and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expense items are offset only to the extent that their related instruments have been offset in the statement of financial position, with the exception of those relating to hedges, which are disclosed in accordance with the income statement effect of the hedged item.

(g) Interest income and expense

Interest income and expense in relation to financial instruments carried at amortised cost or held as available-for-sale is recognised in the income statement using the effective interest method taking into account the expected timing and amount of cash flows. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

Interest income and expense on financial instruments carried at fair value through the income statement is presented as part of interest income or expense.

(h) Non-interest revenue

Non-interest revenue in respect of financial instruments principally comprises fees and commission and other operating income. These are accounted for as set out below.

Fees and commission income

Loan origination fees for loans that are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan. Fees and commission arising from negotiating, or participating in the negotiation of a transaction for a third-party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Other

Revenue other than interest, fees and commission (including fees and insurance premiums), which includes exchange and securities trading income, dividends from investments and net gains on the sale of banking assets, is recognised in the income statement when the amount of revenue from the transaction or service can be measured reliably and it is probable that the economic benefits of the transaction or service will flow to the Group.

(i) Financial assets

Non-derivative financial assets are recorded as held-for-trading, designated as fair value through the income statement, loans and receivables, held-to-maturity or available-for-sale. An analysis of the Group's statement of financial position, showing the categorisation of financial assets, together with financial liabilities is set out in note E1(a).

Held-for-trading financial assets

Held-for-trading financial assets are those that were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists, or are derivatives that are not designated as effective hedging instruments.

Financial assets designated as fair value through the income statement

Financial assets that the Group has elected to designate as fair value through the income statement are those where the treatment either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise when using a different measurement basis (for instance with respect to financial assets supporting insurance contract provisions) or are managed, evaluated and reported using a fair value basis (for instance financial assets supporting shareholders' funds).

All financial assets carried at fair value through the income statement, whether held-for-trading or designated, are initially recognised at fair value and subsequently re-measured at fair value based on quoted bid prices. If such price information is not available for these instruments, the Group uses other valuation techniques, including internal models, to measure these instruments. These techniques use market observable inputs where available, derived from similar assets and liabilities in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters the Group estimates the non-market observable inputs used in its valuation models. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the reporting date for an instrument with similar terms and conditions.

Fair values of certain financial instruments, such as over-the-counter (OTC) derivative instruments, are determined using pricing models that consider, among other factors, contractual and market prices, correlations, yield curves, credit spreads, and volatility factors.

Realised and unrealised fair value gains and losses on all financial assets carried at fair value through the income statement are included in Investment return (non-banking) or in Banking trading, investment and similar income as appropriate.

Interest earned whilst holding financial assets at fair value through the income statement is reported within Investment return (non-banking) or Banking interest and similar income, as appropriate. Dividends receivable are included separately in dividend income, within Investment return (non-banking) or Banking trading, investment and similar income, when a dividend is declared.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Group as fair value through income statement or available-for-sale. Loans and receivables are carried at amortised cost less any impairment write-downs. Third-party expenses such as legal fees incurred in securing a loan are treated as part of the cost of the transaction.

A: Significant accounting policies continued

A5: Financial instruments continued

Held-to-maturity financial assets

Financial assets with fixed maturity dates which are quoted in an active market and where management has both the intent and the ability to hold the asset to maturity are classified as held-to-maturity. These assets are carried at amortised cost less any impairment write-downs. Interest earned on held-to-maturity financial assets is reported within Investment return (non-banking) or Banking interest and similar income, as appropriate.

Available-for-sale financial assets

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices other than those designated fair value through income statement or as loans and receivables, are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Available-for-sale financial assets are measured at fair value based on quoted bid prices. If quoted bid prices are unavailable or determined to be unreliable, the fair value of the financial asset is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on observable market data where available at the reporting date.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income. When available-for-sale financial assets are disposed the related accumulated fair value adjustments are included in the income statement as gains and losses from available-for-sale financial assets. When available-for-sale assets are impaired the resulting loss is shown separately in the income statement as an impairment charge.

Interest earned on available-for-sale financial assets is reported within Investment return (non-banking) or Banking interest and similar income, as appropriate. Dividends receivable are included separately in dividend income, within Investment return (non-banking) or Banking trading, investment and similar income, as appropriate when a dividend is declared.

(j) Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements are retained in the financial statements as appropriate when considering the de-recognition criteria contained within IAS 39. The securities that are retained in the financial statements are reflected as trading or investment securities and the counterparty liability is included in amounts owed to other depositors, deposits from other banks, or other money market deposits, as appropriate. Securities purchased under agreements to resell at a pre-determined price are recorded as loans and advances to other banks or customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the lives of agreements using the effective interest method.

Securities lent to counterparties are retained in the financial statements and any interest earned recognised in the income statement using the effective interest method.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

(k) Impairments of financial assets

Indicators of impairment

A provision for impairment is established if there is objective evidence that the Group will not be able to recover all amounts relating to the financial asset. Observable data that could come to the attention of the Group that could lead to a provision for impairment to be made includes:

- Significant financial difficulty of the counterparty.
- A breach of contract, such as a default or delinquency in interest or principal payments.
- The Group, for economic or legal reasons relating to the counterparty's financial difficulty, grants to the counterparty a concession that the Group would not otherwise consider.
- It becoming probable that the counterparty will enter bankruptcy or other financial reorganisation.
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets, including:
  - adverse changes in the payment status of counterparties in the group of financial assets; or
  - national or local economic conditions that correlate with defaults on the assets in the group of financial assets.

In addition, for an available-for-sale financial asset, a significant or prolonged decline in the fair value below its cost is also objective evidence of impairment.

Financial assets at amortised cost

The amount of the impairment of a financial asset held at amortised cost is the difference between the carrying amount and the recoverable amount, being the value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the effective interest rate at initial recognition. In estimating expected cash flows the Group looks at the contractual cash flows of the assets and adjusts these contractual cash flows for historical loss experience of assets with similar credit risks, with this adjusted to reflect any additional conditions that are expected to arise or to account for those which no longer exist.

The impairment provision also covers losses where there is objective evidence that losses are present in components of the loan portfolio at the reporting date, but these components have not yet been specifically identified. When a loan is uncollectable, it is written-off against the related impairment provision.

If the amount of impairment subsequently decreases due to an event occurring after the write-down, the release of the impairment provision is credited to the income statement. Impairment reversals are limited to what the carrying amount would have been, had no impairment losses been recognised.

Interest income on impaired loans and receivables is recognised on the impaired amount using the original effective interest rate before the impairment.

Available-for-sale financial assets

The amount of the impairment loss of an available-for-sale financial asset is the cumulative loss that has been recognised in other comprehensive income, being the difference between the acquisition cost and the asset's current fair value, less any impairment loss on that asset previously recognised in the income statement. For available-for-sale debt securities, fair value is determined as is the present value of expected future cash flows discounted at the current market rate of interest.

All such impairments are recognised in the income statement. The release of an impairment allowance in respect of a debt instrument categorised as available-for-sale is credited to the income statement, the release in respect of an equity instrument categorised as available-for-sale is credited to the available-for-sale reserve within equity.

(l) Financial liabilities (other than investment contracts and derivatives)

Non-derivative financial liabilities, including borrowed funds, amounts owed to depositors and liabilities under acceptances, are recorded as held-for-trading, designated as fair value through the income statement or as financial liabilities at amortised cost.

Liabilities that the Group has elected to designate as fair value through the income statement are those where the treatment either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise when using a different measurement basis and are managed, evaluated and reported using a fair value basis.

For financial liabilities recorded at fair value and which contain a demand feature, the fair value of the liability is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Financial liabilities categorised at amortised cost are recognised initially at fair value, which is normally represented by the transaction price, less directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Conversion options included within financial liabilities are recorded separately in shareholders' equity. The Group does not recognise any change in the value of this option in subsequent periods. The remaining obligation to make future payments of principal and interest to bondholders is calculated using a market interest rate for an equivalent non-convertible bond and is presented on the amortised cost basis in other borrowed funds until extinguished on conversion or maturity of the bonds.

If the Group purchases its own debt, it is removed from the statement of financial position and the difference between the carrying amount of a liability and the consideration paid is included in other income.

(m) Reclassifications of financial assets

A non-derivative financial asset that would have met the definition of loans and receivables at initial recognition that was required to be categorised as held-for-trading (on the basis that it was held for the purpose of selling or repurchasing in the near term) may under exceptional circumstances be reclassified out of the fair value through income statement category if the Group intends and is able to hold the financial asset for the foreseeable future or until maturity. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value at the date of reclassification becomes its new cost or amortised cost, as applicable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011 continued

A: Significant accounting policies continued

A5: Financial instruments continued

Other non-derivative financial assets that were required to be categorised as held-for-trading at initial recognition may be reclassified out of the fair value through income statement category in rare circumstances. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. Measurement of the asset after reclassification depends on the subsequent categorisation.

A non-derivative financial asset that would have met the definition of loans and receivables at initial recognition that was designated as available-for-sale may under exceptional circumstances be reclassified out of the available-for-sale category to the loans and receivables category if it meets the loans and receivables definition at the date of reclassification and if the Group intends and is able to hold the financial asset for the foreseeable future or until maturity. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. The fair value at the date of reclassification becomes its new cost or amortised cost, as applicable. In the case of a financial asset with a fixed maturity, the gain or loss already recognised in the available-for-sale reserve in equity is amortised to profit or loss over the remaining life using the effective interest method together with any difference between the new amortised cost and the maturity amount. In the case of a financial asset that does not have a fixed maturity, the gain or loss already recognised in the available-for-sale reserve in equity is recognised in profit or loss when the financial asset is sold or otherwise disposed of.

(n) Parent Company investments in subsidiary undertakings and associates

Parent Company investments in subsidiary undertakings and associates are recorded at cost. Impairments of Parent Company investments in subsidiary undertakings and associates are accounted for in the same way as impairments of other non-financial assets.

A6: Intangible assets

(a) Goodwill and goodwill impairment

Goodwill arising on the acquisition of a subsidiary undertaking is recognised as an asset at the date that control is achieved (the acquisition date). Goodwill is measured as the excess of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any), this excess is recognised immediately in the income statement as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least once annually. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On loss of control of a subsidiary undertaking, any attributable goodwill is included in the determination of any profit or loss on disposal.

Goodwill is allocated to one or more cash-generating units (CGUs), being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The directors annually test for impairment of each CGU or group of CGUs containing goodwill and intangible assets with indefinite useful lives, at a level that is no larger than that of the Group's identified operating segments for the purposes of segment reporting. An impairment loss is recognised whenever the carrying amount of an asset or its CGU or group of CGUs exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Impairment losses relating to goodwill are not reversed.

(b) Present value of acquired in-force for insurance and investment contract business

The present value of acquired in-force for insurance and investment contract business is capitalised in the consolidated statement of financial position as an intangible asset.

The capitalised value is the present value of cash flows anticipated in the future from the relevant book of insurance and investment contract policies acquired. This is calculated by performing a cash flow projection of the associated life assurance fund and book of in-force policies in order to estimate future after tax profits attributable to shareholders. The valuation is based on actuarial principles taking into account future premium income, mortality, disease and surrender probabilities, together with future costs and investment returns on the assets supporting the fund. These profits are discounted at a rate of return allowing for the risk of uncertainty of the future cash flows. The key assumptions impacting the valuation are discount rate, future investment returns and the rate at which policies discontinue.

The asset is amortised over the expected profit recognition period on a systematic basis over the anticipated lives of the related contracts.

The amortisation charge is stated net of any unwind in the discount rate used to calculate the asset.

The recoverable amount of the asset is re-calculated at each reporting date and any impairment losses recognised accordingly.

(c) Other intangible assets acquired as part of a business combination
Contractual banking and asset management customer relationships, relationships with distribution channels and similar intangible assets, acquired as a part of a business combination, are capitalised at their fair value, represented by the estimated net present value of the future cash flows from the relevant relationships acquired at the date of acquisition.

Brands and similar items acquired as part of a business combination are capitalised at their fair value based on a 'relief from royalty' valuation methodology.

Subsequent to initial recognition such acquired intangible assets are amortised on a straight-line basis over their estimated useful lives as set out below:

■ Distribution channels	10 years
■ Customer relationships	10 years
■ Brand	15 – 20 years

The estimated life is re-evaluated on a regular basis.

(d) Internally developed software
Internally developed software is amortised over its estimated useful life. Such assets are stated at cost less accumulated amortisation and impairment losses. Software is recognised in the statement of financial position if, and only if, it is probable that the relevant future economic benefits attributable to the software will flow to the Group and its cost can be measured reliably.

Costs incurred in the research phase are expensed whereas costs incurred in the development phase are capitalised subject to meeting specific criteria, set out in the relevant accounting guidance. The main criteria is that future economic benefits can be identified as a result of the development expenditure. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the relevant software, which range between two and five years.

(e) Subsequent expenditure
Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

For properties reclassified during the year from property, plant and equipment to investment properties, any revaluation gain arising is initially recognised in the income statement to the extent that impairment losses were previously recognised. Any residual excess is taken to the revaluation reserve. Revaluation deficits are recognised in the revaluation reserve to the extent of previously recognised gains and any residual deficit is accounted for in the income statement.

Investment properties that are reclassified to owner-occupied property are revalued at the date of transfer, with any difference being taken to the income statement.

A7: 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 carrying amount of the related net assets no impairment loss is recognised on the reclassifications of assets as held for sale.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

A discontinued operation is defined as a component of an entity that either has been disposed of, or is classified as held for sale and:

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

When a non-current asset (or disposal group) ceases to be classified as held for sale, the individual assets and liabilities cease to be shown separately in the statement of financial position at the end of the year in which the classification changes. Comparatives are not restated. If the line of business was previously presented as a discontinued operation and subsequently ceases to be classified as held for sale the income statement and cash flows of the comparative period are restated to show that line of business as a continuing operation.

A: Significant accounting policies continued

A8: Liquidity analysis of the statement of financial position

The Group's statement of financial position is in order of liquidity as is permitted by IAS 1 'Presentation of Financial Statements'. In order to satisfy the requirements of IAS 1, the following analysis is given to describe how statement of financial position lines are categorised between current and non-current balances, applying the principles laid out in IAS 1.

The following statement of financial position captions are generally classified as current – cash and cash equivalents, non-current assets held for sale, client indebtedness for acceptances, current tax receivable, third-party interests in the consolidation of funds, current tax payable, liabilities under acceptances and non-current liabilities held for sale. The following balances are generally classified as non-current – goodwill and other intangible assets, mandatory reserve deposits with central banks, property, plant and equipment, investment property, deferred tax assets, investments in associated undertakings and jointly controlled operations, deferred acquisition costs, deposits held with reinsurers, provisions, deferred revenue and deferred tax liabilities.

The following balances include both current and non-current portions – reinsurers' shares of life assurance and general insurance business policyholder liabilities, loans and advances, investments and securities, other assets, derivative financial assets and liabilities, life assurance and general insurance policyholder liabilities, borrowed funds, amounts owed to bank depositors and other liabilities. The split between the current and non-current portions for these assets and liabilities is given either by way of a footnote to the relevant note to the accounts or by way of a maturity analysis (in respect of major financial liability captions).

A9: Standards, amendments to standards, and interpretations adopted in the 2011 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 adoption of these standards had no impact in the Group's financial position or performance unless stated otherwise.

- IAS 24 'Related Party Disclosures' (Amendment). The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduced a partial exemption of disclosure requirements for government-related entities.
- IFRIC 19 'Extinguishing Financial Liabilities with Equity Instruments' (effective 1 July 2010) clarifies the treatment of transactions whereby equity instruments are issued in order to extinguish all or part of a financial liability.
- IFRIC 14 'Prepayments of a minimum funding requirement'. The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.
- The improvements to IFRSs issued in 2010 have been adopted.

A10: Future standards, amendments to standards, and interpretations not early-adopted in the 2011 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. The standards, amendments to standards and interpretations have not yet been endorsed by the EU unless stated otherwise, with the Group currently assessing the full impact of each.

- IFRS 9 'Financial Instruments' (effective 1 January 2013) is a new standard on financial instruments that will eventually replace IAS 39. The published standard introduces changes to the current IAS 39 rules for classification and measurement of financial assets. Under IFRS 9 there will be two measurement bases for financial assets, amortised cost and fair value. Financial assets at fair value will be recorded at fair value through the income statement with a limited opportunity to record changes in fair value of certain equity instruments through other comprehensive income. The main impact for the Group will be the reclassification of the Bermuda business' bond portfolios from 'available-for-sale' (fair value changes through other comprehensive income) to amortised cost or fair value through the income statement. Financial liabilities are excluded from the scope of the standard.
- IFRS 7 'Disclosures – Transfers of Financial Assets' (Amendments to IFRS 7) was issued in October 2010. The amendments to IFRS 7 Financial Instruments: Disclosures require enhancements to the existing disclosures where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale. These amendments are effective for annual periods beginning on or after 1 July 2011. Early application of the amendments is permitted.
- IFRS 10 'Consolidated Financial Statements' (effective 1 January 2013); IFRS 11 'Joint Arrangements' (effective 1 January 2013); IFRS 12 'Disclosures of interests in other entities' (effective 1 January 2013). These standards all relate to how the Group will account for its interests in subsidiaries, joint ventures and associates, together with new disclosures regarding these investments. The most significant impact is expected from IFRS 10 which provides a revised principle of when the Group controls another entity.
- IFRS 13 'Fair Value Measurement' (effective 1 January 2013) is a new standard providing principles on the determination of fair value.
- Amendment to IAS 12 'Deferred Tax: Recovery of Underlying Assets' (effective 1 January 2012) introduces an exception to the current measurement principles of deferred tax assets and liabilities arising from investment property measured using the fair value model in accordance with IAS 40 Investment Property.
- Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' (effective 1 July 2012) require that an entity present separately the items of OCI that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. This amendment is not expected to have an impact on the Group financial statements.
- Amendments to IAS 19 'Defined Benefit Plans' (effective 1 January 2013) require immediate recognition of actuarial gains and losses in other comprehensive income and eliminate the corridor method.

B: Segment information

B1: Basis of segmentation

The Group's results are analysed and reported on a basis consistent with the way that management and the Board of Directors considers information when making operating decisions and the basis on which resources are allocated and performance assessed by management and the Board of Directors, being in line with that reported in the previous financial year. This information is presented to the Board in local currency, however this note is presented in pounds sterling, the presentation currency of the Group. As detailed in note A2, Nordic has been reclassified as discontinued and as a result also non-core, with the comparative segment information restated accordingly, resulting in a reduction in adjusted operating profit before tax and non-controlling interests of £110 million for the year ended 31 December 2010.

There are four principal business activities from which the Group generates revenues. These are life assurance (premium income), asset management business (fee and commission income), banking (banking interest receivable) and general insurance (premium income). The revenues generated in each reported segment can be seen in the analysis of profits and losses in note B3.

The information reflects the measures of profit and loss, assets and liabilities for each operating segment as regularly provided to management and the Board of Directors. There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments. A reconciliation between the segment revenues and expenses and the Group's revenues and expenses is shown in note B2.

In line with internal reporting, assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where appropriate and where there is a reasonable basis for doing so. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices. Given the nature of the operations, there are no major customers within any of the segments.

The types of products and services from which each operating segment derives its revenues are as follows:

Core operations

Long-Term Savings
Emerging Markets – life assurance and asset management
Retail Europe – life assurance and asset management
Wealth Management – life assurance and asset management

Other core operations
Nedbank – banking and asset management
Mutual & Federal – general insurance
US Asset Management – asset management
Other – other operating segments and business activities

Discontinued and non-core operations

Bermuda – life assurance (non-core)
Nordic – life assurance, asset management and banking (discontinued and non-core)
US Life – life assurance (discontinued and non-core)

Income statement segmentation
For the IFRS income statement Nordic and US Life have been classified as discontinued operations. All other businesses including Bermuda are classified as continuing.

The profits of the Nordic, US Life and Bermuda businesses are excluded in determining adjusting operating profit in both periods, on the basis that they are either discontinued (Nordic and US Life) or non-core (Bermuda).

Statement of financial position segmentation

The segmental analysis of the statement of financial position at both 31 December 2011 and 31 December 2010 discloses Bermuda as non-core, consistent with the treatment of the business for AOP purposes.

Nordic is disclosed as discontinued in the statement of financial position consistent with the income statement classification. The agreement to dispose of Nordic announced on 15 December 2011 resulted in the assets and liabilities of the business being classified as held for sale at 31 December 2011. For the corresponding period Nordic has been reported on a line by line basis.

US Life is disclosed as discontinued at 31 December 2010, being classified as held for sale. The disposal of US Life was completed on 7 April 2011.

Adjusted operating profit is one of the key measures reported to the Group's management and Board of Directors for their consideration in the allocation of resources to and the review of performance of the segments. The Group utilises additional measures to assess the performance of each of the segments, in particular the level of net client cash flows and funds under management. Additional performance measures considered by management and the Board of Directors in assessing the performance of the segments can be found in the Market Consistent Embedded Value basis supplementary information presented on pages 244 to 285.

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.

B2: Gross earned premiums

£m

Year ended 31 December 2011	**Emerging Markets**	**Retail Europe**	**Wealth Management**	**Long-Term Savings**	**M&F**	**Bermuda**	**Total**
Life assurance – insurance contracts	**1,567**	**30**	**274**	**1,871**	**–**	**2**	**1,873**
Life assurance – investment contracts with discretionary participation features	**975**	**–**	**–**	**975**	**–**	**–**	**975**
General insurance	**–**	**–**	**–**	**–**	**736**	**–**	**736**
Gross earned premiums	**2,542**	**30**	**274**	**2,846**	**736**	**2**	**3,584**
Life assurance – other investment contracts recognised as deposits	**2,088**	**666**	**5,740**	**8,494**	**–**	**–**	**8,494**

£m

Year ended 31 December 2010	Emerging Markets	Retail Europe	Wealth Management	Long-Term Savings	M&F	Bermuda	Total Restated
Life assurance – insurance contracts	1,498	28	351	1,877	–	–	1,877
Life assurance – investment contracts with discretionary participation features	855	–	–	855	–	–	855
General insurance	–	–	–	–	728	–	728
Gross earned premiums	2,353	28	351	2,732	728	–	3,460
Life assurance – other investment contracts recognised as deposits	1,829	656	6,287	8,772	–	–	8,772

B: Segment information continued

B3: Adjusted operating profit statement – segment information year ended 31 December 2011

	Long-Term Savings			
	Emerging Markets	Retail Europe	Wealth Management	Total Long-Term Savings
Revenue				
Gross earned premiums	2,542	30	274	2,846
Outward reinsurance	(88)	(8)	(80)	(176)
Net earned premiums	2,454	22	194	2,670
Investment return (non-banking)	2,626	(214)	(2,664)	(252)
Banking interest and similar income	–	–	–	–
Banking trading, investment and similar income	–	–	–	–
Fee and commission income, and income from service activities	411	201	982	1,594
Other income	68	2	21	91
Inter-segment revenues	66	5	6	77
Total revenues	5,625	16	(1,461)	4,180
Expenses				
Claims and benefits (including change in insurance contract provisions)	(2,854)	(20)	(82)	(2,956)
Reinsurance recoveries	73	3	6	82
Net claims and benefits incurred	(2,781)	(17)	(76)	(2,874)
Change in investment contract liabilities	(925)	226	2,588	1,889
Losses on loans and advances	–	(1)	–	(1)
Finance costs (including interest and similar expenses)	–	–	–	–
Banking interest payable and similar expenses	–	–	–	–
Fee and commission expenses, and other acquisition costs	(223)	(84)	(580)	(887)
Other operating and administrative expenses	(1,076)	(93)	(311)	(1,480)
Goodwill impairment	–	–	–	–
Change in third-party interest in consolidated funds	–	–	–	–
Income tax attributable to policyholder returns	(53)	–	62	9
Inter-segment expenses	(7)	(3)	(43)	(53)
Total expenses	(5,065)	28	1,640	(3,397)
Share of associated undertakings' and joint ventures' profit after tax	10	–	–	10
Profit on disposal of subsidiaries, associated undertakings and strategic investments	–	–	–	–
Adjusted operating profit/(loss) before tax and non-controlling interests	570	44	179	793
Income tax expense	(120)	(11)	(15)	(146)
Non-controlling interests	(3)	–	–	(3)
Adjusted operating profit/(loss) after tax and non-controlling interests	447	33	164	644
Adjusting items net of tax and non-controlling interests	126	(30)	(57)	39
Profit/(loss) after tax from continuing operations	573	3	107	683
Profit from discontinued operations after tax	–	–	–	–
Profit/(loss) after tax attributable to equity holders of the parent	573	3	107	683

Of the total revenues, excluding intercompany revenues, (£1,492) million was generated in the UK (2010: £5,143 million), (£81) million in rest of Europe (2010: £1,160 million), £11,007 million in southern Africa (2010: £12,575 million), £270 million in United States (2010: £829 million) and £80 million relates to other operating segments (2010: £90 million).

* Non-core operations relates to Bermuda with the exception of £22 million and £5 million of inter-segment revenue and expenses and the profit from discontinued operations after tax, with these reflecting the results of Nordic and US Life both of which have been classified as discontinued operations as detailed in notes A2 and B1. Bermuda loss after tax for 2011 was £201 million. Further detail on the results of discontinued operations is provided in note H1.

£m

Nedbank	M&F	USAM	Other	Consolidation adjustments	Adjusted operating profit	Adjusting items (note C1)	Discontinued and non-core operations*	IFRS Income statement
–	736	–	–	–	3,582	–	2	3,584
–	(149)	–	–	–	(325)	–	–	(325)
–	587	–	–	–	3,257	–	2	3,259
–	54	–	52	30	(116)	(241)	(210)	(567)
3,669	–	–	–	–	3,669	–	–	3,669
217	–	–	–	–	217	–	–	217
1,051	34	447	–	–	3,126	(91)	–	3,035
50	–	10	–	–	151	–	20	171
27	18	1	16	(185)	(46)	–	46	–
5,014	693	458	68	(155)	10,258	(332)	(142)	9,784
–	(422)	–	–	–	(3,378)	–	47	(3,331)
–	41	–	–	–	123	–	–	123
–	(381)	–	–	–	(3,255)	–	47	(3,208)
–	–	–	–	–	1,889	–	–	1,889
(457)	–	–	–	–	(458)	–	–	(458)
–	–	–	(128)	–	(128)	70	–	(58)
(2,091)	–	–	–	–	(2,091)	(4)	–	(2,095)
(9)	(109)	(12)	–	(24)	(1,041)	104	(70)	(1,007)
(1,641)	(95)	(379)	(81)	(8)	(3,684)	(154)	(14)	(3,852)
–	–	–	–	–	–	(264)	–	(264)
–	–	–	–	2	2	–	–	2
–	–	–	–	–	9	(9)	–	–
(61)	(19)	–	(48)	185	4	–	(4)	–
(4,259)	(604)	(391)	(257)	155	(8,753)	(257)	(41)	(9,051)
–	–	–	–	–	10	–	–	10
–	–	–	–	–	–	251	–	251
755	89	67	(189)	–	1,515	(338)	(183)	994
(188)	(22)	(8)	23	–	(341)	117	(1)	(225)
(269)	(8)	–	(39)	–	(319)	19	–	(300)
298	59	59	(205)	–	855	(202)	(184)	469
16	(24)	(260)	27	–	(202)	202	–	–
314	35	(201)	(178)	–	653	–	(184)	469
–	–	–	–	–	–	–	198	198
314	35	(201)	(178)	–	653	–	14	667

B: Segment information continued

B3: Adjusted operating profit statement – segment information year ended 31 December 2010 (restated)

	Long-Term Savings			
	Emerging Markets	Retail Europe	Wealth Management	Total Long-Term Savings
Revenue				
Gross earned premiums	2,353	28	351	2,732
Outward reinsurance	(72)	(8)	(79)	(159)
Net earned premiums	2,281	20	272	2,573
Investment return (non-banking)	4,072	392	4,409	8,873
Banking interest and similar income	–	–	–	–
Banking trading, investment and similar income	–	–	–	–
Fee and commission income, and income from service activities	372	198	912	1,482
Other income	72	–	11	83
Inter-segment revenues	54	5	12	71
Total revenues	6,851	615	5,616	13,082
Expenses				
Claims and benefits (including change in insurance contract provisions)	(3,943)	(25)	(303)	(4,271)
Reinsurance recoveries	83	5	75	163
Net claims and benefits incurred	(3,860)	(20)	(228)	(4,108)
Change in investment contract liabilities	(1,261)	(382)	(4,190)	(5,833)
Losses on loans and advances	–	(1)	–	(1)
Finance costs (including interest and similar expenses)	–	–	–	–
Banking interest payable and similar expenses	–	–	–	–
Fee and commission expenses, and other acquisition costs	(219)	(75)	(500)	(794)
Other operating and administrative expenses	(941)	(84)	(390)	(1,415)
Goodwill impairment	–	–	–	–
Change in third-party interest in consolidated funds	–	–	–	–
Income tax attributable to policyholder returns	(32)	–	(69)	(101)
Inter-segment expenses	(2)	(2)	(43)	(47)
Total expenses	(6,315)	(564)	(5,420)	(12,299)
Share of associated undertakings' and joint ventures' profit after tax	3	–	1	4
Loss on disposal of subsidiaries, associated undertakings and strategic investments	–	–	–	–
Adjusted operating profit/(loss) before tax and non-controlling interests	539	51	197	787
Income tax expense	(146)	(13)	(44)	(203)
Non-controlling interests	(1)	–	–	(1)
Adjusted operating profit/(loss) after tax and non-controlling interests	392	38	153	583
Adjusting items net of tax and non-controlling interests	(1)	(25)	(140)	(166)
Profit/(loss) after tax from continuing operations	391	13	13	417
Loss from discontinued operations after tax	–	–	–	–
Profit/(loss) after tax attributable to equity holders of the parent	391	13	13	417

* Non-core operations relates to Bermuda with the exception of £18 million and £21 million of inter-segment revenue and expenses and the loss from discontinued operations after tax, with these reflecting the results of Nordic and US Life both of which have been classified as discontinued operations as detailed in notes A2 and B1. Bermuda profit after tax for 2010 was £22 million. Further detail on the results of discontinued operations is provided in note H1.

£m

Nedbank	M&F	USAM	Other	Consolidation adjustments	Adjusted operating profit	Adjusting items (note C1)	Discontinued and non-core operations*	IFRS Income statement
–	728	–	–	–	3,460	–	–	3,460
–	(140)	–	–	–	(299)	–	(1)	(300)
–	588	–	–	–	3,161	–	(1)	3,160
–	56	1	76	340	9,346	(92)	299	9,553
3,913	–	–	–	–	3,913	–	–	3,913
199	–	–	–	–	199	–	–	199
946	28	465	1	–	2,922	(99)	–	2,823
35	–	9	(1)	1	127	–	22	149
20	20	4	29	(207)	(63)	–	63	–
5,113	692	479	105	134	19,605	(191)	383	19,797
–	(436)	–	–	–	(4,707)	–	(249)	(4,956)
–	58	–	–	–	221	–	1	222
–	(378)	–	–	–	(4,486)	–	(248)	(4,734)
–	–	–	–	–	(5,833)	–	–	(5,833)
(548)	–	–	1	–	(548)	–	–	(548)
–	–	–	(128)	–	(128)	(141)	–	(269)
(2,422)	–	–	–	–	(2,422)	(19)	–	(2,441)
(3)	(109)	(23)	–	(29)	(958)	126	(85)	(917)
(1,485)	(83)	(384)	(93)	(13)	(3,473)	(144)	(26)	(3,643)
–	–	–	–	–	–	(1)	–	(1)
–	–	–		(299)	(299)	–	–	(299)
–	–	–	–	–	(101)	101	–	–
(54)	(20)	–	(77)	207	9	–	(9)	–
(4,512)	(590)	(407)	(297)	(134)	(18,239)	(78)	(368)	(18,685)
–	1	–	–	–	5	–	–	5
–	–	–	–	–	–	(22)	–	(22)
601	103	72	(192)	–	1,371	(291)	15	1,095
(128)	(24)	(13)	41	–	(327)	(68)	4	(391)
(232)	(5)	–	(41)	–	(279)	21	–	(258)
241	74	59	(192)	–	765	(338)	19	446
10	(11)	(20)	(151)	–	(338)	338	–	–
251	63	39	(343)	–	427	–	19	446
–	–	–	–	–	–	–	(728)	(728)
251	63	39	(343)	–	427	–	(709)	(282)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011 continued

B: Segment information continued

B4: Statement of financial position – segment information year ended 31 December 2011

At 31 December 2011	Notes	Emerging Markets	Retail Europe	Wealth Management	Total Long–Term Savings
					£m
Assets					
Goodwill and other intangible assets	F1	104	474	1,282	1,860
Mandatory reserve deposits with central banks		–	–	–	-
Property, plant and equipment	F2	374	3	13	390
Investment property	F3	1,666	–	–	1,666
Deferred tax assets	F8	81	22	43	146
Investments in associated undertakings and joint ventures	G5	32	–	–	32
Deferred acquisition costs	F4	113	334	830	1,277
Reinsurers' share of policyholder liabilities	E8	31	8	836	875
Loans and advances	E3	299	1	189	489
Investments and securities	E4	30,064	4,188	37,320	71,572
Current tax receivable		10	9	61	80
Client indebtedness for acceptances		–	–	–	-
Trade, other receivables and other assets	F5	711	56	254	1,021
Derivative financial instruments – assets	E6	298	–	–	298
Cash and cash equivalents		339	108	408	855
Non-current assets held for sale		–	–	1,161	1,161
Inter-segment assets		1,025	52	86	1,163
Total assets		35,147	5,255	42,483	82,885
Liabilities					
Life assurance policyholder liabilities	E8	30,270	4,201	37,958	72,429
General insurance liabilities	E8	–	–	–	-
Third-party interests in consolidated funds		–	–	–	-
Borrowed funds	E9	239	–	–	239
Provisions	F6	137	4	60	201
Deferred revenue	F7	17	219	454	690
Deferred tax liabilities	F8	185	102	87	374
Current tax payable		120	16	23	159
Trade, other payables and other liabilities	F9	1,667	77	596	2,340
Liabilities under acceptances		–	–	–	-
Amounts owed to bank depositors	E10	–	–	–	-
Derivative financial instruments – liabilities	E6	230	–	–	230
Non-current liabilities held for sale		–	–	1,120	1,120
Inter-segment liabilities		141	1	461	603
Total liabilities		33,006	4,620	40,759	78,385
Net assets		2,141	635	1,724	4,500
Equity					
Equity attributable to equity holders of the parent	F10	2,144	635	1,724	4,503
Non-controlling interests		(3)	–	–	(3)
Ordinary shares	F11(b)	(3)	–	–	(3)
Preferred securities	F11(b)	–	–	–	-
Total equity		2,141	635	1,724	4,500

£m

Nedbank	M&F	USAM	Other	Consolidation adjustments	Non-core operations – Bermuda	Discontinued operations*	Total
557	23	904	13	–	1	–	3,358
951	–	–	–	–	–	–	951
502	21	11	1	–	–	–	925
49	–	–	–	349	–	–	2,064
21	14	165	(8)	–	1	–	339
49	1	2	27	–	–	–	111
–	16	9	–	–	49	–	1,351
16	98	–	–	–	–	–	989
39,274	1	–	–	–	–	–	39,764
6,403	416	41	216	874	1,731	–	81,253
56	2	–	–	–	–	–	138
237	–	–	–	–	–	-	237
943	75	126	54	293	836	–	3,348
1,022	–	–	86	388	1	–	1,795
1,071	113	197	467	756	165	–	3,624
1	–	16	–	–	–	20,960	22,138
206	23	21	1,136	(3,155)	566	40	–
51,358	803	1,492	1,992	(495)	3,350	21,000	162,385
815	–	–	–	–	3,106	–	76,350
–	325	–	–	–	–	–	325
–	–	–	–	1,893	–	–	1,893
2,273	–	11	1,133	–	–	–	3,656
–	32	3	33	–	–	–	269
1	10	–	–	–	–	–	701
93	13	–	24	–	–	–	504
10	–	(3)	32	–	1	–	199
1,123	108	219	96	348	9	–	4,243
237	–	–	–	–	–	–	237
40,978	–	–	–	–	–	–	40,978
1,103	–	–	3	419	–	–	1,755
–	–	8	–	–	–	19,289	20,417
501	2	598	1,451	(3,155)	–	–	–
47,134	490	836	2,772	(495)	3,116	19,289	151,527
4,224	313	656	(780)	–	234	1,711	10,858
2,347	294	625	(1,226)	–	234	1,711	8,488
1,877	19	31	446	–	–	–	2,370
1,605	19	31	–	–	–	–	1,652
272	–	–	446	–	–	–	718
4,224	313	656	(780)	–	234	1,711	10,858

* Discontinued operations relates to Nordic. Further detail is provided in note H2.

The net assets of Emerging Markets are stated after eliminating investments in Group equity and debt instruments of £368 million (2010: £399 million) held in policyholder funds. These include investments in the Company's ordinary shares and subordinated liabilities and preferred securities issued by the Group's banking subsidiary Nedbank Limited. All Emerging Markets debt relates to life assurance. All other debt relates to other shareholders' net assets.

B: Segment information continued

B4: Statement of financial position – segment information year ended 31 December 2010

£m

At 31 December 2010	Notes	Emerging Markets	Retail Europe	Wealth Management	Total Long-Term Savings
Assets					
Goodwill and other intangible assets	F1	120	522	1,463	2,105
Mandatory reserve deposits with central banks		–	–	–	–
Property, plant and equipment	F2	396	3	16	415
Investment property	F3	1,679	–	–	1,679
Deferred tax assets	F8	96	27	27	150
Investments in associated undertakings and joint ventures	G5	26	–	1	27
Deferred acquisition costs	F4	139	316	855	1,310
Reinsurers' share of policyholder liabilities	E8	24	8	907	939
Loans and advances	E3	343	1	185	529
Investments and securities	E4	34,519	4,466	40,856	79,841
Current tax receivable		4	9	95	108
Client indebtedness for acceptances		–	–	–	–
Trade, other receivables and other assets	F5	854	58	274	1,186
Derivative financial instruments – assets	E6	557	–	–	557
Cash and cash equivalents		1,141	93	336	1,570
Non-current assets held for sale		–	–	6	6
Inter-segment assets		947	56	294	1,297
Total assets		40,845	5,559	45,315	91,719
Liabilities					
Life assurance policyholder liabilities	E8	35,676	4,460	41,468	81,604
General insurance liabilities	E8	–	–	–	–
Third-party interests in consolidated funds		–	–	–	–
Borrowed funds	E9	291	–	1	292
Provisions	F6	158	4	50	212
Deferred revenue	F7	22	197	498	717
Deferred tax liabilities	F8	225	124	224	573
Current tax payable		123	4	65	192
Trade, other payables and other liabilities	F9	2,246	94	544	2,884
Liabilities under acceptances		–	–	–	–
Amounts owed to bank depositors	E10	–	–	–	–
Derivative financial instruments – liabilities	E6	135	–	–	135
Non-current liabilities held for sale		–	–	–	–
Inter-segment liabilities		123	4	99	226
Total liabilities		38,999	4,887	42,949	86,835
Net assets		1,846	672	2,366	4,884
Equity					
Equity attributable to equity holders of the parent	F10	1,847	672	2,366	4,885
Non-controlling interests		(1)	–	–	(1)
Ordinary shares	F11(b)	(1)	–	–	(1)
Preferred securities	F11(b)	–	–	–	–
Total equity		1,846	672	2,366	4,884

£m

Nedbank	M&F	USAM	Other	Consolidation adjustments	Non-core operations – Bermuda	Discontinued operations*	Total
637	33	1,181	14	–	–	995	4,965
1,079	–	–	–	–	–	–	1,079
546	25	16	1	–	–	12	1,015
19	–	–	1	341	–	–	2,040
28	12	156	(8)	–	–	78	416
96	2	8	25	–	–	4	162
1	19	14	–	–	124	66	1,534
31	122	–	–	–	–	12	1,104
46,032	1	–	–	–	–	5,216	51,778
6,886	553	42	285	2,587	2,567	13,392	106,153
47	–	–	–	–	–	1	156
190	–	–	–	–	–	–	190
943	84	138	62	292	1,038	191	3,934
1,350	–	–	109	476	1	10	2,503
841	131	171	458	689	74	198	4,132
1	–	–	–	–	–	12,384	12,391
202	23	4	975	(3,480)	874	105	–
58,929	1,005	1,730	1,922	905	4,678	32,664	193,552
846	–	–	–	–	3,933	12,248	98,631
–	397	–	–	–	–	–	397
–	–	–	–	3,584	–	–	3,584
2,456	–	11	1,443	–	–	2	4,204
(4)	40	3	47	–	–	(38)	260
1	11	–	–	–	–	1	730
158	13	–	16	–	–	98	858
12	1	7	13	–	1	12	238
1,717	114	210	120	350	7	259	5,661
190	–	–	–	–	–	–	190
47,279	–	–	–	–	–	5,957	53,236
1,172	–	–	102	451	–	10	1,870
–	–	–	–	–	–	12,219	12,219
431	2	646	2,017	(3,480)	–	158	–
54,258	578	877	3,758	905	3,941	30,926	182,078
4,671	427	853	(1,836)	–	737	1,738	11,474
2,643	409	821	(2,282)	–	737	1,738	8,951
2,028	18	32	446	–	–	–	2,523
1,714	18	32	–	–	–	–	1,763
314	–	–	446	–	–	–	760
4,671	427	853	(1,836)	–	737	1,738	11,474

* Discontinued operations relates to Nordic with the exception of non-current assets and liabilities held for sale which are in respect of US Life. Further detail is provided in note H2.

C: Other key performance information

C1: Operating profit adjusting items

(a) Summary of adjusting items

In determining the adjusted operating profit of the Group for core operations certain adjustments are made to profit before tax to reflect the directors' view of the underlying long-term performance of the Group. The following table shows an analysis of those adjustments from adjusted operating profit to profit before and after tax.

£m

Year ended 31 December 2011	Notes	**Emerging Markets**	**Retail Europe**	**Wealth Management**	**Total Long-Term Savings**
Income/(expense)					
Goodwill impairment and impact of acquisition accounting	C1(b)	**(2)**	**(40)**	**(87)**	**(129)**
Profit on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	**249**	**–**	**–**	**249**
Short-term fluctuations in investment return	C1(d)	**(98)**	**(1)**	**(13)**	**(112)**
Investment return adjustment for Group equity and debt instruments held in life funds	C1(e)	**(71)**	**–**	**–**	**(71)**
Dividends declared to holders of perpetual preferred callable securities	C1(f)	**–**	**–**	**–**	**–**
US Asset Management equity plans and non-controlling interests	C1(g)	**–**	**–**	**–**	**–**
Credit-related fair value gains/(losses) on Group debt instruments	C1(h)	**–**	**–**	**–**	**–**
Total adjusting items		**78**	**(41)**	**(100)**	**(63)**
Tax on adjusting items	D1(d)	**43**	**11**	**43**	**97**
Non-controlling interest in adjusting items	F11(a)(iii)	**5**	**–**	**–**	**5**
Total adjusting items after tax and non-controlling interests		**126**	**(30)**	**(57)**	**39**

£m

Year ended 31 December 2010*	Notes	Emerging Markets	Retail Europe	Wealth Management	Total Long-Term Savings
Income/(expense)					
Goodwill impairment and impact of acquisition accounting	C1(b)	(2)	(41)	(74)	(117)
Loss on disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	–	–	–	–
Short-term fluctuations in investment return	C1(d)	1	1	(71)	(69)
Investment return adjustment for Group equity and debt instruments held in life funds	C1(e)	(10)	–	–	(10)
Dividends declared to holders of perpetual preferred callable securities	C1(f)	–	–	–	–
US Asset Management equity plans and non-controlling interests	C1(g)	–	–	–	–
Credit-related fair value losses on Group debt instruments	C1(h)	–	–	–	–
Total adjusting items		(11)	(40)	(145)	(196)
Tax on adjusting items	D1(d)	10	15	5	30
Non-controlling interest in adjusting items	F11(a)(iii)	–	–	–	–
Total adjusting items after tax and non-controlling interests		(1)	(25)	(140)	(166)

* The year ended 31 December 2010 has been restated to reflect Nordic as non-core and discontinued.

£m

Year ended 31 December 2011	Notes	**Long-Term Savings**	**Nedbank**	**M&F**	**USAM**	**Other**	**Total**
Income/(expense)							
Goodwill impairment and impact of acquisition accounting	C1(b)	**(129)**	**–**	**–**	**(272)**	**–**	**(401)**
Profit on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	**249**	**–**	**–**	**2**	**–**	**251**
Short-term fluctuations in investment return	C1(d)	**(112)**	**–**	**(28)**	**–**	**(31)**	**(171)**
Investment return adjustment for Group equity and debt instruments held in life funds	C1(e)	**(71)**	**–**	**–**	**–**	**–**	**(71)**
Dividends declared to holders of perpetual preferred callable securities	C1(f)	**–**	**–**	**–**	**–**	**44**	**44**
US Asset Management equity plans and non-controlling interests	C1(g)	**–**	**–**	**–**	**(4)**	**–**	**(4)**
Credit-related fair value gains/(losses) on Group debt instruments	C1(h)	**–**	**(4)**	**–**	**–**	**27**	**23**
Total adjusting items		**(63)**	**(4)**	**(28)**	**(274)**	**40**	**(329)**
Tax on adjusting items	D1(d)	**97**	**1**	**3**	**20**	**(13)**	**108**
Non-controlling interest in adjusting items	F11(a)(iii)	**5**	**19**	**1**	**(6)**	**–**	**19**
Total adjusting items after tax and non-controlling interests		**39**	**16**	**(24)**	**(260)**	**27**	**(202)**

£m

Year ended 31 December 2010*	Notes	Long-Term Savings	Nedbank	M&F	USAM	Other	Total
Income/(expense)							
Goodwill impairment and impact of acquisition accounting	C1(b)	(117)	(6)	–	(2)	–	(125)
Loss on disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	–	(1)	–	(21)	–	(22)
Short-term fluctuations in investment return	C1(d)	(69)	–	(7)	–	(6)	(82)
Investment return adjustment for Group equity and debt instruments held in life funds	C1(e)	(10)	–	–	–	–	(10)
Dividends declared to holders of perpetual preferred callable securities	C1(f)	–	–	–	–	44	44
US Asset Management equity plans and non-controlling interests	C1(g)	–	–	–	6	–	6
Credit-related fair value losses on Group debt instruments	C1(h)	–	(20)	–	–	(183)	(203)
Total adjusting items		(196)	(27)	(7)	(17)	(145)	(392)
Tax on adjusting items	D1(d)	30	7	(4)	6	(6)	33
Non-controlling interest in adjusting items	F11(a)(iii)	–	30	–	(9)	–	21
Total adjusting items after tax and non-controlling interests		(166)	10	(11)	(20)	(151)	(338)

* The year ended 31 December 2010 has been restated to reflect Nordic as non-core and discontinued.

C: Other key performance information continued

C1: Operating profit adjusting items continued

(b) Goodwill impairment and impact of acquisition accounting

Acquisition date deferred acquisition costs and deferred revenues are not recognised. These are reversed in the acquisition statement of financial position and replaced by goodwill, other intangible assets and the value of the acquired present value of in-force business ('acquired PVIF'). In determining its adjusted operating profit the Group recognises deferred revenue and acquisition costs in relation to policies sold by acquired businesses pre-acquisition, and excludes the impairment of goodwill and the amortisation of acquired other intangibles and acquired PVIF and the movements in certain acquisition date provisions.

Goodwill impairment and acquisition accounting adjustments to adjusted operating profit are summarised below:

£m

Year ended 31 December 2011	**Emerging Markets**	**Retail Europe**	**Wealth Management**	**Nedbank**	**USAM**	**Total**
Amortisation of acquired PVIF	**–**	**(20)**	**(70)**	**–**	**–**	**(90)**
Amortisation of acquired deferred costs and revenue	**–**	**(7)**	**20**	**–**	**–**	**13**
Amortisation of other acquired intangible assets	**(2)**	**(13)**	**(37)**	**–**	**(8)**	**(60)**
Change in acquisition date provisions	**–**	**–**	**–**	**–**	**–**	**–**
Goodwill impairment	**–**	**–**	**–**	**–**	**(264)**	**(264)**
	(2)	**(40)**	**(87)**	**–**	**(272)**	**(401)**

£m

Year ended 31 December 2010*	Emerging Markets	Retail Europe	Wealth Management	Nedbank	USAM	Total
Amortisation of acquired PVIF	–	(21)	(77)	–	–	(98)
Amortisation of acquired deferred costs and revenue	–	(7)	34	–	–	27
Amortisation of other acquired intangible assets	(1)	(13)	(35)	(6)	(2)	(57)
Change in acquisition date provisions	–	–	4	–	–	4
Goodwill impairment	(1)	–	–	–	–	(1)
	(2)	(41)	(74)	(6)	(2)	(125)

* The year ended 31 December 2010 has been restated to reflect Nordic as discontinued and non-core.

(c) Profit/(loss) on acquisition/disposal of subsidiaries, associated undertakings and strategic investments

Profit/(loss) on the acquisition/disposal of subsidiaries, associated undertakings and strategic investments is analysed below:

£m

	Year ended 31 December 2011	Year ended 31 December 2010
Emerging Markets	**249**	–
Long-Term Savings	**249**	–
Nedbank	**–**	(1)
USAM	**2**	(21)
Profit/(loss) on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	**251**	(22)

In preparing the consolidated financial statements for the year ended 31 December 2010 the Emerging Markets segment included the South African and Namibian businesses but excluded all other African businesses. This was consistent with prior periods. Following a period of greater political and currency stability in Zimbabwe and an expectation that the Group will be able to extract benefits from its Zimbabwean business it has been consolidated for the first time together with operations in Kenya, Malawi, Swaziland and Nigeria. Further detail has been provided in note A2.

On 30 December 2011 USAM disposed of Lincluden Management Ltd, a subsidiary, at a profit of £2 million. On 27 August 2010 USAM disposed of Thomson, Horstmann & Bryant, a subsidiary, for a loss of £21 million.

(d) Short-term fluctuations in investment return

Profit before tax includes actual investment returns earned on the shareholder assets of the Group's life assurance and general insurance businesses. Adjusted operating profit is stated after recalculating shareholder asset investment returns based on a long-term investment return rate. The difference between the actual and the long-term investment returns are short-term fluctuations in investment return.

Long-term rates of return are based on achieved rates of return appropriate to the underlying asset base, adjusted for current inflation expectations, default assumptions, costs of investment management and consensus economic investment forecasts. The long-term rates of return are reviewed frequently, usually annually, for appropriateness. These rates of return have been selected with a view to ensuring that returns credited to adjusted operating profit are consistent with the actual returns expected to be earned over the long term.

For Emerging Markets, the return is applied to an average value of investible shareholders' assets, adjusted for net fund flows. For Retail Europe and Wealth Management, the return is applied to average investible assets. For M&F general insurance business, the return is an average value of investible assets supporting shareholders' funds and insurance liabilities, adjusted for net fund flows.

Long-term investment rates	**Year ended 31 December 2011**	Year ended 31 December 2010
		%
Emerging Markets	**9.0**	9.4
Retail Europe	**2.1**	2.5
Wealth Management	**2.0**	2.0
M&F	**9.0**	9.4

Analysis of short-term fluctuations in investment return

Year ended 31 December 2011	**Emerging Markets**	**Retail Europe**	**Wealth Management***	**Total Long-Term Savings**	**M&F**	**Other**	**Total**
							£m
Actual shareholder investment return	**14**	**1**	**65**	**80**	**26**	**6**	**112**
Less: Long-term investment return	**112**	**2**	**78**	**192**	**54**	**37**	**283**
Short-term fluctuations in investment return	**(98)**	**(1)**	**(13)**	**(112)**	**(28)**	**(31)**	**(171)**

Year ended 31 December 2010**	Emerging Markets	Retail Europe	Wealth Management*	Total Long-Term Savings	M&F	Other	Total
							£m
Actual shareholder investment return	109	2	61	172	49	25	246
Less: Long-term investment return	108	1	132	241	56	31	328
Short-term fluctuations in investment return	1	1	(71)	(69)	(7)	(6)	(82)

* Wealth Management long-term investment return includes £65 million (2010: £121 million) in respect of income tax attributable to policyholder returns.
** The year ended 31 December 2010 has been restated to reflect Nordic as discontinued and non-core.

(e) Investment return adjustment for Group equity and debt instruments held in life funds

Adjusted operating profit includes investment returns on policyholder investments in Group equity and debt instruments held by the Group's life funds. These include investments in the Company's ordinary shares, and the subordinated liabilities and ordinary securities of Nedbank. These investment returns are eliminated within the consolidated income statement in arriving at profit before tax, but are included in adjusted operating profit. In 2011 the investment return adjustment increased adjusted operating profit by £71 million (2010: increase of £10 million).

(f) Dividends declared to holders of perpetual preferred callable securities

Dividends declared to the holders of the Group's perpetual preferred callable securities were £44 million in the year ended 31 December 2011 (2010: £44 million). These are recognised in finance costs on an accruals basis for the purpose of determining adjusted operating profit. In the IFRS financial statements this cost is recognised in equity.

(g) US Asset Management equity plans and non-controlling interests

US Asset Management has a number of long-term incentive arrangements with senior employees in its asset management affiliates.

In accordance with IFRS requirements the cost of these schemes is disclosed as being attributable to non-controlling interests. However, this is treated as a compensation expense in determining adjusted operating profit. The loss recognised in 2011 was £6 million (2010: loss £9 million).

C: Other key performance information continued

C1: Operating profit adjusting items continued

The Group has issued put options to senior employees as part of some of its US affiliate incentive schemes. The impact of revaluing these instruments is recognised in accordance with IFRS, but excluded from adjusted operating profit. At 31 December 2011 these instruments were revalued, the impact of which was a profit of £10 million (2010: profit £3 million).

(h) Credit-related fair value gains and losses on Group debt instruments

The widening of credit spread of the Group's debt instruments in the market price has resulted in gains of £27 million (2010: losses due to narrowing of £183 million) on Other operating segments and losses of £4 million (2010: losses of £20 million) in Nedbank being recorded in the Group's income statement for those instruments that are recorded at fair value.

In the directors' view, such movements are not reflective of the underlying performance of the Group and will reverse over time. They have therefore been excluded from adjusted operating profit.

C2: Foreign currencies

The principal exchange rates used to translate the operating results, assets and liabilities of key foreign business segments to pounds sterling are:

	Year ended 31 December 2011		Year ended 31 December 2010	
	Income statement (average rate)	**Statement of financial position (closing rate)**	Income statement (average rate)	Statement of financial position (closing rate)
Rand	**11.6445**	**12.5643**	11.3095	10.2796
US dollars	**1.6037**	**1.5553**	1.5459	1.5530
Swedish kronor	**10.4144**	**10.6801**	11.1364	10.4227
Euro	**1.1519**	**1.1970**	1.1650	1.1614

C3: Earnings and earnings per share

(a) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit for the financial year attributable to ordinary equity shareholders by the weighted average number of ordinary shares in issue during the year excluding own shares held in policyholder funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

		£m
	Year ended 31 December 2011	Year ended 31 December 2010 Restated
Profit for the financial year attributable to equity holders of the parent from continuing operations	**469**	446
Profit/(loss) for the financial year attributable to equity holders of the parent from discontinued operations	**198**	(728)
Profit/(loss) for the financial year attributable to equity holders of the parent	**667**	(282)
Dividends declared to holders of perpetual preferred callable securities	**(32)**	(32)
Profit/(loss) attributable to ordinary equity holders	**635**	(314)

Total dividends declared to holders of perpetual preferred callable securities of £44 million in 2011 (2010: £44 million) are stated net of tax credits of £12 million (2010: £12 million).

	Year ended 31 December 2011	Year ended 31 December 2010
		Millions
Weighted average number of ordinary shares in issue	**5,502**	5,422
Shares held in charitable foundations	**(6)**	(7)
Shares held in ESOP trusts	**(61)**	(56)
Adjusted weighted average number of ordinary shares	**5,435**	5,359
Shares held in life funds	**(201)**	(205)
Shares held in Black Economic Empowerment trusts	**(299)**	(295)
Weighted average number of ordinary shares	**4,935**	4,859
Basic earnings per ordinary share (pence)	**12.9**	(6.5)

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 2011	Year ended 31 December 2010
Profit/(loss) attributable to ordinary equity holders (£m)	**635**	(314)
Dilution effect on profit/(loss) relating to share options issued by subsidiaries (£m)	**(8)**	(8)
Diluted profit/(loss) attributable to ordinary equity holders (£m)	**627**	(322)
Weighted average number of ordinary shares (millions)	**4,935**	4,859
Adjustments for share options held by ESOP trusts (millions)	**133**	137
Adjustments for shares held in Black Economic Empowerment trusts (millions)	**299**	295
	5,367	5,291
Diluted earnings per ordinary share (pence)	**11.7**	(6.1)

(b) Adjusted operating earnings per ordinary share

The reconciliation of profit/(loss) for the financial year to adjusted operating profit after tax attributable to ordinary equity holders is as follows:

	Year ended 31 December 2011	Year ended 31 December 2010 Restated
		£m
Profit/(loss) for the financial year attributable to equity holders of the parent	**667**	(282)
Adjusting items	**329**	392
Tax on adjusting items	**(108)**	(33)
Non-core operations	**184**	(19)
(Profit)/loss from discontinued operations	**(198)**	728
Non-controlling interest on adjusting items	**(19)**	(21)
Adjusted operating profit after tax attributable to ordinary equity holders	**855**	765
Adjusted weighted average number of ordinary shares (millions)	**5,435**	5,359
Adjusted operating earnings per ordinary share (pence)	**15.7**	14.3

(c) Headline earnings per share

In accordance with the JSE Limited (JSE) listing requirements, the Group is required to calculate a 'headline earnings per share' (HEPS), determined by reference to the South African Institute of Chartered Accountants' circular 3/2009 'Headline Earnings'. The table below sets out a reconciliation of basic earnings per ordinary share and HEPS in accordance with that circular. Disclosure of HEPS is not a requirement of IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011 continued

C: Other key performance information continued

C3: Earning and earnings per share continued

£m

	Year ended 31 December 2011		Year ended 31 December 2010	
	Gross	**Net**	Gross	Net
Profit/(loss) for the financial year attributable to equity holders of the parent	**667**	**667**	(282)	(282)
Dividends declared to holders of perpetual preferred callable securities	**(32)**	**(32)**	(32)	(32)
Profit/(loss) attributable to ordinary equity holders	**635**	**635**	(314)	(314)
Adjustments:				
Impairments of goodwill and intangible assets	**264**	**264**	20	20
Impairment of discontinued operations	**–**	**–**	827	827
(Profit)/loss on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	**(222)**	**(228)**	22	17
Realised gains (including impairments) on available-for-sale financial assets	**(144)**	**(144)**	(12)	(12)
Headline earnings	**533**	**527**	543	538
Weighted average number of ordinary shares	**4,935**	**4,935**	4,859	4,859
Diluted weighted average number of ordinary shares	**5,367**	**5,367**	5,291	5,291
Headline earnings per share (pence)	**10.8**	**10.7**	11.2	11.1
Diluted headline earnings per share (pence)	**9.8**	**9.7**	10.1	10.0

C4: Dividends

Dividends paid were as follows:

£m

	Note	Year ended 31 December 2011	Year ended 31 December 2010
2009 Final dividend paid – 1.5p per 10p share		**–**	77
2010 Interim dividend paid – 1.1p per 10p share		**–**	54
2010 Final dividend paid – 2.9p per 10p share		**145**	–
2011 Interim dividend paid – 1.5p per 10p share		**76**	–
Dividends to ordinary equity holders		**221**	131
Dividends declared to holders of perpetual preferred callable securities	F10(b)	**44**	44
Dividend payments for the year		**265**	175

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 2011, £22 million and £22 million respectively were declared and paid to holders of perpetual preferred callable securities (March 2010: £22 million and November 2010: £22 million).

A final dividend of 3.5 pence per 10p share has been recommended by the directors. Subject to shareholders' approval, the dividend will be paid on 7 June 2012 to shareholders on the register at the close of business on 20 April 2012. The dividend will absorb an estimated £175 million of shareholders' funds. The Company is not planning to offer a scrip dividend alternative.

In addition the Company announced on 3 February 2012 that as part of the proposed sale of the Nordic business unit a special dividend of 18.0 pence per 10p share has been recommended by the directors. The special dividend will be paid on 7 June 2012 to shareholders on the register at the close of business on 20 April 2012 subject to both shareholder approval of the Nordic disposal and the related share consolidation and completion of the Nordic disposal. The special dividend will absorb an estimated £1.0 billion of shareholders' funds. Further details of the disposal of the Nordic business unit have been provided in notes A2, H1 and H2.

D: Other income statement notes

D1: Income tax expense

(a) Analysis of total income tax expense

	Year ended 31 December 2011	Year ended 31 December 2010 Restated
		£m
Current tax		
United Kingdom tax	**22**	23
Overseas tax		
South Africa	**390**	346
United States	**(2)**	(4)
Europe	**20**	10
Secondary Tax on Companies (STC)	**14**	4
Prior year adjustments	**(7)**	(1)
Total current tax	**437**	378
Deferred tax		
Origination and reversal of temporary differences	**(204)**	10
Changes in tax rates/bases	**(8)**	(4)
Recognition of deferred tax assets	**–**	7
Total deferred tax	**(212)**	13
Total income tax expense	**225**	391

(b) Reconciliation of total income tax expense

	Year ended 31 December 2011	Year ended 31 December 2010 Restated
		£m
Profit before tax	**994**	1,095
Tax at standard rate of 26.5% (2010: 28%)	**263**	307
Different tax rate or basis on overseas operations	**57**	(19)
Untaxed and low taxed income	**(166)**	(146)
Disallowable expenses	**93**	90
Net movement on deferred tax assets not recognised	**5**	85
Effect on deferred tax of changes in tax rates	**(8)**	(7)
STC	**19**	(3)
Income tax attributable to policyholder returns	**(28)**	96
Other	**(10)**	(12)
Total income tax expense	**225**	391

(c) Income tax relating to components of other comprehensive income

	Year ended 31 December 2011	Year ended 31 December 2010 Restated
		£m
Preferred perpetual callable securities	**(12)**	(12)
Other	**–**	(1)
Income tax credit – continuing operations	**(12)**	(13)
Fair value gains	**2**	181
Shadow accounting	**(4)**	(114)
Income tax (credit)/expense – discontinued operations	**(2)**	67
Income tax (credit)/expense relating to components of other comprehensive income	**(14)**	54

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011 continued

D: Other income statement notes continued

D1: Income tax expense continued

(d) Income tax on adjusted operating profit

£m

	Year ended 31 December 2011	Year ended 31 December 2010 Restated
Income tax expense	**225**	391
Tax on adjusting items		
Impact of acquisition accounting	**35**	31
Profit on disposal of subsidiaries, associated undertakings and strategic investments	**6**	5
Short-term fluctuations in investment return	**75**	4
Income tax attributable to policyholders returns	**9**	(101)
Tax on dividends declared to holders of perpetual preferred callable securities recognised in equity	**(12)**	(12)
Fair value gains and losses on Group debt instruments	**2**	5
US Asset Management equity plans	**2**	–
Tax on non-core operations	**(1)**	4
Income tax on adjusted operating profit	**341**	327

D2: Investment return (non-banking)

£m

	Year ended 31 December 2011	Year ended 31 December 2010 Restated
Interest and similar income		
Loans and advances	**8**	47
Investments and securities	**1,151**	1,218
Government and government-guaranteed securities	**348**	368
Other debt securities, preference shares and debentures	**412**	378
Pooled investments	**136**	271
Short-term funds and securities treated as investments	**164**	184
Other	**91**	17
Cash and cash equivalents	**94**	100
Total interest and similar income	**1,253**	1,365
Dividend income – investments and securities	**431**	327
Equity securities	**339**	301
Pooled investments	**92**	26
Fair value gains and losses recognised in income	**(2,352)**	7,713
Investments and securities	**(2,105)**	7,453
Derivatives	**10**	(87)
Other	**(257)**	347
Rental income from investment property	**180**	166
Investment property (losses)/gains on revaluation	**(78)**	30
Foreign currency losses	**(1)**	(48)
Total investment return recognised in income	**(567)**	9,553

	Year ended 31 December 2011	Year ended 31 December 2010 Restated
		£m
Total interest income for assets not at fair value through income statement	**36**	97

The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:		
Held-for-trading (including derivatives)	**25**	(87)
Designated at fair value through income statement	**(2,378)**	7,800
Available-for-sale financial assets	**1**	–
	(2,352)	7,713

Fair value gains/(losses) on available-for-sale financial assets reflect the amount previously recognised as unrealised within the available-for-sale reserve in equity that has been recycled to the income statement on disposal or impairment of the particular assets.

Fair value gains and losses on available-for-sale investments and securities for the year of £1 million (2010: £nil) relate to debt securities held by the Group's Bermuda businesses.

D3: Banking interest and similar income

	Year ended 31 December 2011	Year ended 31 December 2010 Restated
		£m
Loans and advances	**3,300**	3,589
Mortgage loans	**1,577**	1,736
Finance lease and instalment debtors	**608**	646
Credit cards	**100**	98
Bills and acceptances	**1**	2
Overdrafts	**105**	118
Term loans and other	**909**	989
Investments and securities	**369**	324
Government and government-guaranteed securities	**264**	259
Other debt securities, preference shares and debentures	**105**	65
Total interest and similar income	**3,669**	3,913
Total interest income for assets not at fair value through income statement	**3,154**	3,417
Total interest income on impaired financial assets	**121**	151

D: Other income statement notes continued

D4: Banking trading, investment and similar income

	£m	
	Year ended 31 December 2011	Year ended 31 December 2010 Restated
Dividend income – investments and securities	**37**	22
Equity securities	**37**	22
Rental income from investment property	**4**	4
Exchange and other non-interest income	**(10)**	(7)
Derivative income	**103**	65
Exchange	**1**	–
Securities dealing	**(113)**	(68)
Fair value losses	**(1)**	(4)
Net trading income	**186**	180
Foreign exchange	**94**	92
Debt securities	**55**	63
Equities	**34**	24
Other	**3**	1
Total banking trading, investment and similar income	**217**	199

The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:		
Held-for-trading (including derivatives)	**(41)**	(97)
Designated at fair value through income statement	**40**	93
	(1)	(4)
Realised fair value gains included in the above	**(1)**	(4)

D5: Fee and commission income, and income from service activities

					£m
Year ended 31 December 2011	**Long-term business**	**Asset management**	**Banking**	**General insurance**	**Total**
Fee and commission income	**1,003**	**1,048**	**975**	**34**	**3,060**
Transaction and performance fees	**–**	**20**	**–**	**–**	**20**
Change in deferred revenue	**(45)**	**(1)**	**1**	**–**	**(45)**
	958	**1,067**	**976**	**34**	**3,035**

					£m
Year ended 31 December 2010	Long-term business	Asset management	Banking	General insurance	Total Restated
Fee and commission income	979	1,043	832	28	2,882
Transaction and performance fees	–	22	–	–	22
Change in deferred revenue	(73)	(9)	1	–	(81)
	906	1,056	833	28	2,823

The amounts shown above for asset management relate to fees earned on trust and fiduciary activities where the Group holds or invests assets on behalf of its customers.

D6: Finance costs

	Note	Year ended 31 December 2011	Year ended 31 December 2010
			£m
Interest payable on borrowed funds		**87**	79
Senior debt and term loans		**37**	44
Subordinated debt		**65**	68
Other		**(15)**	(33)
Fair value gains and losses on borrowed funds		**(32)**	189
Borrowed funds		**11**	166
Derivative instruments		**(43)**	23
Foreign currency gains and losses on borrowed funds		**3**	2
Reserve movements relating to debt and derivative instruments		**–**	(1)
Total finance costs excluding banking activities		**58**	269
Finance costs from banking activities	D7	**209**	202
Total interest expense included above for liabilities not at fair value through income statement		**23**	25
The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:			
Held-for-trading (including derivatives)		**(43)**	23
Designated at fair value through income statement		**11**	166
		(32)	189

D7: Banking interest payable and similar expense

	Year ended 31 December 2011	Year ended 31 December 2010 Restated
		£m
Amounts owed to bank depositors	**1,953**	2,235
Deposits and loan accounts	**1,106**	1,234
Current and savings accounts	**20**	44
Negotiable certificates of deposit	**614**	736
Banking non-interest credit spreads	**4**	19
Long-term debt instruments	**209**	202
Other liabilities	**142**	206
Total interest payable and similar expenses	**2,095**	2,441
Total interest expense included above for liabilities not at fair value through income statement	**1,686**	2,063

D8: Fee and commission expenses, and other acquisition costs

	Long-term business		Asset management		General insurance		Total	£m
Year ended 31 December	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010 Restated
Fee and commission expenses	**591**	596	**243**	173	**110**	109	**944**	878
Changes in deferred acquisition costs	**8**	(20)	**(4)**	(4)	**(1)**	–	**3**	(24)
Other acquisition costs	**60**	56	**–**	7	**–**	–	**60**	63
	659	632	**239**	176	**109**	109	**1,007**	917

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011 continued

D: Other income statement notes continued

D9: Other operating and administrative expenses

(a) Other operating and administrative expenses include:

	Note	Year ended 31 December 2011 £m	Year ended 31 December 2010 Restated £m
Staff costs	D9(b)	**1,964**	1,808
Depreciation	F2	**104**	100
Software costs		**11**	11
Operating lease rentals – banking		**65**	63
Operating lease rentals – non-banking		**29**	31
Amortisation of PVIF and other acquired intangibles		**211**	216
Impairment of goodwill and other intangible assets		**264**	20

Included within the gain from discontinued operations is an additional amortisation of intangibles charge of £74 million (2010: £150 million)

(b) Staff costs

	Note	Year ended 31 December 2011 £m	Year ended 31 December 2010 Restated £m
Staff costs			
Wages and salaries		**1,259**	1,191
Social security costs		**33**	34
Retirement obligations			
Defined contribution plans		**101**	96
Defined benefit plans		**(3)**	(3)
Other retirement benefits		**10**	12
Bonus and incentive remuneration		**359**	339
Share-based payments			
Cash settled	G2(e)	**37**	7
Equity settled	G2(e)	**24**	13
Other		**144**	119
		1,964	1,808

	Number
The average number of persons employed by the Group during 2011 was:	
Long-Term Savings	22,851
Nedbank	28,494
M&F	2,390
USAM	1,564
Other	210
Non-core operations	40
	55,549
Discontinued operations	1,881
	57,430

(c) Fees to Group's auditors

Included in other operating expenses and loss from discontinued operations are fees paid to the Group's auditors. These can be categorised as follows:

		£m
	Year ended 31 December 2011	Year ended 31 December 2010
Fees for audit services		
Group	**1.4**	1.5
Subsidiaries	**12.1**	12.3
Pension schemes	**0.2**	0.3
Total audit fees	**13.7**	14.1
Fees for non-audit services		
Audit related assurance	**0.7**	1.1
Taxation compliance	**1.4**	1.6
Taxation advisory	**0.4**	0.6
Corporate finance transactions	**0.2**	0.4
Other non-audit services	**0.7**	2.3
Total non-audit services	**3.4**	6.0
Total Group auditors' remuneration	**17.1**	20.1

In addition to the above, fees of £4.4 million (2010: £4.3 million) were payable to other auditors in respect of joint audit arrangements of Nedbank, the Group's banking subsidiary in South Africa. Of the fees for audit services to subsidiaries, £nil million (2010: £1.1 million) is in respect of discontinued US Life operations and £0.6 million (2010: £0.8 million) is in respect of the discontinued Nordic business unit.

(d) Operating lease payments

		£m
Payments under operating leases recognised as an expense in the year	**Year ended 31 December 2011**	Year ended 31 December 2010
Banking	**65**	63
Non-banking	**12**	33
	77	96

Operating lease payments principally represent rentals payable by the Group for the rental of buildings and equipment.

E: Financial assets and liabilities

E1: Group statement of financial position

The Group is exposed to financial risk through its financial assets (investments and loans), financial liabilities (investment contracts, customer deposits and borrowings), reinsurance assets and insurance liabilities. The key focus of financial risk management for the Group is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance and banking operations. The most important components of financial risk are credit risk, market risk (arising from changes in equity, and bond prices, interest and foreign exchange rates), and liquidity risk. Market risk arises from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and/or conditions.

(a) Categories of financial instruments

The analysis of assets and liabilities into their categories as defined in IAS 39 'Financial Instruments: Recognition and Measurement' is set out in the following table. For completeness, assets and liabilities of a non-financial nature, or financial assets and liabilities that are specifically excluded from the scope of IAS 39, are reflected in the non-financial assets and liabilities category.

£m

		Fair value through income statement						
At 31 December 2011	**Total**	**Held-for-trading**	**Designated**	**Available-for-sale financial assets**	**Held-to-maturity investments**	**Loans and receivables**	**Financial liabilities amortised cost**	**Non-financial assets and liabilities**
Assets								
Mandatory reserve deposits with central banks	**951**	**–**	**–**	**–**	**–**	**951**	**–**	**–**
Reinsurers' share of policyholder liabilities	**989**	**–**	**784**	**–**	**–**	**21**	**–**	**184**
Loans and advances	**39,764**	**1,586**	**3,970**	**–**	**–**	**34,208**	**–**	**–**
Investments and securities	**81,253**	**1,155**	**77,789**	**988**	**677**	**644**	**–**	**–**
Other financial assets	**3,348**	**530**	**828**	**–**	**–**	**1,591**	**–**	**399**
Derivative financial instruments – assets	**1,795**	**1,795**	**–**	**–**	**–**	**–**	**–**	**–**
Cash and cash equivalents	**3,624**	**–**	**–**	**–**	**–**	**3,624**	**–**	**–**
Total financial assets	**131,724**	**5,066**	**83,371**	**988**	**677**	**41,039**	**–**	**583**
Non-financial assets	**30,661**	**–**	**–**	**–**	**–**	**–**	**–**	**30,661**
	162,385	**5,066**	**83,371**	**988**	**677**	**41,039**	**–**	**31,244**
Liabilities								
Life assurance policyholder liabilities	**76,350**	**–**	**55,333**	**–**	**28**	**176**	**–**	**20,813**
Third-party interest in consolidation of funds	**1,893**	**–**	**1,893**	**–**	**–**	**–**	**–**	**–**
Borrowed funds	**3,656**	**–**	**1,071**	**–**	**–**	**–**	**2,585**	**–**
Other financial liabilities	**4,243**	**547**	**349**	**–**	**–**	**–**	**2,434**	**913**
Amounts owed to bank depositors	**40,978**	**3,068**	**6,870**	**–**	**–**	**–**	**31,040**	**–**
Derivative financial instruments – liabilities	**1,755**	**1,755**	**–**	**–**	**–**	**–**	**–**	**–**
Total financial liabilities	**128,875**	**5,370**	**65,516**	**–**	**28**	**176**	**36,059**	**21,726**
Non-financial liabilities	**22,652**	**–**	**–**	**–**	**–**	**–**	**–**	**22,652**
	151,527	**5,370**	**65,516**	**–**	**28**	**176**	**36,059**	**44,378**

At 31 December 2010	Total	Fair value through income statement: Held-for-trading	Fair value through income statement: Designated	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	Financial liabilities amortised cost	Non-financial assets and liabilities
								£m
Assets								
Mandatory reserve deposits with central banks	1,079	–	–	–	–	1,079	–	–
Reinsurers' share of policyholder liabilities	1,104	–	816	–	–	38	–	250
Loans and advances	51,778	1,914	4,223	–	–	45,641	–	–
Investments and securities	106,153	1,370	100,898	2,459	1,070	356	–	–
Other financial assets	3,934	507	1,064	–	–	2,044	–	319
Derivative financial instruments – assets	2,503	2,503	–	–	–	–	–	–
Cash and cash equivalents	4,132	–	–	–	–	4,132	–	–
Total financial assets	170,683	6,294	107,001	2,459	1,070	53,290	–	569
Non-financial assets	22,869	–	–	–	–	–	–	22,869
	193,552	6,294	107,001	2,459	1,070	53,290	–	23,438
Liabilities								
Life assurance policyholder liabilities	98,631	–	72,200	–	26	160	–	26,245
Third-party interests in consolidation of funds	3,584	–	3,584	–	–	–	–	–
Borrowed funds	4,204	–	1,579	–	–	–	2,625	–
Other financial liabilities	5,661	1,155	576	–	–	–	2,960	970
Amounts owed to bank depositors	53,236	3,484	8,703	–	–	–	41,049	–
Derivative financial instruments – liabilities	1,870	1,870	–	–	–	–	–	–
Total financial liabilities	167,186	6,509	86,642	–	26	160	46,634	27,215
Non-financial liabilities	14,892	–	–	–	–	–	–	14,892
	182,078	6,509	86,642	–	26	160	46,634	42,107

(b) Fair values of financial assets and liabilities

Determination of fair value

All financial instruments, regardless of their IAS 39 categorisation, are initially recorded at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only observable data.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets, which in certain circumstances includes using quotations from independent third parties such as brokers and pricing services, and offer prices for liabilities. When quoted prices are not available, fair values are determined by using valuation techniques that refer as far as possible to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. A number of factors such as bid-offer spread, credit profile, servicing costs and model uncertainty are taken into account, as appropriate, when values are calculated using a valuation technique. Changes in the assumptions used in such valuations could impact the reported value of such instruments.

In general 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 primarily comprise 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 periods 2012 to 2014 (2010: for periods 2011 to 2013), based on the latest internal data available, are 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.

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

(b) Fair values of financial assets and liabilities 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

Investments and securities include government and government-guaranteed securities, listed and unlisted debt securities, preference shares and debentures, listed and unlisted equity securities, listed and unlisted pooled investments (see below), short-term funds and securities treated as investments and certain other securities.

Pooled investments represent the Group's holdings of shares/units in open-ended investment companies, unit trusts, mutual funds and similar investment vehicles. Pooled investments are stated at fair value. The fair values of pooled investments are based on widely published prices that are regularly updated or models based on the market prices of investments held in the underlying pooled investment funds.

Investment contracts

The approach to determining the fair values of investment contracts is set out in the accounting policies section for insurance and investment contract business.

Amounts owed to bank depositors

The fair values of amounts owed to bank depositors corresponds with the carrying amount shown in the statement of financial position, which generally reflects the amount payable on demand.

Borrowed funds

The fair values of amounts included in borrowed funds are based on quoted market prices at the reporting date where applicable, or by reference to quoted prices of similar instruments.

Other financial assets and liabilities

The fair values of other financial assets and liabilities (which comprise of cash and cash equivalents, cash with central banks, other assets and liabilities) are reasonably approximated by the carrying amounts reflected in the statement of financial position as they are short-term in nature or re-price to current market rates frequently.

Fair value hierarchy

Fair values are determined according to the following hierarchy.

- Level 1 – quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets. Instruments classified as Level 1 generally comprise listed equity securities, government securities and other listed debt securities and similar instruments, actively traded pooled investments, certain quoted derivative assets and liabilities, listed borrowed funds and investment contract liabilities linked to Level 1 pooled investments and other assets.
- Level 2 – valuation techniques using observable inputs: financial assets and liabilities with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable. Instruments classified as Level 2 generally comprise unlisted equity and debt securities where the valuation is based on models involving no significant unobservable data. This includes certain loans and advances, certain privately placed debt instruments, third-party interests in consolidated funds and amounts owed to bank depositors.
- Level 3 – valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable. Instruments classified as Level 3 generally comprise unlisted equity and securities with significant unobservable inputs, securities where the market is not considered sufficiently active, including certain inactive pooled investments, and derivatives embedded in certain portfolios of insurance contracts where the derivative is not closely related to the host contract and the valuation contains significant unobservable inputs.

The best evidence of fair value is a quoted price in an active market. In the event that the market for a financial asset or liability is not active, or quoted prices cannot be obtained without undue effort, a valuation technique is used.

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

(b) Fair values of financial assets and liabilities continued

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for them, the derivation of fair value is more judgemental. A financial asset or liability in its entirety is classified as valued using significant unobservable inputs if a significant proportion of that asset or liability's carrying amount is driven by unobservable inputs. In this context, 'unobservable' means that there is little or no current market data available for which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Furthermore, in some cases the majority of the fair value derived from a valuation technique with significant unobservable inputs may be attributable to observable inputs. Consequently, the effect of uncertainty in determining unobservable inputs will generally be restricted to uncertainty about the overall fair value of the asset or liability being measured.

Additional information on the impact of unobservable inputs is provided in the section headed 'Effect of changes in significant unobservable assumptions to reasonably possible alternatives'.

Fair value hierarchy

At 31 December 2011	Total	Level 1	Level 2	Level 3
				£m
Financial assets measured at fair value				
Held-for-trading (fair value through income statement)	5,066	764	4,294	8
Loans and advances	1,586	–	1,586	–
Investments and securities	1,155	234	915	6
Other assets	530	530	–	–
Derivative financial instruments – assets	1,795	–	1,793	2
Designated (fair value through income statement)	83,371	62,368	20,002	1,001
Reinsurers' share of policyholder liabilities	784	782	2	–
Loans and advances	3,970	2	3,961	7
Investments and securities	77,789	60,808	15,987	994
Other assets	828	776	52	–
Available-for-sale financial assets	988	459	525	4
Investments and securities	988	459	525	4
Total financial assets measured at fair value	89,425	63,591	24,821	1,013
Financial liabilities measured at fair value				
Held-for-trading (fair value through income statement)	5,370	555	4,814	1
Other liabilities	547	542	5	–
Amounts owed to bank depositors	3,068	–	3,068	–
Derivative financial instruments – liabilities	1,755	13	1,741	1
Designated (fair value through income statement)	65,516	33,213	31,282	1,021
Life assurance policyholder liabilities	55,333	32,156	22,156	1,021
Third-party interests in consolidated funds	1,893	–	1,893	–
Borrowed funds	1,071	1,057	14	–
Other liabilities	349	–	349	–
Amounts owed to bank depositors	6,870	–	6,870	–
Total financial liabilities measured at fair value	70,886	33,768	36,096	1,022

Fair value hierarchy

At 31 December 2010

	Total	Level 1	Level 2	Level 3
				£m
Financial assets measured at fair value				
Held-for-trading (fair value through income statement)	6,294	810	5,444	40
Loans and advances	1,914	–	1,911	3
Investments and securities	1,370	302	1,031	37
Other assets	507	506	1	–
Derivative financial instruments – assets	2,503	2	2,501	–
Designated (fair value through income statement)	107,001	87,081	18,490	1,430
Reinsurers' share of policyholder liabilities	816	813	3	–
Loans and advances	4,223	2	4,221	–
Investments and securities	100,898	86,244	13,224	1,430
Other assets	1,064	22	1,042	–
Available-for-sale financial assets	2,459	579	1,872	8
Investments and securities	2,459	579	1,872	8
Total financial assets measured at fair value	115,754	88,470	25,806	1,478
Financial liabilities measured at fair value				
Held-for-trading (fair value through income statement)	6,509	1,132	5,376	1
Other liabilities	1,155	1,123	32	–
Amounts owed to bank depositors	3,484	–	3,484	–
Derivative financial instruments – liabilities	1,870	9	1,860	1
Designated (fair value through income statement)	86,642	47,678	38,204	760
Life assurance policyholder liabilities	72,200	46,099	25,341	760
Third-party interests in consolidated funds	3,584	–	3,584	–
Borrowed funds	1,579	1,579	–	–
Other liabilities	576	–	576	–
Amounts owed to bank depositors	8,703	–	8,703	–
Total financial liabilities measured at fair value	93,151	48,810	43,580	761

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

(b) Fair values of financial assets and liabilities continued

Year ended 31 December 2011	At beginning of the year	Gains/losses recognised in income statement	Gains/losses recognised in other comprehensive income	Purchases and issues	Sales and Settlements
Level 3 financial assets					
Held-for-trading (fair value through income statement)	**40**	**5**	**–**	**4**	**(10)**
Loans and advances	**3**	**–**	**–**	**–**	**(3)**
Investments and securities	**37**	**2**	**–**	**4**	**(7)**
Derivative financial instruments – assets	**–**	**3**	**–**	**–**	**–**
Designated (fair value through income statement)	**1,430**	**79**	**–**	**51**	**(440)**
Loans and advances	**–**	**–**	**–**	**–**	**–**
Investments and securities	**1,430**	**79**	**–**	**51**	**(440)**
Available-for-sale financial assets	**8**	**–**	**–**	**4**	**(8)**
Investments and securities	**8**	**–**	**–**	**4**	**(8)**
Total Level 3 financial assets	**1,478**	**84**	**–**	**59**	**(458)**
Level 3 financial liabilities					
Held-for-trading (fair value through income statement)	**1**	**(1)**	**1**	**–**	**–**
Derivative financial instruments – liabilities	**1**	**(1)**	**1**	**–**	**–**
Designated (fair value through income statement)	**760**	**240**	**–**	**–**	**(52)**
Life assurance policyholder liabilities (investment contracts)	**760**	**240**	**–**	**–**	**(52)**
Total Level 3 financial liabilities	**761**	**239**	**1**	**–**	**(52)**

Year ended 31 December 2010	At beginning of the year	Gains/losses recognised in income statement	Gains/losses recognised in other comprehensive income	Purchases and issues	Sales and Settlements
Level 3 financial assets					
Held-for-trading (fair value through income statement)	36	(10)	–	–	(5)
Loans and advances	7	(1)	–	–	(3)
Investments and securities	28	(9)	–	–	(1)
Derivative financial instruments – assets	1	–	–	–	(1)
Designated (fair value through income statement)	1,784	164	6	94	(240)
Investments and securities	1,784	164	6	94	(240)
Available-for-sale financial assets	448	–	–	5	(1)
Investments and securities	448	–	–	5	(1)
Total Level 3 financial assets	2,268	154	6	99	(246)
Level 3 financial liabilities					
Held-for-trading (fair value through income statement)	1,365	(3)	–	–	1
Life assurance policyholder liabilities	1,352	–	–	–	–
Derivative financial instruments – liabilities	13	(3)	–	–	1
Designated (fair value through income statement)	596	(31)	–	2	(54)
Life assurance policyholder liabilities (investment contracts)	596	(31)	–	2	(54)
Total Level 3 financial liabilities	1,961	(34)	–	2	(53)

£m

Transfers in	Transfers out	Foreign exchange and other movements*	At end of the year	Gains/losses recognised in income statement	Gains/losses recognised in other comprehensive income
–	**(27)**	**(4)**	**8**	**–**	**–**
–	**–**	**–**	**–**	**–**	**–**
–	**(27)**	**(3)**	**6**	**–**	**–**
–	**–**	**(1)**	**2**	**–**	**–**
93	**(41)**	**(171)**	**1,001**	**(21)**	**–**
7	**–**	**–**	**7**	**–**	**–**
86	**(41)**	**(171)**	**994**	**(21)**	**–**
–	**–**	**–**	**4**	**–**	**–**
–	**–**	**–**	**4**	**–**	**–**
93	**(68)**	**(175)**	**1,013**	**(21)**	**–**
–	**–**	**–**	**1**	**–**	**–**
–	**–**	**–**	**1**	**–**	**–**
76	**(10)**	**7**	**1,021**	**(240)**	**–**
76	**(10)**	**7**	**1,021**	**(240)**	**–**
76	**(10)**	**7**	**1,022**	**(240)**	**–**

£m

Transfers in	Transfers out	Foreign exchange and other movements*	At end of the year	Gains/losses recognised in income statement	Gains/losses recognised in other comprehensive income
–	(1)	20	40	–	–
–	–	–	3	–	–
–	(1)	20	37	–	–
–	–	–	–	–	–
20	(433)	35	1,430	12	–
20	(433)	35	1,430	12	–
5	(31)	(418)	8	–	(8)
5	(31)	(418)	8	–	(8)
25	(465)	(363)	1,478	12	(8)
–	(3)	(1,359)	1	67	–
–	–	(1,352)	–	67	–
–	(3)	(7)	1	–	–
18	(262)	491	760	31	–
18	(262)	491	760	31	–
18	(265)	(868)	761	98	–

* Included within foreign exchange and other movements are the financial assets and liabilities which have been transferred to non-current assets and liabilities held for sale (see note H2).

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E: Financial assets and liabilities continued

E1: Group statement of financial position continued

(b) Fair values of financial assets and liabilities continued

The transfers into Level 3 largely relate to instances where inputs on certain financial assets and liabilities obtained from pricing service providers are no longer observable. The transfers out of Level 3 relate to certain pooled investments no longer being considered inactive and for which observable inputs are now available. There were no significant transfers between Level 1 and Level 2 during the year.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Favourable and unfavourable changes are determined on the basis of changes in the value of the financial asset or liability as a result of varying the levels of the unobservable parameter using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental.

When the fair value of a financial asset or liability is affected by more than one unobservable assumption, the figures shown reflect the most favourable or most unfavourable change from varying the assumptions individually.

In respect of private equity investments, the valuations are assessed on an asset-by-asset basis using a valuation methodology appropriate to the specific investment, in line with industry guidelines. In many of the methodologies, the principal assumption is the valuation multiple to be applied to the main financial indicators including, for example, multiples for comparable listed companies and discounts to marketability.

For asset-backed securities whose prices are unobservable, models are used to generate the expected value of the asset, incorporating benchmark information on factors such as prepayment patterns, default rates, loss severities and the historical performance of the underlying assets. The models used are calibrated by using securities for which external market information is available.

For structured notes and other derivatives, principal assumptions concern the future volatility of asset values and the future correlation between asset values. These principle assumptions include credit volatilities and correlations used in the valuation of the structured credit derivatives. For such unobservable assumptions, estimates are based on available market data, which may include the use of a proxy method to derive a volatility or correlation from comparable assets for which market data is more readily available, and examination of historical levels.

Analysis of reasonably possible alternative assumptions

£m

	Reflected in income statement		Reflected in other comprehensive income	
Year ended 31 December 2011	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Level 3 financial assets				
Held-for-trading (fair value through income statement)	**5**	**3**	–	–
Loans and advances	**1**	**1**	–	–
Investments and securities	**3**	**2**	–	–
Derivative financial instruments – assets	**1**	**–**	–	–
Designated (fair value through income statement)	**116**	**94**	–	–
Investments and securities	**116**	**94**	–	–
Available-for-sale financial assets	**–**	**–**	–	–
Investments and securities	**–**	**–**	–	–
Total Level 3 financial assets	**121**	**97**	–	–
Level 3 financial liabilities				
Held-for-trading (fair value through income statement)	**–**	**–**	–	–
Life assurance policyholder liabilities	**–**	**–**	–	–
Derivative financial instruments – liabilities	**–**	**–**	–	–
Designated (fair value through income statement)	**35**	**63**	–	–
Life assurance policyholder liabilities (investment contracts)	**35**	**63**	–	–
Total Level 3 financial liabilities	**35**	**63**	–	–

For the above analysis, the determination of the impacts of the favourable and unfavourable changes was based on a reasonable range of favourable and unfavourable changes in the key observable inputs for the major types of Level 3 financial assets and liabilities, ranging from, for example, a 10% change in the price earnings multiple for equity securities, to a 25% change in the discount rates applied to debt securities and volatility assumptions in derivative contracts. Changes in other key observable inputs such as lapses and non-performance risk were also considered.

Financial instruments designated as fair value through income statement

Certain items in the Group's statement of financial position that would otherwise be categorised as loans and receivables under IAS 39 have been designated as fair value through income statement. Information relating to the change in fair value of these items as it relates to credit risk is shown in the table below:

£m

	Change in fair value due to change in credit risk		
At 31 December 2011	**Maximum exposure to credit risk**	**Current financial year**	**Cumulative**
Loans and advances	**3,970**	**–**	**–**
Investments and securities	**8,932**	**1**	**(17)**
Other assets	**71**	**–**	**–**
	12,973	**1**	**(17)**

£m

	Change in fair value due to change in credit risk		
At 31 December 2010	Maximum exposure to credit risk	Current financial year	Cumulative
Loans and advances	4,223	–	–
Investments and securities	9,857	(8)	11
Other assets	88	–	–
	14,168	(8)	11

Certain items in the Group's statement of financial position that would otherwise be categorised as financial liabilities at amortised cost under IAS 39 have been designated as fair value through income statement. Information relating to the change in fair value of these items as it relates to credit risk is shown in the table below:

£m

		Change in fair value due to change in credit risk		
At 31 December 2011	**Fair value**	**Current financial year**	**Cumulative**	**Contractual maturity amount**
Borrowed funds	**1,071**	**(23)**	**(69)**	**1,153**
Amounts owed to bank depositors	**6,870**	**3**	**(6)**	**6,859**
	7,941	**(20)**	**(75)**	**8,012**

£m

		Change in fair value due to change in credit risk		
At 31 December 2010	Fair value	Current financial year	Cumulative	Contractual maturity amount
Borrowed funds	1,579	(203)	(74)	1,686
Amounts owed to bank depositors	8,769	11	(11)	8,734
	10,348	(192)	(85)	10,420

The fair values of other categories of financial liabilities designated as fair value through the income statement do not change significantly in respect of credit risk.

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

(b) Fair values of financial assets and liabilities continued

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 rise to changes in fair value of the financial instrument. Loans and advances are reviewed for observable changes in credit risk, and the credit spread is adjusted at subsequent dates if there has been an observable change in credit risk relating to a particular loan or advance. No credit derivatives are used to hedge the credit risk on any of the financial assets designated at fair value through the income statement. The change in fair value due to credit risk of financial liabilities designated at fair value through the income statement has been determined as the difference between fair values determined using a liability curve (adjusted for credit) and a risk-free liability curve. This difference is cross-checked to market related data on credit spreads, where available.

(c) Market risk

(i) Overview

Market risk is the risk of a financial impact arising from the changes in values of financial assets or financial liabilities from changes in equity, bond and property prices, interest rates and foreign exchange rates. Market risk arises differently across the Group's businesses depending on the types of financial assets and liabilities held.

Each of the Group's business units has an established set of policies, principles and governance processes to manage market risk within their individual businesses and in accordance with their local regulatory requirements. A monitoring process established at a Group level overlies these individual approaches to the management of market risk.

The impacts of changes in market risk are monitored and managed by way of sensitivity analyses, through the business units' own regulatory processes, with reference to the Group's economic capital processes, and by other means. The sensitivity of the Group's earnings, capital position and embedded value is monitored through the Group's embedded value reporting processes.

(ii) Insurance operations

For the Group's insurance operations, equity and property price risk and interest rate risk (on the value of the securities) are modelled in accordance with the Group's risk-based capital practices, which require sufficient capital to be held in excess of the statutory minimum to allow the Group to manage significant equity exposures. Additional detail is provided in the Risk and Capital Management section.

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.

For the variable annuity business in Old Mutual Bermuda the guaranteed returns are dynamically managed, with the overall exposures to changes in markets monitored closely so that actions are taken to re-establish hedging at short notice as required. However this does create more short-term risk of volatility in earnings and capital position for the Bermuda operation.

In Skandia's unit-linked assurance operations, the Group has limited exposure to the volatility from equity markets, because in the main, equity price risk is borne by policyholders (subject to the impact on asset-based fees charged on policyholder funds). In respect of Skandia's shareholders' funds, equity price risks are addressed in Skandia's investment policy, which provides for very limited opportunity for business units to invest their own capital in equities or in units in equity funds.

In some areas of Skandia's business, most notably its traditional life insurance business, Skandia is exposed to market risks arising from various forms of guarantees. Typically the policyholder is guaranteed a certain return regardless of the asset return achieved during the term of the policy. These risks are closely monitored and mitigated by applying asset and liability management techniques, ensuring that the proceeds from sale of assets are sufficient to meet the obligations to policyholders.

Sensitivities to adverse impacts of changes in market prices arising in the Group's insurance operations are set out in the Old Mutual audited Market Consistent Embedded Value supplementary basis information section of the Annual Report and Accounts on pages 282 to 284.

(iii) Banking operations

The principal market risks arising in the Group's banking operations arise from:

- Trading risk in Nedbank Capital; and
- Banking book interest rate risk arises from repricing and/or maturity mismatches between on and off-balance sheet components in all banking businesses.

A comprehensive market risk framework is used to ensure that market risks are understood and managed. Governance structures are in place to achieve effective independent monitoring and management of market risk.

Trading risk

Market risk exposures from trading activities at Nedbank Capital are measured using Value-at-Risk (VaR), supplemented by sensitivity analysis, and stress-scenario analysis, and limit structures are set accordingly.

The VaR risk measure for Nedbank estimates the potential loss in pre-tax profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability-based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one-day 99% VaR number used by Nedbank represents the overnight loss that has less than 1% chance of occurring under normal market conditions. By its nature, VaR is only a single measure and cannot be relied upon on its own as a means of measuring and managing risk.

								£m
	Average		Minimum		Maximum		Year end	
At 31 December	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Historical VaR (one-day, 99%) by risk type								
Foreign exchange	**0.3**	0.2	**0.1**	0.1	**1.1**	0.7	**0.3**	0.4
Interest rate	**0.7**	0.9	**0.4**	0.4	**1.1**	1.4	**0.4**	0.6
Equity products	**0.3**	0.4	**0.2**	0.1	**0.8**	0.9	**0.7**	0.3
Other	**0.2**	0.4	**0.1**	0.1	**0.4**	0.5	**0.3**	0.4
Diversification	**(0.5)**	(0.7)	**–**	–	**–**	–	**(0.6)**	(0.6)
Total VaR exposure	**1.0**	1.2	**0.8**	0.7	**3.4**	3.5	**1.1**	1.1

Banking book interest rate risk

Banking book interest rate risk at Nedbank arises because:

- The bank writes a large quantum of prime-linked assets and raises fewer prime-linked deposits;
- Funding is prudently raised across the curve at fixed-term deposit rates that re-price only on maturity;
- Short-term demand-funding products re-price to different short-end base rates;
- Certain ambiguous maturity accounts are non-rate-sensitive; and
- The bank has a mismatch in net non-rate-sensitive balances, including shareholders' funds that do not re-price for interest rate changes.

Nedbank uses standard analytical techniques to measure interest rate sensitivity within its banking book. This includes static re-price gap analysis and a point-in-time interest income stress testing for parallel interest rate moves over a forward-looking 12-month period. At 31 December 2011 the sensitivity of the banking book to a 1% instantaneous reduction in interest rates would have led to a reduction in net interest income and equity of £67 million (2010: £44 million).

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

(c) Market risk continued

The table below shows the re-pricing profile of Nedbank's banking book, which highlights the fact that assets re-price quicker than liabilities following derivative hedging activities.

At 31 December 2011	**Up to 3 months**	**3 to 6 months**	**6 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Trading and non-rate**	**Total** (£m)
Interest rate re-pricing gap							
Total assets	**38,262**	**704**	**510**	**2,782**	**1,165**	**8,162**	**51,585**
Total liabilities and shareholders' funds	**32,895**	**2,371**	**2,021**	**1,507**	**154**	**12,637**	**51,585**
Interest rate hedging activities	**(236)**	**1,496**	**1,083**	**(1,336)**	**(1,007)**	**–**	**–**
Re-pricing profile	**5,131**	**(171)**	**(428)**	**(61)**	**4**	**(4,475)**	**–**
Cumulative re-pricing profile	**5,131**	**4,960**	**4,532**	**4,471**	**4,475**	**–**	**–**
Expressed as a % of total assets	**9.9**	**9.6**	**8.8**	**8.7**	**8.7**	**–**	**–**

At 31 December 2010	Up to 3 months	3 to 6 months	6 months to 1 year	1 to 5 years	Over 5 years	Trading and non-rate	Total (£m)
Interest rate re-pricing gap							
Total assets	42,497	1,138	1,033	2,730	2,040	9,778	59,216
Total liabilities and shareholders' funds	35,960	3,750	2,977	1,673	190	14,666	59,216
Interest rate hedging activities	(2,707)	2,684	2,134	(333)	(1,778)	–	–
Re-pricing profile	3,830	72	190	724	72	(4,888)	–
Cumulative re-pricing profile	3,830	3,902	4,092	4,816	4,888	–	–
Expressed as a % of total assets	6.5	6.6	6.9	8.1	8.3	–	–

(d) Capital management

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, with further detail included in the Risk and Capital Management section.

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 and 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. Further detail as to the Group's regulatory capital surplus and that of subsidiaries is provided in the Group Finance Director's statement. As at the date of issue of these financial statements the unaudited pro-forma surplus was estimated to be £2.2 billion (2010: £2.1 billion). The FGD position will be submitted to the FSA by 30 April 2012.

(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, with currency risk where these are not effectively matched. The principal foreign currency risk arises from the fact that the Group's presentation currency is pounds sterling, whereas (other than for the UK operations) the functional currencies of its principal operations are South African rand, US dollar, Swedish krona and euro. The Group reduces this risk through the use of currency swaps, currency borrowings and forward foreign exchange contracts. Such risk mitigation techniques are reflected in the currency analyses that follow.

Bermuda shareholder funds and client assets are invested in US dollar denominated bonds, mutual funds, money market securities and cash. Where selected, Bermuda provides minimum guarantees, also denominated in US dollars. However, a significant portion of the underlying assets invested in by Bermuda's clients are exposed to currencies other than the US dollar. Bermuda estimates and tracks this exposure on a daily basis and, depending on the hedging strategy employed, seeks to mitigate the exposure to a greater or lesser extent.

The table below shows the Group's statement of financial position by major currency at 31 December 2011.

							£m
At 31 December 2011	**ZAR**	**GBP**	**USD**	**EUR**	**SEK**	**Other**	**Total**
Assets							
Mandatory reserve deposits with central banks	**944**	**–**	**3**	**–**	**–**	**4**	**951**
Reinsurers' share of policyholder liabilities	**124**	**836**	**1**	**3**	**–**	**25**	**989**
Loans and advances	**38,442**	**154**	**938**	**134**	**10**	**86**	**39,764**
Investments and securities	**31,517**	**27,624**	**10,668**	**7,724**	**1,231**	**2,489**	**81,253**
Other assets	**1,737**	**219**	**1,007**	**148**	**–**	**237**	**3,348**
Derivative financial instruments – assets	**1,336**	**445**	**67**	**(55)**	**–**	**2**	**1,795**
Cash and cash equivalents	**1,571**	**1,137**	**596**	**180**	**–**	**140**	**3,624**
Total financial assets	**75,671**	**30,415**	**13,280**	**8,134**	**1,241**	**2,983**	**131,724**
Non-financial assets	**3,391**	**2,573**	**1,464**	**1,890**	**20,943**	**400**	**30,661**
	79,062	**32,988**	**14,744**	**10,024**	**22,184**	**3,383**	**162,385**
Liabilities							
Life assurance policyholder liabilities	**29,597**	**27,418**	**7,134**	**7,878**	**1,205**	**3,118**	**76,350**
Third-party interests in consolidation of funds	**1,024**	**853**	**16**	**–**	**–**	**–**	**1,893**
Borrowed funds	**2,512**	**967**	**11**	**166**	**–**	**–**	**3,656**
Other liabilities	**2,863**	**616**	**400**	**148**	**12**	**204**	**4,243**
Amounts owed to bank depositors	**39,906**	**88**	**736**	**190**	**–**	**58**	**40,978**
Derivative financial instruments – liabilities	**1,296**	**445**	**73**	**(59)**	**–**	**–**	**1,755**
Total financial liabilities	**77,198**	**30,387**	**8,370**	**8,323**	**1,217**	**3,380**	**128,875**
Non-financial liabilities	**1,079**	**811**	**35**	**1,307**	**19,280**	**140**	**22,652**
	78,277	**31,198**	**8,405**	**9,630**	**20,497**	**3,520**	**151,527**

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

(e) Currency risk continued

£m

At 31 December 2010	ZAR	GBP	USD	EUR	SEK	Other	Total
Assets							
Mandatory reserve deposits with central banks	1,066	–	2	–	–	11	1,079
Reinsurers' share of policyholder liabilities	155	907	–	2	3	37	1,104
Loans and advances	43,917	377	1,232	240	5,233	779	51,778
Investments and securities	36,938	29,797	14,734	9,579	11,373	3,732	106,153
Other assets	1,808	399	1,276	174	230	47	3,934
Derivative financial instruments – assets	1,965	209	228	88	10	3	2,503
Cash and cash equivalents	2,020	838	478	262	211	323	4,132
Total financial assets	87,869	32,527	17,950	10,345	17,060	4,932	170,683
Non-financial assets	3,930	2,642	13,891	905	1,122	379	22,869
	91,799	35,169	31,841	11,250	18,182	5,311	193,552
Liabilities							
Life assurance policyholder liabilities	35,599	29,011	10,536	10,241	9,306	3,938	98,631
Third-party interests in consolidation of funds	672	1,857	161	–	894	–	3,584
Borrowed funds	2,758	792	43	611	–	–	4,204
Other liabilities	3,969	762	290	180	257	203	5,661
Amounts owed to bank depositors	44,226	565	1,056	407	5,965	1,017	53,236
Derivative financial instruments – liabilities	1,273	134	292	72	99	–	1,870
Total financial liabilities	88,497	33,121	12,378	11,511	16,521	5,158	167,186
Non-financial liabilities	1,239	738	12,265	444	64	142	14,892
	89,736	33,859	24,643	11,955	16,585	5,300	182,078

The Group reduces the risk to foreign currency fluctuations through the use of currency swaps, currency borrowings and forward foreign exchange contracts. There are no direct exposures to the unit linked investments and related policyholder liabilities. Taking these risk mitigation techniques into account a 10% appreciation in pounds sterling would result in a reduction to equity holders' funds in relation to the US dollar of £584 million (2010: £711 million), £37 million in relation to the euro (2010: increase of £8 million), £154 million in relation to the Swedish krona (2010: £124 million) and £70 million in relation to the South African rand (2010: £192 million).

A 10% deterioration in the value of the major currencies shown above in relation to pounds sterling (as set out in note C2) would have led to a reduction in Profit after tax of £118 million (2010: £90 million).

E2: Credit risk

Overall exposure to credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligation resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the financial loss from defaults. The Group's exposure and credit rating of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group does not have significant credit exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Nedbank's lending portfolio forms the substantial part of the Group's loans and advances, analysed further in note E3. Credit risk represents the most significant risk type facing Nedbank, accounting for over 63.1% of its economic capital requirements. Nedbank's credit risk profile is managed in terms of its credit risk management framework, which encompasses comprehensive credit policy, mandate (limits) and governance structures, and is approved by the Nedbank Board.

The other major source of credit risk arises predominantly in the Group's insurance operations' portfolios of debt and similar securities along with those portfolios of debt instruments held by the banking operations. Credit risk for these portfolios is managed with reference to established credit rating agencies with limits placed on exposures to below investment grade holdings.

Other than the above, the Group has other limited credit risk exposures in respect of amounts due from policyholders, intermediaries and reinsurers. None of the life assurance operations cedes significant risk through reinsurance and any loans to policyholders are secured on the surrender value of the relevant policies.

The table below represents the Group's maximum exposure to credit risk, without taking into account the value of any collateral obtained. The total credit exposure also includes potential exposure arising from financial guarantees given by the Group and undrawn loan commitments, which are not yet reflected in the Group's statement of financial position.

		£m
	At 31 December 2011	At 31 December 2010
Mandatory reserve deposits with central banks	**951**	1,079
Reinsurers' share of policyholder liabilities	**989**	1,104
Loans and advances	**39,764**	51,778
Investments and securities	**20,049**	28,657
Government and government-guaranteed securities	**6,476**	9,275
Other debt securities, preference shares and debentures	**10,909**	15,930
Short-term funds and securities treated as investments	**2,536**	3,352
Other	**128**	100
Other assets	**3,050**	3,844
Derivative financial instruments – assets	**1,795**	2,503
Cash and cash equivalents	**3,624**	4,132
Financial guarantees and other credit related contingent liabilities	**3,030**	3,915
Loan commitments and other credit related commitments	**5,578**	8,330
Non-current assets held for sale	**10,852**	11,750
	89,682	117,092

(i) Financial collateral

The Group takes financial collateral to support exposures in its banking and securities and lending activities. Collateral held includes cash and debt securities. Cash collateral is included as part of cash equivalents.

These transactions are entered into under terms and conditions that are standard industry practice to securities borrowing and lending activities.

(ii) Non-financial collateral

The Group takes other physical collateral to recover outstanding lending exposures in the event of the borrower being unable or unwilling to fulfil its obligations. This includes mortgage over property (both residential and commercial), and liens over business assets (including, but not limited to plant, vehicles, aircraft, inventories and trade debtors) and guarantees from parties other than the borrower.

Should a counterparty be unable to settle its obligations, the Group takes possession of collateral as full or part settlement of such amounts. In general, the Group seeks to dispose of such property and other assets that are not readily convertible into cash as soon as the market for the relevant asset permits.

A further analysis of credit risk is provided in notes E3, E4, E6 and F5.

E: Financial assets and liabilities continued

E3: Loans and advances

(a) Summary

The following table shows an analysis of loans and advances:

	At 31 December 2011	£m At 31 December 2010
Home loans	**11,395**	18,924
Commercial mortgages	**7,122**	8,376
Properties in possession	**49**	64
Credit cards	**690**	809
Overdrafts	**1,047**	1,556
Policyholder loans	**256**	249
Other loans to clients	**5,238**	5,332
Preference shares and debentures	**1,429**	1,994
Net finance leases and instalment debtors	**5,664**	6,603
Gross investment	**5,918**	6,976
Unearned finance charges	**(254)**	(373)
Factoring accounts	**304**	311
Trade, other bills and bankers' acceptances	**3**	14
Term loans	**6,206**	7,304
Remittances in transit	**16**	11
Deposits placed under reverse purchase agreements	**1,260**	1,335
Gross loans and advances	**40,679**	52,882
Provisions for impairment		
Specific provisions	**(696)**	(886)
Portfolio provision	**(219)**	(218)
Total net loans and advances	**39,764**	51,778

Non-performing loans included above had a book value less impairment provisions of £1,096 million (2010: £1,721 million).

Of the loans and advances shown above, £12,471 million (2010: £15,865 million) is receivable within one year of the reporting date and is regarded as current. £27,293 million (2010: £35,913 million) is regarded as non-current based on the maturity profile of the assets.

Of the gross loans and advances shown above, £40,189 million (2010: £52,341 million) relates to balances held by the Group's banking operations.

The table below gives an age analysis of loans and advances representing primarily the exposures of the Group's banking operations.

	At 31 December 2011	£m At 31 December 2010
Neither past due nor impaired	**35,462**	46,584
Past due but not impaired	**3,381**	3,683
Past due but less than 1 month	**2,856**	3,075
Past due, greater than 1 month but less than 3 months	**493**	481
Past due, greater than 3 months but less than 6 months	**2**	75
Past due, greater than 6 months but less than 1 year	**1**	24
Past due more than 1 year	**29**	28
Impaired loans and advances individually impaired	**1,836**	2,615
Gross loans and advances	**40,679**	52,882
Provisions for impairment	**(915)**	(1,104)
Total net loans and advances	**39,764**	51,778

The neither past due nor impaired loans and advances can be further analysed by credit rating as follows:

£m

	At 31 December 2011				At 31 December 2010			
	Investment grade	**Sub-investment grade**	**Not rated**	**Total**	Investment grade	Sub-investment grade	Not rated	Total
Home loans	**779**	**8,019**	**443**	**9,241**	923	10,145	4,830	15,898
Commercial mortgages	**2,185**	**4,412**	**116**	**6,713**	2,153	5,936	20	8,109
Credit cards	**111**	**482**	**–**	**593**	121	542	9	672
Overdrafts	**182**	**671**	**89**	**942**	297	710	261	1,268
Policyholder loans	**192**	**–**	**61**	**253**	160	–	83	243
Other loans to clients	**3,620**	**1,386**	**86**	**5,092**	3,544	1,332	252	5,128
Preference shares and debentures	**1,210**	**202**	**14**	**1,426**	1,376	521	14	1,911
Net finance leases and instalment debtors	**337**	**4,125**	**246**	**4,708**	728	4,601	91	5,420
Factoring accounts	**–**	**290**	**–**	**290**	–	308	–	308
Trade, other bills and bankers' acceptances	**2**	**1**	**–**	**3**	6	8	–	14
Term loans	**3,995**	**880**	**53**	**4,928**	5,163	934	171	6,268
Remittances in transit	**7**	**–**	**6**	**13**	8	1	1	10
Deposits placed under reverse purchase agreements	**1,257**	**–**	**3**	**1,260**	1,307	28	–	1,335
Gross loans and advances	**13,877**	**20,468**	**1,117**	**35,462**	15,786	25,066	5,732	46,584

Collateral is held as security against certain loans and advances detailed above, with this principally consisting of cash, properties and letters of credit.

Movements in provisions for impairment of loans and advances are analysed as follows:

£m

	Year ended 31 December 2011			Year ended 31 December 2010		
	Specific impairment	**Portfolio impairment**	**Total impairment**	Specific impairment	Portfolio impairment	Total impairment
Balance at beginning of the year	**886**	**218**	**1,104**	660	172	832
Acquisitions through business combinations	**(3)**	**(8)**	**(11)**	–	–	–
Income statement charge	**463**	**50**	**513**	594	21	615
Recoveries of amounts previously written off	**(55)**	**–**	**(55)**	(67)	–	(67)
Amounts written off against the provision	**(486)**	**–**	**(486)**	(484)	–	(484)
Foreign exchange and other movements	**(109)**	**(41)**	**(150)**	183	25	208
Balance at end of the year	**696**	**219**	**915**	886	218	1,104

The majority of loans and advances are in respect of Nedbank, which believes it has continued to make good progress in improving asset quality. In local currency terms Nedbank experienced a reduction in the impairment charge for the year driven mostly by its retail division, particularly in the secured portfolios that had lagged the recovery in the unsecured portfolios. Lower interest rates and the stabilising of job losses contributed to the retail credit loss improving significantly in the year. Nedbank further strengthened its provisioning by lengthening the emergence periods. The credit portfolios in Nedbank's Corporate Banking business and Wealth divisions are believed to be of a high quality and credit loss ratios remained within or below the respective target levels. Impairments for the capital division increased in energy, mining, asset and leverage finance, infrastructure and private equity portfolios. Further detail on Nedbank is available at www.nedbank.co.za.

During the year under review, the Group recognised collateral of £49 million (2010: £64 million) in the statement of financial position. These amounts are included in the loans and advances above as properties in possession.

E: Financial assets and liabilities continued

E3: Loans and advances continued

(b) Finance lease and instalment debtors

	Minimum lease payments receivable		Present value of minimum lease payments receivable	£m
Amounts receivable under finance leases At 31 December	**2011**	2010	**2011**	2010
Within one year	**816**	987	**718**	934
In the second to fifth years inclusive	**5,094**	5,910	**4,939**	5,594
After five years	**8**	79	**7**	75
	5,918	6,976	**5,664**	6,603
Less: unearned finance income	**(254)**	(373)	**–**	–
Present value of minimum lease payments receivable	**5,664**	6,603	**5,664**	6,603

The accumulated allowance for uncollectable minimum lease payments receivable is £190 million (2010: £230 million).

E4: Investments and securities

	At 31 December 2011	At 31 December 2010 £m
Government and government-guaranteed securities	**6,476**	9,275
Other debt securities, preference shares and debentures	**10,909**	15,930
Listed	**7,059**	11,356
Unlisted	**3,850**	4,574
Equity securities	**17,505**	25,453
Listed	**16,639**	23,202
Unlisted	**866**	2,251
Pooled investments	**43,699**	52,043
Listed	**7,301**	8,591
Unlisted	**36,398**	43,452
Short-term funds and securities treated as investments	**2,536**	3,352
Other	**128**	100
Total investments and securities	**81,253**	106,153

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, £45,131 million (2010: £55,650 million) is regarded as current and £36,122 million (2010: £50,503 million) regarded as non-current.

(a) Debt instruments and similar securities

The following table shows an age analysis of the portfolio of debt instruments and similar securities:

	At 31 December 2011	At 31 December 2010 £m
Neither past due nor impaired	**20,039**	28,648
Past due but not impaired	**10**	9
Total debt instruments and similar securities	**20,049**	28,657

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 2011	Government and government-related securities	Other debt securities, preference shares and debentures	Short-term funds and securities	Other	Total
					£m
Investment grade (AAA to BBB)	**5,395**	**6,955**	**926**	**–**	**13,276**
Sub-investment grade (BB and lower)	**56**	**176**	**–**	**–**	**232**
Not rated	**1,025**	**3,778**	**1,610**	**128**	**6,541**
	6,476	**10,909**	**2,536**	**128**	**20,049**

At 31 December 2010	Government and government-related securities	Other debt securities, preference shares and debentures	Short-term funds and securities	Other	Total
					£m
Investment grade (AAA to BBB)	7,094	8,429	2,162	6	17,691
Sub-investment grade (BB and lower)	–	113	–	–	113
Not rated	2,181	7,388	1,190	94	10,853
	9,275	15,930	3,352	100	28,657

In general, no collateral is taken in respect of the Group's holdings of debt instruments and similar securities.

E5: Securities lending

The Group participates in securities lending where securities holdings are lent to third parties. The loaned securities are not removed from the Group's consolidated statement of financial position but are retained within the relevant investment classification. Collateral is held in respect of the loaned securities.

The table below represents the amounts lent and the related collateral received:

	At 31 December 2011	At 31 December 2010
		£m
Amounts lent under securities lending		
Equity	**471**	700
Debt securities	**296**	447
	767	1,147
Amounts received as collateral for securities lending		
Cash	**695**	1,131
Debt securities	**72**	16
	767	1,147

The cash collateral has been recognised in the statement of financial position with a corresponding liability to return the collateral included in other liabilities. Of the collateral included in the table above, £767 million (2010: £1,147 million) can be sold or repledged and £nil (2010: £nil) has been sold or repledged.

In addition the Group has provided £nil in cash collateral (2010: £164 million) and £114 million in debt securities collateral (2010: £nil) under repurchase arrangements.

E: Financial assets and liabilities continued

E6: Derivative financial instruments – assets and liabilities

The Group utilises derivative instruments for both hedging and non-hedging purposes. 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 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 which it deals, and manages the resulting exposures such that a default by any individual counterparty is unlikely to have a materially adverse impact on the Group.

£m

	Derivative financial instruments			
	Assets		Liabilities	
At 31 December	**2011**	2010	**2011**	2010
Equity derivatives	**37**	293	**46**	160
Exchange rate contracts	**281**	592	**293**	389
Interest rate contracts	**1,070**	969	**977**	857
Credit derivatives	**19**	173	**19**	12
Other derivatives	**388**	476	**420**	452
Total	**1,795**	2,503	**1,755**	1,870

The contractual maturities of the derivative liabilities held are as follows:

£m

Derivative financial liabilities	Carrying amount	Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	No contractual maturity date	Total
At 31 December 2011	**1,755**	**451**	**326**	**515**	**675**	**–**	**1,967**
At 31 December 2010	1,870	570	278	541	538	–	1,927

In accordance with the Group's hedging strategy the Group has entered into contracts pre and post year end to mitigate the foreign exchange risks attaching to the potential receipt, and subsequent distribution, of proceeds related to the sale of the Nordic businesses. The net cost of those contracts purchased in 2011 was recognised in the income statement for the year ended 31 December 2011, with the market value not significant at the year end. On completion of the sale any profits and losses in relation to these contracts will be offset by currency losses or gains on the underlying assets.

E7: Hedge accounting

Net investment hedges

The Group uses a combination of currency swaps, forward foreign exchange contracts and debt raised in the currency of the exposure to mitigate the translation effect of holding overseas companies. The following table summarises the Group's open positions with respect to financial instruments utilised for net investment hedging purposes. There was no ineffectiveness in respect of the net investment hedges during the financial year (2010: £nil).

£m

	At 31 December 2011			At 31 December 2010		
	USD	**ZAR**	**SEK**	USD	ZAR	SEK
Open positions						
Forward contracts	**–**	**100**	**–**	–	164	–
Currency swaps	**62**	**–**	**479**	313	–	391
Debt*	**–**	**–**	**–**	32	10	–
	62	**100**	**479**	345	174	391

* 2010 excluded $750 million and €500 million of financial instruments accounted as non-controlling interests or as equity.

An analysis of amounts in the financial statements relating to derivatives designated as net investment hedges is shown in the table below:

		£m
	At 31 December 2011	At 31 December 2010
Fair value of financial instruments designated as net investment hedges at the reporting date		
ZAR forward foreign exchange contracts	**(1)**	(11)
USD forward foreign exchange contracts	**(1)**	–
£300 million cross currency swap	**–**	(89)
£500 million cross currency swap	**64**	–
€750 million cross currency swap	**–**	90
€200 million cross currency swap	**23**	–
	85	(10)

The South African rand forwards are designated as hedges against the foreign currency risk in respect of the Group's investment in its South African operations. The US dollar forwards are designated as hedges against the foreign currency risk in respect of the Group's investment in its US operations.

The £500 million cross currency swap is used to hedge Swedish krona currency risk on Swedish krona based assets in the Group's net investment in Nordic. The pounds sterling to US dollar (£82 million to $97 million) leg of the €200 million cross currency swap is used to hedge US dollar currency risk on the US dollar based assets in the Group's net investment in US operations.

E8: Policyholder liabilities

						£m
	At 31 December 2011			At 31 December 2010		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Life assurance policyholder liabilities						
Insurance contracts	**15,587**	**(94)**	**15,493**	19,177	(141)	19,036
Investment contracts						
Unit-linked investment contracts and similar contracts	**52,081**	**(781)**	**51,300**	69,538	(821)	68,717
Other investment contracts	**979**	**–**	**979**	1,145	–	1,145
Discretionary participating investment contracts	**7,475**	**–**	**7,475**	8,249	–	8,249
Outstanding claims	**228**	**(16)**	**212**	522	(20)	502
	76,350	**(891)**	**75,459**	98,631	(982)	97,649
General insurance liabilities						
Claims incurred but not reported	**47**	**(4)**	**43**	61	(12)	49
Unearned premiums	**98**	**(47)**	**51**	109	(51)	58
Outstanding claims	**180**	**(47)**	**133**	227	(59)	168
	325	**(98)**	**227**	397	(122)	275
Total policyholder liabilities	**76,675**	**(989)**	**75,686**	99,028	(1,104)	97,924

Of the £989 million (2010: £1,104 million) included in reinsurer's share of life assurance policyholder and general insurance liabilities is an amount of £925 million (2010: £1,051 million) which is classified as current, the remainder being non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011 continued

E: Financial assets and liabilities continued

E8: Policyholder liabilities continued

Movements in the amounts outstanding in respect of life assurance policyholder liabilities, other than outstanding claims, are set out below.

(a) Insurance contracts

£m

	At 31 December 2011			At 31 December 2010		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Balance at beginning of the year	**19,177**	**(141)**	**19,036**	27,549	(539)	27,010
Income						
Premium income	**2,001**	**(81)**	**1,920**	1,999	(67)	1,932
Investment income	**682**	**–**	**682**	1,989	–	1,989
Other income	**3**	**–**	**3**	3	–	3
Expenses						
Claims and policy benefits	**(2,507)**	**69**	**(2,438)**	(2,268)	70	(2,198)
Operating expenses	**(516)**	**–**	**(516)**	(472)	–	(472)
Currency translation (gain)/loss	**(2,620)**	**10**	**(2,610)**	2,059	(6)	2,053
Other charges and transfers	**(242)**	**40**	**(202)**	(601)	(36)	(637)
Taxation	**(2)**	**–**	**(2)**	(1)	–	(1)
Transfer to operating profit	**(342)**	**8**	**(334)**	(293)	(12)	(305)
Transfer to non-current liabilities held for sale	**(47)**	**1**	**(46)**	(10,787)	449	(10,338)
Balance at end of the year	**15,587**	**(94)**	**15,493**	19,177	(141)	19,036

(b) Unit-linked investment contracts and similar contracts, and other investment contracts

£m

	Year ended 31 December 2011	Year ended 31 December 2010
Balance at beginning of the year	**70,683**	59,231
New contributions received	**10,086**	10,250
Maturities	**(805)**	(701)
Withdrawals and surrenders	**(7,942)**	(6,788)
Fair value movements	**(3,412)**	6,619
Foreign exchange and other movements	**(3,775)**	2,860
Transfer to non-current liabilities held for sale	**(11,775)**	(788)
Balance at end of the year	**53,060**	70,683

(c) Discretionary participating investment contracts

£m

	Year ended 31 December 2011	Year ended 31 December 2010
Balance at beginning of the year	**8,249**	6,639
Income		
Premium income	**975**	855
Investment income	**459**	895
Currency translation (gains)/losses	**(1,468)**	1,107
	(34)	2,857
Expenses		
Claims and policy benefits	**(996)**	(1,024)
Operating expenses	**(96)**	(85)
Other charges and transfers	**414**	(61)
Taxation	**(6)**	(7)
	(684)	(1,177)
Transfer to operating profit	**(56)**	(70)
Balance at end of the year	**7,475**	8,249

(d) Contractual maturity analysis

The table below is a maturity analysis of liability cash flows based on contractual maturity dates for investment contract liabilities and discretionary participating financial instruments, and expected claim dates for insurance contracts.

The Group acknowledges that for general insurance the unearned premium provision, which will be recognised as earned premium in the future, will most likely not lead to claim cash outflows equal to this provision. The Group has however adopted a conservative approach in estimating future cash outflows associated with unearned premiums, by assuming a 100% combined ratio.

						£m
		Undiscounted cash flows				
At 31 December 2011	**Carrying amount**	**Less than 3 months**	**More than 3 months less than 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
Life assurance policyholder liabilities						
Insurance contracts	**15,587**	**1,418**	**1,674**	**7,494**	**21,707**	**32,293**
Investment contracts						
Unit-linked investment contracts and similar contracts	**52,081**	**48,063**	**296**	**1,110**	**2,395**	**51,864**
Other investment contracts	**979**	**681**	**73**	**217**	**55**	**1,026**
Discretionary participating investment contracts	**7,475**	**6,155**	**–**	**–**	**–**	**6,155**
Outstanding claims	**228**	**202**	**2**	**4**	**18**	**226**
	76,350	**56,519**	**2,045**	**8,825**	**24,175**	**91,564**
General insurance liabilities						
Claims incurred but not reported	**47**	**20**	**16**	**11**	**–**	**47**
Unearned premium	**98**	**51**	**46**	**1**	**–**	**98**
Outstanding claims	**180**	**57**	**54**	**69**	**–**	**180**
	325	**128**	**116**	**81**	**–**	**325**
Total policyholder liabilities	**76,675**	**56,647**	**2,161**	**8,906**	**24,175**	**91,889**

						£m
		Undiscounted cash flows				
At 31 December 2010	Carrying amount	Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	Total
Life assurance policyholder liabilities						
Insurance contracts	19,177	1,572	1,744	9,271	24,658	37,245
Investment contracts						
Unit-linked investment contracts and similar contracts	69,538	59,173	888	2,227	6,790	69,078
Other investment contracts	1,145	740	77	264	236	1,317
Discretionary participating investment contracts	8,249	7,415	–	–	–	7,415
Outstanding claims	522	406	29	57	31	523
	98,631	69,306	2,738	11,819	31,715	115,578
General insurance liabilities						
Claims incurred but not reported	61	26	30	5	–	61
Unearned premium	109	56	51	2	–	109
Outstanding claims	227	88	100	39	–	227
	397	170	181	46	–	397
Total policyholder liabilities	99,028	69,476	2,919	11,865	31,715	115,975

E: Financial assets and liabilities continued

E8: Policyholder liabilities continued

(e) Insurance risk

The Group assumes insurance risk by issuing insurance contracts, under which the Group agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. Insurance risk includes mortality and morbidity risk in the case of life assurance or risk of loss (from fire, accident, or other source) in the case of general insurance.

Insurance risk arises through exposure to unfavourable claims experience on life assurance, critical illness and other protection business and exposure to unfavourable operating experience in respect of factors such as persistency levels and management expenses. Uncertainty in persistency, expenses and mortality & morbidity claim rates, relative to the actuarial assumptions made in the pricing process, may prevent the firm from achieving its profit objectives.

For accounting purposes insurance risk is defined as risk other than financial risk. Contracts issued by the Group may include both insurance and financial risk; contracts with significant insurance risk are classified as insurance contracts, while contracts with no or insignificant insurance risk are classified as investment contracts.

The Group has developed a risk policy which sets out the practices which are used to manage insurance risk and the management information and stress testing requirements. The policy is cascaded to all entities across the Group who each have their own risk policy suite aligned to the Group. As well as management of persistency, expense and claims experience, the risk policy sets requirements and standards on matters such as underwriting and claims management practices, and the use of reinsurance to mitigate insurance risk.

The insurance risk profile and experience is closely monitored to ensure that the exposure remains acceptable.

The financial impact of insurance risk events is examined through stress tests carried out within the MCEV and IFRS sensitivities, ICA and Economic Capital assessment.

Mortality and morbidity

Mortality and morbidity risk is the risk that death, critical illness and disability claims are higher than expected within the operations' pricing assumptions. Possible causes are unexpected epidemics of new diseases and widespread changes in lifestyle such as eating, smoking and exercise habits. Higher than expected levels of claims will cause emerging profit to be lower than expected. For contracts where survival is the insured risk, the most significant factor is continued improvement in medical science and social conditions that increase longevity.

For unit-linked contracts a risk charge is applied to meet the expected cost of the insured benefit (in excess of the unit value). This risk charge can be altered in the event of significant changes in the expectation for future claims experience, subject to 'Treating Customers Fairly' principles.

The operations manage mortality risks through its underwriting policy and external reinsurance arrangements where its policy is to retain certain types of insurance risks within specified maximum single event loss limits. Exposures above accepted limits are transferred to reinsurance counterparties.

Persistency

Persistency risk is the risk that a policyholder surrenders, transfers or ceases premium payments for their contracts in a volume that has not been expected within the pricing assumptions thereby leading to a reduction in financial profit and an impact on liquidity.

Some insurance contracts can be surrendered before maturity for a cash surrender value.

In order to limit this risk to an acceptable level, charging and commission structures are designed to limit the risk of direct financial loss on surrender.

Persistency statistics are monitored monthly. Actions may be triggered as a result of higher than expected lapse or withdrawal rates and significant emerging trends. A detailed persistency analysis at a product level is carried out on an annual basis.

In the short-term, profit is not materially impacted by changes in persistency experience that is reasonably foreseeable.

Expenses

Expense risk is the risk that actual expenses exceed expense levels assumed in product pricing. This may result in emerging profit falling below the Group's profit objectives.

Expense levels are monitored quarterly against budgets and forecasts. An activity based costing process is used to allocate costs relating to processes and activities to individual product lines.

Some products' structures include maintenance charges. These charges are reviewed annually in light of changes in maintenance expense levels. This review may result in changes in charge levels, subject to 'Treating Customers Fairly' principles.

Tax

Tax risk is the risk that insufficient tax is collected from the policyholders because the projected taxation basis for basic life assurance business is incorrect resulting in contracts being incorrectly priced.

Tax risk also represents potential changes in the interpretation or application of prevailing tax legislation as paid by either policyholders or shareholders, where the detrimental impact is reduced profitability or additional shareholder tax burdens. The taxation position of the operations is projected annually and tax changes will result in changes to new business pricing models as part of the annual control cycle. High risk issues and emerging trends are reported internally on a quarterly basis.

Other information on insurance risk

More information about (i) risk management objectives and policies for mitigating insurance risk, (ii) terms and conditions of long-term insurance businesses, (iii) management of insurance risks – life assurance, (iv) guarantees and options – life assurance , and (v) general insurance risk, can be found at www.oldmutual.com.

(f) Sensitivity analysis – life assurance

Changes in key assumptions used to value insurance contracts would result in increases or decreases to the insurance contract provisions recorded, with impact on profit/(loss) and/or shareholders' equity. The effect of a change in assumption is mitigated by the following factors:

- Offset (partial or full) to the bonus stabilisation reserve in the case of smoothed bonus products in South Africa; and
- Offset (partial or full) through DAC amortisation in the case of the Bermuda business.

The net increase or decrease to insurance contract provisions recorded at 31 December 2011 has been estimated as follows:

	%	£m	£m	£m
Assumption	**Change**	**Emerging Markets**	**Wealth Management**	**Bermuda**
Mortality and morbidity rates – assurance	**10**	**294**	**3**	**–**
Mortality rates – annuities	**(10)**	**52**	**–**	**–**
Discontinuance rates	**10**	**(11)**	**(3)**	**10**
Expenses (maintenance)	**10**	**66**	**3**	**(1)**

Emerging Markets

The changes in insurance contract liabilities shown are calculated using the specified increase or decrease to the rates, with no change in charges paid by policyholders.

The insurance contract liabilities recorded for the South African business are also impacted by the valuation discount rate assumed. Lowering this rate by 1% would result in a net increase to the insurance contract liabilities, and decrease to profit, of £113 million (2010: £98 million).

The valuation interest rate sensitivity reflects a change in the valuation interest rates without any corresponding change in investment returns or in the expense inflation rate. It should be noted that where the assets and liabilities of a product are closely matched (e.g. non-profit annuity business), the net effect has been shown since the assets and liabilities move in parallel.

Wealth Management

The changes in insurance contract liabilities shown are calculated independently using the specified increase or decrease to the rates, with no change in premiums paid by policyholders. The assumption changes have no impact on the linked business within Skandia UK.

Whole of Life is the main product group affected by the lapse assumption change. This is because the policies have the longest duration and represent close to 85% of the reserve. The main product groups impacted by the expense, mortality and morbidity sensitivities are Whole of Life and Accelerated Critical Illness.

In the Wealth Management business, non-linked liabilities are fairly well matched by gilts so that the net impact of a valuation interest rate change, taking asset and liability movement into account, is negligible.

E: Financial assets and liabilities continued

E8: Policyholder liabilities continued

Bermuda

The insurance contract liabilities recorded for the Bermuda business are also impacted by the valuation discount rate assumed. Lowering this rate by 1% would result in a net increase to the insurance contract liabilities, and decrease to profit, of £55 million (2010: £71 million).

Other assumption changes on Bermuda business have counterbalancing effects. Lapses and partial withdrawals have the largest impact where increased activity reduces future fees and hence impact DAC negatively. However, such activity helps the guarantee portion of the business since less death and living benefit exposure is expected in the future. Thus, anti-selective behaviour (eg, business with little or no guarantees redeeming at a faster rate) presents the bigger challenge but it is accounted for in both the DAC and guarantee reserve calculations and conservation efforts are underway to retain the less risky business. Mortality plays a much smaller part in Bermuda since all the business is accumulation/savings type business. Increased deaths do accelerate payment of guaranteed minimum death benefits but there is a comparable release of reserve on the maturity guarantee providing an offset (about 85% of the variable annuity business has both death/living benefits).

(g) Sensitivity analysis – general insurance

An increase of 10% in the average cost of claims would require the recognition of an additional loss of £36 million net of reinsurance. Similarly, an increase of 10% in the ultimate number of claims would result in an additional loss of £36 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% of an average year's claim costs.

(h) Reinsurance assets – credit risk

None of the Group's reinsurance assets are either past due or impaired. Of the reinsurance assets shown in the statement of financial position all are considered investment grade with the exception of £104 million of unrated exposures (2010: £144 million). Collateral is not taken against reinsurance assets or deposits held with reinsurers other than in limited circumstances.

E9: Borrowed funds

£m

	Notes	**Group excluding Nedbank**	**Nedbank**	**At 31 December 2011 Group**	Group excluding Nedbank	Nedbank	At 31 December 2010 Group
Senior debt securities and term loans		**507**	**1,355**	**1,862**	550	1,186	1,736
Floating rate notes	E9(a)	**–**	**844**	**844**	32	720	752
Fixed rate notes	E9(b)	**507**	**511**	**1,018**	516	466	982
Revolving credit facility	E9(c)	**–**	**–**	**–**	–	–	–
Term loan and other loans		**–**	**–**	**–**	2	–	2
Mortgage backed securities	E9(d)	**–**	**77**	**77**	–	112	112
Subordinated debt securities (net of Group holdings)	E9(e)	**876**	**841**	**1,717**	1,198	1,158	2,356
Borrowed funds		**1,383**	**2,273**	**3,656**	1,748	2,456	4,204
Other issues treated as equity for accounting purposes							
US$750 million cumulative preference securities	F11(b) (ii)	**458**			458		
€500 million perpetual preferred callable securities	F10(b)	**338**			338		
£350 million perpetual preferred callable securities	F10(b)	**350**			350		
Total: Book value		**2,529**			2,894		
Nominal value of the above		**2,666**			3,045		

The table below is a maturity analysis of liability cash flows based on contractual maturity dates for borrowed funds. Maturity analysis is undiscounted and based on year end exchange rates.

	Group excluding Nedbank	Nedbank	At 31 December 2011 Group	Group excluding Nedbank	Nedbank	At 31 December 2010 Group
						£m
Less than 1 year	**272**	**512**	**784**	498	323	821
Greater than 1 year and less than 5 years	**898**	**1,936**	**2,834**	921	2,164	3,085
Greater than 5 years	**998**	**556**	**1,554**	880	722	1,602
Total	**2,168**	**3,004**	**5,172**	2,299	3,209	5,508

Senior notes

(a) Floating rate notes

	At 31 December 2011	At 31 December 2010	Maturity date
			£m
Nedbank			
R1,690 million unsecured senior debt at 3 month JIBAR + 1.5%	**119**	166	September 2012
R1,044 million unsecured senior debt at 3 month JIBAR + 2.20%	**84**	102	September 2015
R1,750 million unsecured senior debt inflation linked (3.9% real yield)	**158**	180	March 2013
R98 million unsecured senior debt inflation linked (3.8% real yield)	**9**	10	March 2013
R1,552 million unsecured senior debt at 3 month JIBAR + 1.48%	**125**	153	April 2013
R1,027 million unsecured senior debt at 3 month JIBAR + 1.75%	**83**	101	April 2015
R80 million unsecured senior debt JIBAR + 2.15%	**6**	8	April 2020
R837 million unsecured senior debt at 3 month JIBAR + 1.05%	**79**	–	March 2014
R677 million unsecured senior debt at 3 month JIBAR + 1.25%	**54**	–	March 2016
R500 million unsecured senior debt at 3 month JIBAR + 1%	**40**	–	April 2014
R1,075 million unsecured senior debt at 3 month JIBAR + 0.94%	**87**	–	October 2014
	844	720	
Group excluding Nedbank			
US$50 million at 3 month LIBOR plus 0.50%	**–**	32	Repaid
	–	32	
Total floating rate notes	**844**	752	

All floating rate notes are non-qualifying for the purposes of regulatory tiers of capital.

(b) Fixed rate notes

	At 31 December 2011	At 31 December 2010	Maturity date
			£m
Nedbank			
R130 million unsecured senior debt at zero coupon	**14**	16	October 2024
R3,244 million unsecured senior debt at 10.55%	**265**	326	September 2015
R762 million unsecured senior debt at 11.39%	**63**	77	September 2019
R478 million unsecured senior debt at R157 + 1.75%	**39**	47	April 2015
R450 million unsecured senior debt at R206 + 1.28%	**37**	–	March 2014
R1,137 million unsecured senior debt at R157 + 1.5%	**93**	–	March 2016
	511	466	
Group excluding Nedbank			
£500 million euro bond at 7.125%	**496**	496	October 2016
US$16.5 million secured senior debt at 5.23%	**11**	11	August 2014
R100 million floating rate note repayable February 2011 (3 months ZAR-JIBAR-SAFEX plus 4.5%)	**–**	9	Repaid
	507	516	
Total fixed rate notes	**1,018**	982	

All fixed rate notes are non-qualifying for the purposes of regulatory tiers of capital.

E: Financial assets and liabilities continued

E9: Borrowed funds continued

(c) Revolving credit facilities and irrevocable letters of credit

In April 2011 the Group signed a new £1,200 million five-year multi-currency revolving credit facility, replacing the £1,232 million facility due to mature in September 2012.

At 31 December 2011 £160 million (2010: £499 million) of this facility was utilised, £nil (2010: £nil) in the form of drawn debt and £160 million (2010: £499 million) in the form of irrevocable letters of credit.

The Group had a SEK1,500 million revolving credit facility with a maturity date of 1 July 2011 which was subsequently extended on similar terms to 1 July 2012 and revised to SEK1,000 million. At 31 December 2011 this facility was undrawn (2010: undrawn). On 22 February 2012 the facility was terminated.

(d) Mortgage backed securities – Nedbank

£m

	At 31 December 2011	At 31 December 2010	**Tier**	**Maturity date**
Nedbank				
R291 million notes (class A1) at 11.467%	**–**	4	Tier 2	Repaid
R1.4 billion notes (class A2A) at 11.817%	**67**	96	Tier 2	November 2039
R98 million notes (class B note) at 12.067%	**6**	7	Tier 2	November 2039
R76 million notes (class C note) at 13.317%	**4**	5	Tier 2	November 2039
Total mortgage backed securities	**77**	112		

(e) Subordinated debt securities (net of Group holdings)

	At 31 December 2011	At 31 December 2010	Tier	First call date	Maturity date
					£m
Nedbank					
R1.5 billion (7.85%)	**–**	148	Tier 2	–	Repaid
R1.8 billion (9.84%)	**153**	186	Tier 2	September 2013	September 2018
R650 million (9.03%)	**54**	67	Tier 2	February 2012	February 2017
R1.7 billion (8.9%)	**144**	171	Tier 2	February 2014	February 2019
R2.0 billion (3 month JIBAR plus 0.47%)	**161**	198	Tier 2	July 2017	July 2022
R500 million (3 month JIBAR plus 0.45%)	**40**	49	Tier 2	August 2012	August 2017
R1.0 billion (10.54%)	**87**	105	Tier 2	September 2015	September 2020
R500 million (3 month JIBAR plus 0.70%)	**40**	49	Tier 2	December 2012	December 2017
R120 million (10.38%)	**10**	12	Tier 2	December 2012	December 2017
R487 million (15.05%)	**42**	51	Tier 2	November 2018	November 2018
R1,265 million (JIBAR plus 4.75%)	**102**	125	Non-core Tier 1	November 2018	November 2018
R300 million (JIBAR + 2.5%)	**12**	15	Non-core Tier 1	December 2013	December 2013
US$100 million (3 month USD LIBOR)	**65**	65	Tier 2 Secondary	March 2017	March 2022
	910	1,241			
Less: banking subordinated debt securities held by other Group companies	**(69)**	(83)			
Banking subordinated debt securities (net of Group holdings)	**841**	1,158			
Group excluding Nedbank					
R3.0 billion (8.9% to October 2015, 3 month JIBAR plus 1.59% thereafter)	**239**	293	Lower Tier 2	October 2015	October 2020
£300 million (5.0%)	**–**	296	Lower Tier 2	January 2011	Repaid
€200 million (2010: €750 million) (4.5% to January 2012 and 6 month EURIBOR plus 0.96% thereafter)*	**166**	609	Lower Tier 2	January 2012	January 2017
£500 million (8.0%)**	**471**	–	Lower Tier 2	–	June 2021
	876	1,198			
Total subordinated debt securities	**1,717**	2,356			

* The principal and coupon on the bond were swapped equally into pounds sterling and US dollars with coupons of 6 month LIBOR plus 0.34% and 6 month US LIBOR plus 0.31% respectively. During the year a €550 million partial repayment, together with settlements of associated currency swaps, was made. On 18 January 2012 the remaining €200 million was repaid.

** The principal and coupon on the bonds were swapped into floating rate of quarterly STIBOR plus 5.46%. The currency swaps have a five year mandatory break clause.

E: Financial assets and liabilities continued

E10: Amounts owed to bank depositors

£m

Year ended 31 December 2011	Carrying amount	Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	Total
Amounts owed to bank depositors						
Current accounts	**4,117**	**4,117**	**–**	**–**	**–**	**4,117**
Savings deposits	**1,265**	**1,265**	**–**	**–**	**–**	**1,265**
Other deposits and loan accounts	**26,613**	**20,897**	**3,242**	**2,370**	**299**	**26,808**
Negotiable certificates of deposit	**7,787**	**2,553**	**4,186**	**1,610**	**1**	**8,350**
Deposits received under repurchase agreements	**1,196**	**1,196**	**–**	**–**	**–**	**1,196**
Amounts owed to bank depositors	**40,978**	**30,028**	**7,428**	**3,980**	**300**	**41,736**

£m

Year ended 31 December 2010	Carrying amount	Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	Total
Amounts owed to bank depositors						
Current accounts	8,016	8,016	–	–	–	8,016
Savings deposits	3,731	3,731	–	–	–	3,731
Other deposits and loan accounts	29,352	23,484	4,313	1,863	216	29,876
Negotiable certificates of deposit	10,758	2,567	6,553	2,337	2	11,459
Deposits received under repurchase agreements	1,379	1,379	–	–	–	1,379
Amounts owed to bank depositors	53,236	39,177	10,866	4,200	218	54,461

E11: Liquidity

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity by maintaining adequate reserves, banking facilities and continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Individual businesses separately maintain and manage their local liquidity requirements according to their business needs, within the overall liquidity framework established by Old Mutual plc.

The Group continues to meet Group and individual entity capital requirements, and day-to-day liquidity needs, through the Group's available credit facilities. Given the nature of the Group's investments and securities, generally speaking, liquid resources are readily available, as the Group holds large portfolios of highly marketable securities, for example equities, listed bonds, actively traded pooled investments and cash and cash equivalents. Whilst most of the Group's policyholder and banking liabilities are generally repayable on demand, the Group's expectation is that policyholders and banking depositors will only require funds on an ongoing basis. Cash resources and other liquid assets are maintained in the event of a need for additional liquidity. Information on the nature of the investments and securities held is given in section E4. The Group's existing revolving credit facility of £1.20 billion (2010: £1.23 billion) does not mature until April 2016 (2010: September 2012). Details, together with information on the Group's borrowed funds, are given in section E9.

The key information reviewed by the Group's executive directors and Executive Committee, together with the Group's Capital Management Committee, is a detailed management report on the Group's and holding company's current and planned capital and liquidity position together with summary information on the current and planned liquidity positions of the Group's operating segments. Forecasts are updated regularly based on new information received, and as part of the Group's annual business planning cycle. The Group and holding company's liquidity and capital position and forecast are presented to the Old Mutual plc Board of directors on a regular basis.

Group operating segments are required, both in terms of their local requirements and in accordance with direction from the holding company, to establish their own processes for managing their liquidity and capital needs and these are subject to review by their local oversight functions, with representation from the Group.

Further information on liquidity and holding company cash flow is contained in other sections of this annual report, for example the business review and Group Finance Director's statement.

The Group does not have material liquidity exposure to special purpose entities or investment funds.

The contractual maturities of the Group's financial liabilities are set out in the appropriate notes to the financial statements.

F: Other statement of financial position notes

F1: Goodwill and other intangible assets

										£m
	Goodwill		Present value of acquired in-force business development costs		Software development costs		Other intangible assets		Total	
At 31 December	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Cost										
Balance at beginning of the year	**3,286**	3,241	**2,704**	3,029	**766**	649	**896**	880	**7,652**	7,799
Acquisitions through business combinations	**–**	4	**–**	–	**–**	–	**1**	1	**1**	5
Additions	**–**	–	**–**	–	**86**	78	**8**	–	**94**	78
Foreign exchange and other movements	**(144)**	143	**(44)**	10	**(119)**	81	**(12)**	15	**(319)**	249
Disposals or retirements	**–**	(29)	**–**	–	**(9)**	(2)	**–**	–	**(9)**	(31)
Transfer to non-current assets held for sale	**(260)**	(73)	**(1,184)**	(335)	**(25)**	(40)	**(313)**	–	**(1,782)**	(448)
Balance at end of the year	**2,882**	3,286	**1,476**	2,704	**699**	766	**580**	896	**5,637**	7,652
Amortisation and impairment losses										
Balance at beginning of the year	**(455)**	(512)	**(1,297)**	(1,380)	**(523)**	(427)	**(412)**	(321)	**(2,687)**	(2,640)
Amortisation charge for the year	**–**	–	**(138)**	(214)	**(64)**	(61)	**(88)**	(83)	**(290)**	(358)
Impairment losses	**(264)**	(1)	**–**	–	**–**	(19)	**–**	–	**(264)**	(20)
Foreign exchange and other movements	**31**	(15)	**28**	27	**72**	(56)	**20**	(8)	**151**	(52)
Disposals or retirements	**–**	–	**–**	–	**2**	2	**–**	–	**2**	2
Transfer to non-current assets held for sale	**23**	73	**603**	270	**21**	38	**162**	–	**809**	381
Accumulated amortisation and impairment losses at end of the year	**(665)**	(455)	**(804)**	(1,297)	**(492)**	(523)	**(318)**	(412)	**(2,279)**	(2,687)
Carrying amount										
Balance at beginning of the year	**2,831**	2,729	**1,407**	1,649	**243**	222	**484**	559	**4,965**	5,159
Balance at end of the year	**2,217**	2,831	**672**	1,407	**207**	243	**262**	484	**3,358**	4,965

The present value of acquired in-force business at the year end of £672 million (2010: £1,407 million, of which £568 million was in respect of Nordic operations) relates to the Skandia business acquired during 2006 which is due to be amortised over a further 9 to 14 years.

Of other intangible assets, £175 million (2010: £280 million) relates to distribution channels and £37 million (2010: £136 million) brands associated with the Skandia business. The remaining periods over which these are being amortised are 4 years and 9 years respectively.

Acquisitions through business combinations comprises £1 million (2010: £1 million) in respect of acquisitions by the Group's US Asset Management business and £nil (2010: £4 million) relating to various other small acquisitions.

Allocation of goodwill to cash generating units (CGUs)

The carrying amount of goodwill accords with the operating segmentation shown in note B, and primarily relates to the Long-Term Savings (principally the CGUs of Emerging Markets, Retail Europe and Wealth Management), together with Nedbank and US Asset Management. The Nordic business unit has been classified as held for sale for the current year as detailed in note A2.

F: Other statement of financial position notes continued

F1: Goodwill and other intangible assets continued

An analysis of goodwill by CGU is set out below.

	£m	
	At 31 December 2011	At 31 December 2010
Emerging Markets	**90**	101
Retail Europe	**192**	198
Wealth Management	**656**	656
Long-Term Savings	**938**	955
Nedbank	**374**	453
US Asset Management	**881**	1,155
Other	**24**	25
Nordic	**–**	243
Goodwill, net of impairment losses	**2,217**	2,831

Annual impairment testing of goodwill

In accordance with the requirements of IAS 36 'Impairment of Assets', goodwill is tested annually for impairment for each CGU, by comparing the carrying amount of each CGU to its recoverable amount, being the higher of that CGU's value-in-use or fair value less costs to sell. An impairment charge is recognised when the recoverable amount is less than the carrying value.

Long-Term Savings

The CGUs within Long-Term Savings generate revenues through their life assurance and asset management businesses.

The value-in-use calculations for the life assurance operations are determined using the reported embedded value methodology plus a discounted cash flow calculation for the value of new business. The value of new business represents the present value of future profits from expected new business. Embedded value represents the shareholders' interest in the life assurance business and is calculated in accordance with Market Consistent Embedded Value principles. The methodology and significant assumptions underlying the determination of embedded value are disclosed in the supplementary information shown on pages 248 to 261. The differences between the key assumptions applied in the current year and in the prior year are disclosed on pages 264 to 277.

The cash flows attributable to the value of new business are determined with reference to the latest approved three-year business plans. Projections beyond the plan period are extrapolated using an inflation based growth assumption.

The value-in-use calculations for the asset management operations are similarly determined based on discounted cash flow models derived from the latest approved three-year business plans. An additional two years projections beyond the plan period are extrapolated using inflation based growth rates.

The cash flows are discounted at economic profit rates applicable to each individual CGU. The key assumptions used in the value-in-use calculations for the Emerging Markets, Retail Europe and Wealth Management CGUs are as follows:

- The growth rate – The rate used is an inflation based growth assumption, which varies by CGU and is based on external market factors particular to that CGU. Emerging Markets applied the growth rate of 3.4% and 4.2% respectively (2010: nil) to both its life assurance business and asset management business in Mexico and Columbia. Retail Europe, which incorporates a number of European countries, applied a weighted average calculation to determine the growth rate of 2.7% (2010: 2.8%) applied to its life assurance business and of 2.0% (2010: 1.8%) for its asset management business. Wealth Management applied 5.2% (2010: 3.7%) to both its life assurance business and asset management business in the UK, 3.4% (2010: 1.8%) in Italy and 2.3% (2010: 1.7%) in France.
- The discount rate – The applied rate used the relevant 10-year government bond rate as a starting point, which was adjusted for an equity market risk premium and other relevant risk adjustments, which were determined using market valuation models and other observable references. Rates applied were 13.1% (2010: 13.6%) for Emerging Markets, 11.7% (2010: 14.5%) for Retail Europe and 12.7% (2010: 15.8%) for Wealth Management.

The directors are satisfied that any reasonable change in the assumptions would not cause the recoverable amounts of the Emerging Markets, Retail Europe and Wealth Management CGUs to fall below their carrying amounts.

Nedbank

The impairment test in respect of the Nedbank CGU has been performed by comparing the CGU's carrying amount to its value-in-use. Value-in-use has been determined using a discounted cash flow methodology. The key assumptions used in the value-in-use calculation are the discount rate and growth rate, which are based on market factors relevant to that CGU. The discount rate applied is approximately 12.7% (2010: 12.9%). A 5% growth rate was applied to extrapolate cash flows for an additional two years beyond the three-year business plan period. A terminal value, using the same growth rate, is added for the value of cash flows beyond five years.

There was no impairment charge recognised for the Nedbank CGU in the current financial year (2010: £nil). The directors are satisfied that a reasonable change in assumptions would not cause the recoverable amount of the goodwill to fall below the carrying amount.

US Asset Management

The impairment test in respect of the US Asset Management CGU has been performed by comparing the CGU's carrying amount to its value-in-use determined using a discounted cash flow methodology. Key assumptions used in the value-in-use calculations include those that support the underlying business plans, the long-term growth rate and risk adjusted discount rate. Further detail is provided in note A3.

Based on the expected impact from the adverse outlook for US nominal GDP growth and net cash outflows experienced by USAM in 2011 the long-term growth rate was reduced for the purposes of the 2011 impairment test. As a result of the change in the growth rate assumptions and the reduction in near term client cash flows, an impairment charge has been recognised to reflect the reduction in value-in-use for USAM with a charge of £264 million being recognised in the year (2010: £nil).

Segmental analysis of goodwill and intangibles

The following table shows a segmental analysis of the carrying amounts of goodwill and other intangible assets, together with amortisation and impairment charges, by operating segment:

Goodwill and other intangible assets by segment

£m

	Goodwill and intangible assets*		Amortisation		Impairment loss	
At 31 December	**2011**	2010	**2011**	2010	**2011**	2010
Long-Term Savings	**1,860**	2,105	**151**	157	**–**	20
Emerging Markets	**104**	120	**5**	2	**–**	1
Retail Europe	**474**	522	**35**	36	**–**	–
Wealth Management	**1,282**	1,463	**111**	119	**–**	19
Nedbank	**557**	637	**47**	50	**–**	–
US Asset Management	**904**	1,181	**8**	3	**264**	–
Nordic	**–**	995	**75**	143	**–**	–
Other	**37**	47	**9**	5	**–**	–
Total	**3,358**	4,965	**290**	358	**264**	20

* Goodwill and intangible assets discussed in the table above is net of amortisation and impairment losses.

F2: Property, plant and equipment

£m

	Land		Buildings		Plant and equipment		Total	
Year ended 31 December	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Gross carrying amount								
Balance at beginning of the year	**111**	86	**685**	558	**865**	721	**1,661**	1,365
Additions	**15**	6	**23**	31	**148**	115	**186**	152
Additions from business combinations	**7**	–	**34**	–	**8**	–	**49**	–
Increase arising from revaluation	**8**	8	**31**	18	**–**	–	**39**	26
Disposals	**(1)**	–	**(19)**	(1)	**(133)**	(56)	**(153)**	(57)
Foreign exchange and other movements	**(25)**	11	**(150)**	85	**(132)**	92	**(307)**	188
Transfer to non-current assets held for sale	**–**	–	**–**	(6)	**(20)**	(7)	**(20)**	(13)
Balance at end of the year	**115**	111	**604**	685	**736**	865	**1,455**	1,661
Accumulated depreciation and impairment losses								
Balance at beginning of the year	**–**	–	**(50)**	(37)	**(596)**	(500)	**(646)**	(537)
Depreciation charge for the year	**–**	–	**(12)**	(16)	**(95)**	(87)	**(107)**	(103)
Disposals	**–**	–	**19**	–	**91**	55	**110**	55
Foreign exchange and other movements	**–**	–	**12**	3	**91**	(71)	**103**	(68)
Transfer to non-current assets held for sale	**–**	–	**–**	–	**10**	7	**10**	7
Balance at end of the year	**–**	–	**(31)**	(50)	**(499)**	(596)	**(530)**	(646)
Carrying amount								
Balance at beginning of the year	**111**	86	**635**	521	**269**	221	**1,015**	828
Balance at end of the year	**115**	**111**	**573**	**635**	**237**	**269**	**925**	**1,015**

F: Other statement of financial position notes continued

F2: Property, plant and equipment continued

The carrying value of property, plant and equipment leased to third parties under operating leases included in the above is £91 million (2010: £130 million) and comprises land of £10 million (2010: £15 million) and buildings of £81 million (2010: £115 million).

There are no restrictions on property, plant and equipment title as a result of security pledges.

The revaluation of land and buildings relates to Long-Term Savings and to Nedbank. In 2011 Long-Term Savings made revaluation gains of £3 million on land and £6 million on buildings (2010: gains of £1 million and £3 million respectively), while Nedbank made revaluation gains of £5 million on land and £25 million on buildings (2010: gains of £4 million and £12 million respectively). For Long-Term Savings, 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 £26 million (2010: £7 million) and £168 million (2010: £174 million) respectively for Long-Term Savings and £22 million (2010: £27 million) and £150 million (2010: £167 million) respectively for Nedbank.

Additions and depreciation by segment

Year ended 31 December 2011	**Long-Term Savings**	**Nedbank**	**M&F**	**US Asset Management**	**Nordic**	**Total £m**
Additions	**32**	**142**	**6**	**4**	**2**	**186**
Depreciation	**24**	**68**	**5**	**7**	**3**	**107**

Year ended 31 December 2010	Long-Term Savings	Nedbank	M&F	US Asset Management	Nordic	Total £m
Additions	19	119	4	3	7	152
Depreciation	23	63	6	8	3	103

F3: Investment property

£m	**Year ended 31 December 2011**	Year ended 31 December 2010
Balance at beginning of the year	**2,040**	1,759
Additions	**57**	162
Additions from business combinations	**290**	–
Disposals	**(6)**	(272)
Net (loss)/gain from fair value adjustments	**(68)**	30
Foreign exchange and other movements	**(249)**	362
Transfer to non-current assets held for sale	**–**	(1)
Balance at end of the year	**2,064**	2,040

In 2011 additions of £57 million (2010: £162 million) related to Long-Term Savings. Of the net (loss)/gain arising from fair value adjustments on investment properties, a £68 million loss (2010: £30 million gain) related to Long-Term Savings.

The fair value of investment property (freehold) leased to third parties under operating leases is as follows:

£m	**Year ended 31 December 2011**	Year ended 31 December 2010
Freehold	**2,051**	2,040
Long leaseholds	**13**	–
	2,064	2,040

Rental income from investment property	**184**	163
Direct operating expense arising from investment property that generated rental income	**(19)**	(19)
	165	144

The carrying amount of investment property is the fair value of the property as determined by a registered independent valuer at least every three years, and annually by locally qualified staff, having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values are determined having regard to recent market transactions for similar properties in the same location as the Group's investment property. The Group's current lease arrangements, which are entered into on an arm's length basis and which are comparable to those for similar properties in the same location, are taken into account.

Of the total investment property of £2,064 million (2010: £2,040 million), £1,715 million (2010: £1,699 million) is attributable to South Africa and £349 million (2010: £341 million) to Europe.

F4: Deferred acquisition costs

£m

	Insurance contracts		Investment contracts		Asset management		Total	
At 31 December	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Balance at beginning of the year	**212**	1,934	**1,187**	1,079	**135**	125	**1,534**	3,138
New business	**8**	86	**273**	276	**61**	64	**342**	426
Amortisation	**(65)**	(308)	**(212)**	(221)	**(57)**	(48)	**(334)**	(577)
Impairment losses charged for the year	**–**	–	**–**	–	**1**	(10)	**1**	(10)
Foreign exchange and other movements	**(23)**	(186)	**(45)**	53	**(4)**	4	**(72)**	(129)
Transfer to non-current assets held for sale	**(31)**	(1,314)	**(89)**	–	**–**	–	**(120)**	(1,314)
Balance at end of the year	**101**	212	**1,114**	1,187	**136**	135	**1,351**	1,534

F5: Trade, other receivables and other assets

£m

	At 31 December 2011	At 31 December 2010
Debtors arising from direct insurance operations		
Amounts owed by policyholders	**86**	85
Amounts owed by intermediaries	**76**	89
Other	**41**	85
Debtors arising from direct insurance operations	**203**	259
Debtors arising from reinsurance operations	**35**	39
Outstanding settlements	**360**	461
Reinsurance treaties	**754**	974
Other receivables	**801**	840
Accrued interest and rent	**350**	400
Trading securities and spot positions	**530**	506
Prepayments and accrued income	**90**	145
Other assets	**225**	310
Total trade, other receivables and other assets	**3,348**	3,934

Based on the maturity profile of the above assets, £1,800 million (2010: £2,933 million) is regarded as current and £1,548 million (2010: £1,001 million) as non-current. All amounts outstanding are short-term in nature. No significant balances are past due or impaired.

F: Other statement of financial position notes continued

F6: Provisions

£m

Year ended 31 December 2011	Client compensation	Liability for long service leave	Restructuring	Provision for donations	Other	Total
Balance at beginning of the year	**39**	**57**	**34**	**89**	**92**	**311**
Unused amounts reversed	**–**	**(1)**	**–**	**–**	**(14)**	**(15)**
Charge to income statement	**–**	**33**	**11**	**–**	**14**	**58**
Utilised during the year	**(3)**	**(30)**	**(7)**	**–**	**(3)**	**(43)**
Foreign exchange and other movements	**7**	**(8)**	**(1)**	**(11)**	**(18)**	**(31)**
Transfer to non-current assets held for sale	**–**	**(4)**	**–**	**–**	**(9)**	**(13)**
	43	**47**	**37**	**78**	**62**	**267**
Post-employment benefits					**2**	**2**
Balance at end of the year	**43**	**47**	**37**	**78**	**64**	**269**

£m

Year ended 31 December 2010	Client compensation	Liability for long service leave	Restructuring	Provision for donations	Other	Total
Balance at beginning of the year	30	49	42	84	90	295
Unused amounts reversed	–	–	(10)	–	(19)	(29)
Charge to income statement	7	28	9	–	25	69
Utilised during the year	(9)	(27)	(4)	–	(5)	(45)
Foreign exchange and other movements	11	7	(3)	5	1	21
	39	57	34	89	92	311
Post-employment benefits					(51)	(51)
Balance at end of the year	39	57	34	89	41	260

Provisions in relation to client compensation were £43 million (2010: £39 million), primarily relating to possible mis-selling of guarantee contracts in Wealth Management. £1 million (2010: £1 million) is estimated to be payable after more than one year.

The liability for long service leave of £47 million (2010: £57 million) relates to provision for staff payments for long serving employees, all of which is estimated to be payable in less than one year.

Provisions in relation to restructuring were £37 million (2010: £34 million), primarily in respect of consolidation and related office relocation for elements of Wealth Management. £21 million (2010: £30 million) is estimated to be payable after more than one year.

The provision for donations is held by Emerging Markets in respect of South African operations in relation to the payment of charitable donations in future periods to which the Group is committed to use these funds. The funds were 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, with £78 million (2010: £70 million) estimated to be payable after more than one year.

Other provisions include provisions for long-term staff benefits and legal fees.

Where material, provisions are discounted at discount rates specific to the risks inherent in the liability. The timing and final amounts of payments in respect of some of the provisions, particularly those in respect of litigation claims and similar actions against the Group, are uncertain and could result in adjustments to the amounts recorded. Of the total provisions recorded above, £129 million (2010: £163 million) is estimated to be payable after more than one year.

F7: Deferred revenue

	Long-term business		Asset management		General insurance		Total	£m
Year ended 31 December	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Balance at beginning of the year	**621**	556	**98**	89	**11**	9	**730**	654
Fees and commission income deferred	**87**	107	**46**	48	**–**	1	**133**	156
Amortisation	**(49)**	(39)	**(41)**	(39)	**–**	–	**(90)**	(78)
Foreign exchange and other movements	**(13)**	21	**(1)**	1	**(2)**	1	**(16)**	23
Transfer to non-current assets held for sale	**(56)**	(24)	**–**	(1)	**–**	–	**(56)**	(25)
Balance at end of the year	**590**	621	**102**	98	**9**	11	**701**	730

F8: Deferred tax assets and liabilities

Deferred income taxes are calculated on all temporary differences at the tax rate applicable to the jurisdiction in which the timing differences arise.

(a) Deferred tax assets

The movement on the deferred tax assets account is as follows:

£m

Year ended 31 December 2011	**At beginning of the year**	**Income statement credit/ (charge)**	**Charged to equity**	**Acquisition/ disposal of subsidiaries***	**Foreign exchange and other movements**	**At end of the year**
Insurance funds	**(2)**	**–**	**–**	**–**	**1**	**(1)**
Tax losses carried forward	**209**	**14**	**–**	**(53)**	**(6)**	**164**
Accelerated capital allowances	**2**	**(1)**	**–**	**–**	**–**	**1**
Other temporary differences	**234**	**16**	**(1)**	**(36)**	**(28)**	**185**
Netted against liabilities	**(214)**	**14**	**–**	**21**	**3**	**(176)**
Deferred fee income	**187**	**–**	**–**	**(15)**	**(6)**	**166**
	416	**43**	**(1)**	**(83)**	**(36)**	**339**

* Includes transferring Nordic into non-current assets held for sale

£m

Year ended 31 December 2010	At beginning of the year	Income statement (charge)/ credit	(Charged)/ credited to equity	Acquisition/ disposal of subsidiaries**	Foreign exchange and other movements	At end of the year
Insurance funds	286	–	–	(288)	–	(2)
Tax losses carried forward	269	(30)	–	(42)	12	209
Accelerated capital allowances	6	(4)	–	–	–	2
Available-for-sale securities	185	–	(182)	(7)	4	–
Other temporary differences	265	27	2	(66)	6	234
Netted against liabilities	(624)	5	–	399	6	(214)
Deferred fee income	183	7	(1)	–	(2)	187
	570	5	(181)	(4)	26	416

** Includes transferring US Life into non-current assets held for sale

F: Other statement of financial position notes continued

F8: Deferred tax assets and liabilities continued

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable, being where on the basis of all available evidence it is considered more likely than not that there will be suitable taxable profits against which the reversal of the deferred tax asset can be deducted. The amounts for which no deferred tax asset has been recognised comprise:

£m

	31 December 2011		31 December 2010	
	Gross amount	**Tax**	Gross amount	Tax
Unrelieved tax losses				
Expiring in less than a year	**49**	**3**	–	–
Expiring in the second to fifth years inclusive	**197**	**10**	–	–
Expiring after five years	**1,784**	**396**	2,473	459
Accelerated capital allowances	**126**	**31**	117	31
Other timing differences	**533**	**89**	296	79
	2,689	**529**	2,886	569

(b) Deferred tax liabilities

The movement on the deferred tax liabilities account is as follows:

£m

Year ended 31 December 2011	**At beginning of the year**	**Income statement (credit)/ charge**	**Credited to equity**	**Acquisition/ disposal of subsidiaries***	**Foreign exchange and other movements**	**At end of the year**
Accelerated tax depreciation	**29**	**(2)**	**–**	**–**	**(5)**	**22**
Deferred acquisition costs	**197**	**1**	**–**	**(14)**	**(14)**	**170**
Leasing	**53**	**(9)**	**–**	**–**	**(7)**	**37**
PVIF	**197**	**(27)**	**–**	**(31)**	**(2)**	**137**
Other acquired intangibles	**65**	**(14)**	**–**	**(13)**	**(1)**	**37**
Available-for-sale securities	**5**	**–**	**(1)**	**1**	**(2)**	**3**
Other temporary differences	**381**	**(130)**	**–**	**(68)**	**(21)**	**162**
Policyholder tax	**145**	**(7)**	**–**	**–**	**(26)**	**112**
Netted against assets	**(214)**	**14**	**–**	**21**	**3**	**(176)**
	858	**(174)**	**(1)**	**(104)**	**(75)**	**504**

* Includes transferring Nordic into non-current assets held for sale and consolidation of other African businesses

£m

Year ended 31 December 2010	At beginning of the year	Income statement charge/ (credit)	Credited to equity	Acquisition/ disposal of subsidiaries**	Foreign exchange and other movements	At end of the year
Accelerated tax depreciation	24	1	–	(1)	5	29
Deferred acquisition costs	662	26	(115)	(404)	28	197
Leasing	44	–	–	–	9	53
PVIF	224	(24)	–	–	(3)	197
Other acquired intangibles	86	(19)	–	–	(2)	65
Available-for-sale securities	2	1	–	–	2	5
Other temporary differences	366	38	–	(5)	(18)	381
Policyholder tax	121	4	–	–	20	145
Netted against assets	(624)	5	–	399	6	(214)
	905	32	(115)	(11)	47	858

** Included transferring US Life into non-current assets held for sale

As the Group is able to control the reversal of temporary differences in respect of investments in subsidiaries and branches, and it is probable that these temporary differences will not reverse in the foreseeable future, there is no need to provide for the associated deferred tax liabilities. The aggregate amount of temporary differences on which further tax might be due if these temporary differences reversed is estimated at £3.0 billion (2010: £3.4 billion).

F9: Trade, other payables and other liabilities

	At 31 December 2011 £m	At 31 December 2010 £m
Amounts payable on direct insurance business		
Funds held under reinsurance business ceded	**123**	119
Amounts owed to policyholders	**397**	326
Amounts owed to intermediaries	**76**	90
Other direct insurance operation creditors	**70**	60
Amounts payable on direct insurance business	**666**	595
Accounts payable on reinsurance business	**38**	35
Accruals and deferred income	**526**	697
Share-based payments – cash-settled scheme liabilities	**37**	21
Short trading securities, spot positions and other	**931**	1,598
Trade creditors	**305**	304
Outstanding settlements	**555**	503
Total securities sold under agreements to repurchase	**89**	117
Obligations in relation to collateral holdings	**410**	995
Other liabilities	**686**	796
Total trade, other payables and other liabilities	**4,243**	5,661

Included in the amounts shown above are £3,531 million (2010: £3,885 million) that are regarded as current and £712million (2010: £1,776 million) as non-current.

F10: Equity

(a) Share capital

Authorised and issued share capital	At 31 December 2011 £m	At 31 December 2010 £m
Authorised ordinary shares of 10p each	**750**	750
Issued ordinary shares of 10p each	**580**	570

(b) Perpetual preferred callable securities

In addition to the Group's senior and subordinated debt, the Group has issued two separate tranches of perpetual preferred callable securities with a total carrying value of £688 million (2010: £688 million) at 31 December 2011. In accordance with IFRS accounting standards these instruments are classified as equity and disclosed within equity shareholders' funds as shown on pages 132 and 133.

£350 million perpetual preferred callable securities. These are unsecured and subordinated to the claims of senior creditors and the holders of any priority preference shares. For an initial period to 24 March 2020 interest is payable at a fixed rate of 6.4% per annum annually in arrears. From 24 March 2020 interest is reset semi-annually at 2.2% per annum above the sterling inter-bank offer rate for six month sterling deposits, and is payable semi-annually in arrears. Coupon payments may be deferred at the Group's discretion. The perpetual preferred callable securities are redeemable at the discretion of the Group at their principal amount from 24 March 2020.

€500 million perpetual preferred callable securities – Step-up Option B Undated Subordinated Notes issued under a Global Note Programme. These are unsecured and subordinated to the claims of senior creditors and the holders of any priority preference shares. For an initial period to 4 November 2015 the notes pay interest at a fixed rate of 5.0% per annum annually in arrears. After this date the interest is reset semi-annually at 2.63% per annum above six month EURIBOR and is payable semi-annually in arrears. Coupon payments may be deferred at the Group's discretion. The perpetual preferred callable securities are redeemable at the discretion of the Group at their principal amount from 4 November 2015.

F11: Non-controlling interests

(a) Income statement

(i) Ordinary shares

The non-controlling interests share of profit for the financial year has been calculated on the basis of the Group's effective ownership of the subsidiaries in which it does not own 100% of the ordinary equity. The principal subsidiaries where a non-controlling interest exists are the Group's banking business in South Africa and, prior to the acquisition of the non-controlling interest in Mutual & Federal in February 2010 (see F11(b)), the general insurance business in South Africa. For the year ended 31 December 2011 the non-controlling interests attributable to ordinary shares was £238 million (2010: £196 million).

F: Other statement of financial position notes continued

F11: Non-controlling interests continued

(ii) Preferred securities

	£m	
	Year ended 31 December 2011	Year ended 31 December 2010
R2,000 million non-cumulative preference shares	**14**	14
R773 million non-cumulative preference shares	**5**	5
R355 million non-cumulative preference shares	**2**	2
US$750 million cumulative preferred securities	**37**	38
R363 million non-cumulative preference shares	**3**	3
R92 million non-cumulative preference shares	**1**	–
Non-controlling interests – preferred securities	**62**	62

(iii) Non-controlling interests – adjusted operating profit

The following table reconciles non-controlling interests' share of profit for the financial year to non-controlling interests' share of adjusted operating profit:

	£m	
Reconciliation of non-controlling interests' share of profit for the financial year	**Year ended 31 December 2011**	Year ended 31 December 2010
The non-controlling interests share is analysed as follows:		
Non-controlling interests – ordinary shares	**238**	196
Goodwill impairment and impact of acquisition accounting	**–**	2
Short-term fluctuations in investment return	**1**	–
Income attributable to Black Economic Empowerment trusts of listed subsidiaries	**22**	22
Fair value gains on Group debt instruments	**1**	6
Income attributable to US Asset Management non-controlling interests	**(5)**	(9)
Non-controlling interests share of adjusted operating profit	**257**	217

The Group uses revised weighted average effective ownership interests when calculating the non-controllable interest applicable to the adjusted operating profit of its South Africa banking and, prior to the acquisition of the non-controlling interest in February 2010, general insurance businesses. This reflects the legal ownership of these businesses following the implementation for Black Economic Empowerment (BEE) schemes in 2005. In accordance with IFRS accounting rules the shares issued for BEE purposes are deemed to be, in substance, options. Therefore the effective ownership interest of the minorities reflected in arriving at profit after tax in the consolidated income statement is lower than that applied in arriving at adjusted operating profit after tax. In 2011 the increase in adjusted operating profit attributable to non-controlling interests as a result of this was £22 million (2010: £22 million).

(b) Statement of financial position

(i) Ordinary shares

	£m	
Reconciliation of movements in non-controlling interests	**At 31 December 2011**	At 31 December 2010
Balance at beginning of the year	**1,763**	1,537
Non-controlling interests' share of profit	**238**	196
Non-controlling interests' share of dividends paid	**(100)**	(88)
Net disposal/(acquisition) of interests	**61**	(116)
Foreign exchange and other movements	**(310)**	234
Balance at end of the year	**1,652**	1,763

Acquisition of non-controlling interest in Mutual & Federal

On 5 February 2010, the Group completed the acquisition of the remaining non-controlling shareholdings in Mutual & Federal Insurance Company Limited, following the fulfilment of all outstanding conditions precedent. On 8 February 2010, 147,313,449 new Old Mutual plc ordinary shares were issued in exchange for Mutual & Federal shares and listed on the London Stock Exchange, of which 68,378,851 were issued to Black Economic Empowerment trusts and 78,934,598 to other previous holders.

Other acquisitions

On 8 February 2010 Nedbank announced that it had obtained regulatory approval for the acquisition of the remaining 49.9% indirect interest in Imperial Bank Limited thereby satisfying all conditions precedent for the acquisition.

The purchase consideration was approximately £162 million (£155 million plus a Johannesburg Interbank Agreed Rate (JIBAR) factor applied up to 5 February 2010) which was settled in four instalments out of existing cash resources of Nedbank Limited. The total amount, which included interest at the three month JIBAR, amounted to £165 million.

(ii) Preferred securities

		£m
	At 31 December 2011	At 31 December 2010
R2,000 million non-cumulative preference shares[1]	**140**	140
R773 million non-cumulative preference shares[2]	**71**	71
US$750 million cumulative preferred securities[3]	**458**	458
R355 million non-cumulative preference shares[4]	**25**	25
R363 million non-cumulative preference shares[5]	**29**	29
R92 million non-cumulative preference shares[6]	**8**	50
	731	773
Unamortised issue costs	**(13)**	(13)
Total in issue at 31 December	**718**	760

Preferred securities are held at historic value of consideration received less unamortised issue costs.

1. 200 million R10 preference shares issued by Nedbank Limited (Nedbank), the Group's banking subsidiary. These shares are non-redeemable and non-cumulative and pay a cash dividend equivalent to 75% of the prime overdraft interest rate of Nedbank. Preference shareholders are only entitled to vote during periods when a dividend or any part of it remains unpaid after the due date for payment or when resolutions are proposed that directly affect any rights attaching to the shares or the rights of the holders. Preference shareholders will be entitled to receive their dividends in priority to any payment of dividends made in respect of any other class of Nedbank's shares.
2. 77.3 million R10 preference shares issued at R10.68 per share by Nedbank on the same terms as the securities described in (1) above.
3. US$750 million guaranteed cumulative perpetual preference securities issued on 19 May 2003 by Old Mutual Capital Funding L.P., a subsidiary of the Group. Subject to certain limitations, holders of these securities are entitled to receive preferential cash distributions at a fixed rate of 8.0% per annum payable in arrears on a quarterly basis. The Group may defer payment of distributions at its sole discretion, but such an act may restrict Old Mutual plc from paying dividends on its ordinary shares for a period of 12 months. Arrears of distributions are payable quarterly cumulatively only on redemption of the securities or at the Group's option. The securities are perpetual, but may be redeemed at the discretion of the Group from 22 December 2008.
4. 35 million R10 preference shares issued in 16 April 2007 at R10.27 per share by Nedbank on the same terms as the securities described in (1) above.
5. 36.3 million R10 preference shares issued by Nedbank in seven instalments between September 2009 and December 2009 on the same terms as the securities described in (1) above.
6. 9.2 million R10 preference shares issued by Nedbank on 11 March 2010 on the same terms as the securities described in (1) above.

G: Other notes

G1: Post-employment benefits

The Group operates a number of pension schemes around the world. These schemes have been designed and are administered in accordance with local conditions and practices in the countries concerned and include both defined contribution and defined benefit schemes. The assets of these schemes are held in separate trustee administered funds. Pension costs and contributions relating to defined benefit schemes are assessed in accordance with the advice of qualified actuaries. Actuarial advice confirms that the current level of contributions payable to each pension scheme, together with existing assets, are adequate to secure members' benefits over the remaining service lives of participating employees. The schemes are reviewed at least on a triennial basis or in accordance with local practice and regulations. In the intervening years the actuary reviews the continuing appropriateness of the assumptions applied. The actuarial assumptions used to calculate the projected benefit obligations of the Group's pension schemes vary according to the economic conditions of the countries in which they operate.

G: Other notes continued

G1: Post-employment benefits continued

(a) Liability for defined benefit obligations

£m

	Pension plans		Other post-retirement benefit schemes	
Year ended 31 December	**2011**	2010	**2011**	2010
Changes in projected benefit obligation				
Projected benefit obligation at beginning of the year	**977**	815	**270**	211
Benefits earned during the year	**7**	9	**7**	6
Interest cost on benefit obligation	**39**	50	**18**	19
Actuarial loss/(gain)	**14**	53	**14**	(2)
Benefits paid	**(29)**	(50)	**(7)**	(3)
Transfer to held for sale	**(388)**	–	**–**	–
Foreign exchange and other movements	**(74)**	100	**(56)**	39
Projected benefit obligation at end of the year	**546**	977	**246**	270
Change in plan assets				
Plan assets at fair value at beginning of the year	**1,119**	953	**218**	175
Actual return on plan assets	**57**	90	**13**	17
Company contributions	**13**	12	**(3)**	(5)
Employee contributions	**1**	1	**–**	–
Benefits paid	**(27)**	(47)	**(7)**	(3)
Transfer to held for sale	**(463)**	–	**–**	–
Foreign exchange and other movements	**(106)**	110	**(43)**	34
Plan assets at fair value at end of the year	**594**	1,119	**178**	218
Net (asset)/liability recognised in statement of financial position				
Funded status of plan	**(48)**	(142)	**68**	52
Unrecognised assets	**4**	12	**(22)**	(10)
Other amounts recognised in statement of financial position	**–**	1	**1**	1
Unrecognised actuarial (losses)/gains	**(10)**	23	**9**	12
Net amount recognised in statement of financial position	**(54)**	(106)	**56**	55

(b) Expense/(income) recognised in the income statement

£m

	Pension plans		Other post-retirement benefit schemes	
Year ended 31 December	**2011**	2010 Restated	**2011**	2010
Current service costs	**4**	2	**7**	8
Interest cost	**28**	27	**18**	19
Expected return on plan assets	**(38)**	(40)	**(15)**	(15)
Net actuarial losses recognised in the year	**3**	8	**–**	–
Other benefit retirement plans	**–**	–	**–**	–
Total (included in staff costs)	**(3)**	(3)	**10**	12

Actuarial assumptions used in calculating the projected benefit obligation are based on mortality estimates relevant to the economic countries in which they operate, with a specific allowance made for future improvements in mortality which is broadly in line with that adopted for the 92 series of mortality tables prepared by the Continuous Mortality Investigation Bureau of the Institute of Actuaries.

The expected returns on plan assets have been determined on the basis of long-term expectations, the carrying value of the assets and the market conditions at the reporting date specific to the relevant locations.

The effect to the Group's obligation of a 1% increase and 1% decrease in the assumed health cost trend rates would be an increase of £19 million and decrease of £15 million (2010: increase of £22 million and decrease of £17 million) respectively.

The detailed actuarial assumptions can be viewed on the Group's website at www.oldmutual.com *(c) Plan asset allocation*

				%
	Pension plans		Other post-retirement benefit schemes	
At 31 December	**2011**	2010	**2011**	2010
Equity securities	**32.2**	37.8	**35.3**	36.5
Debt securities	**42.4**	41.7	**26.3**	26.3
Property	**4.1**	7.0	**4.7**	4.4
Cash	**2.0**	1.0	**23.5**	23.5
Annuities and other	**19.3**	12.5	**10.2**	9.3
	100.0	100.0	**100.0**	100.0

Pension and other retirement benefit plan assets include ordinary shares issued by the Company with a fair value of £nil (2010: £nil).

(d) Summary of Group pension plans

					£m
At 31 December	**2011**	2010	2009	2008	2007
Present value of defined benefit obligations	**(546)**	(977)	(815)	(778)	(675)
Fair value of plan assets	**594**	1,119	953	828	855
Surplus	**48**	142	138	50	180
Experience losses arising on defined benefit plan liabilities:					
Amount	**11**	(4)	8	2	(5)
As a percentage of plan liabilities	**(2.0)%**	0.4%	(1.0)%	0.0%	0.7%
Experience gains arising on defined benefit plan assets:					
Amount	**(11)**	(11)	(8)	(69)	39
As a percentage of plan assets	**(1.9)%**	(1.0)%	(0.8)%	(8.3)%	4.3%

Total contributions expected to be paid to the Group pension plans for the year ending 31 December 2012 are £13 million (subject to any reassessments to be completed in the year).

G2: Share-based payments

(a) Reconciliation of movements in options

During the year ended 31 December 2011, the Group had a number of share-based payment arrangements. The movement in the options outstanding under these arrangements during the year is detailed below:

	Year ended 31 December 2011		Year ended 31 December 2010	
Options over shares in Old Mutual plc (London Stock Exchange)	**Number of options**	**Weighted average exercise price**	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**63,745,407**	**£0.61**	77,490,352	£0.66
Granted during the year	**1,742,700**	**£1.10**	4,720,010	£1.12
Forfeited during the year	**(1,424,629)**	**£0.47**	(7,162,357)	£0.87
Exercised during the year	**(4,444,580)**	**£0.89**	(5,362,778)	£0.76
Expired during the year	**(7,556,947)**	**£1.05**	(5,939,820)	£1.21
Outstanding at end of the year	**52,061,951**	**£0.53**	63,745,407	£0.61
Exercisable at 31 December	**1,722,807**	**£0.74**	1,767,384	£1.31

The options outstanding at 31 December 2011 have an exercise price in the range of £0.35 to £1.53 (2010: £0.35 to £1.63) and a weighted average remaining contractual life of 0.7 years (2010: 1.7 years). The weighted average share price at date of exercise for options exercised during the year was £1.28 (2010: £1.19).

G: Other notes continued

G2: Share-based payments continued

Options over shares in Old Mutual plc (Johannesburg Stock Exchange)	Year ended 31 December 2011 Number of options	Year ended 31 December 2011 Weighted average exercise price	Year ended 31 December 2010 Number of options	Year ended 31 December 2010 Weighted average exercise price
Outstanding at beginning of the year	**73,997,737**	**R11.57**	63,770,329	R12.45
Conversion from options over shares in Mutual & Federal (see below)	**–**	**–**	9,060,754	R9.48
Granted during the year	**16,000,162**	**R15.78**	15,736,775	R13.87
Forfeited during the year	**(13,107,564)**	**R17.51**	(8,645,294)	R18.94
Exercised during the year	**(10,093,503)**	**R112.05**	(3,443,611)	R10.97
Expired during the year	**(1,971,258)**	**R13.77**	(2,481,216)	R14.43
Outstanding at end of the year	**64,825,574**	**R11.41**	73,997,737	R11.57
Exercisable at 31 December	**2,277,440**	**R11.52**	10,673,737	R12.72

The options outstanding at 31 December 2011 have an exercise price in the range of R1.45 to R19.10 (2010: R1.45 to R19.10) and a weighted average remaining contractual life of 4.1 years (2010: 3.9 years). The weighted average share price at date of exercise for options exercised during the year was R14.34 (2010: R13.92).

Options over shares in Nedbank Group Ltd	Year ended 31 December 2011 Number of options	Year ended 31 December 2011 Weighted average exercise price	Year ended 31 December 2010 Number of options	Year ended 31 December 2010 Weighted average exercise price
Outstanding at beginning of the year	**25,879,278**	**R126.71**	36,950,389	R124.86
Granted during the year	**921,526**	**R132.06**	1,486,893	R125.36
Forfeited during the year	**(508,771)**	**R113.07**	(1,286,772)	R105.23
Exercised during the year	**(12,205,562)**	**R101.09**	(5,943,004)	R94.47
Expired during the year	**(49,629)**	**R118.56**	(5,328,228)	R140.67
Outstanding at end of the year	**14,036,842**	**R149.94**	25,879,278	R126.71
Exercisable at 31 December	**865,712**	**R98.92**	1,890,932	R100.75

The options outstanding at 31 December 2011 have an exercise price in the range of R108 to R282.58 (2010: R78 to R282.58) and a weighted average remaining contractual life of 3.7 years (2010: 2.5 years). The weighted average share price at date of exercise for options exercised during the year was R129.61 (2010: R131.17).

In February 2010 the Group completed the acquisition of the remaining non-controlling interests in Mutual & Federal Insurance Company Ltd, with new Old Mutual plc shares issued in exchange for Mutual & Federal shares. In conjunction with the acquisition, options previously held over shares in Mutual & Federal were converted into options over shares in Old Mutual plc, being converted at a rate consistent with the acquisition terms.

(b) Measurements and assumptions

The fair value of services received in return for share options granted is 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 South African 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 2012 which will have an IFRS 2 grant date of 1 January 2011, is shown separately below. The grant date for all other awards is the award issue date.

(c) Share-based payment arrangements relating to US Asset Management

During the year ended 31 December 2011, US Asset Management had the following share-based payment arrangements:

Acadian Asset Management (AAM)

Class B equity interests in AAM acquired by employees during 2007 entitled the participating employees to 28.57% of the earnings of AAM in excess of $120 million, and to a liquidation preference proportionate to their shareholding. In consideration for the equity acquired, the participating employees agreed to forego a portion of existing long-term incentive payments owed. The difference between the carrying amount of this consideration and the fair value of the interest acquired was treated as a share-based compensation expense in 2007. Fair value was determined based on the discounted projected future cash flows of AAM.

During 2011, the AAM plan was modified such that the threshold above which key employees participate in earnings was reduced to $75 million, and a feature was added such that participating employees may sell their equity back to Old Mutual at a fixed multiple of prior year earnings, subject to certain restrictions. Participants are required to remain employed until 31 March 2013 to benefit from these amendments. The difference in fair value between the modified AAM plan and the original AAM plan was $21 million at 31 December 2011, and the vested portion of $8 million has been recognised as a compensation expense during the year. There were no instruments purchased or granted by the AAM plan in the year (2010: nil).

IPO Incentive Plan

During 2011, a stock-based compensation plan was implemented for certain key employees of US Asset Management in connection with the potential initial public offering (IPO) of the business. The plan is designed to reward participants for achieving strategic objectives and metrics and value creation over the period leading up to an initial IPO, should one proceed. The awards consist of a mix of cash, payable at completion of an IPO, and restricted shares in the newly-listed US entity, which would be granted upon completion of an IPO and vest over three years from that date. Should an IPO not proceed during the maximum term of the plan, the awards will be paid out in cash. The value and quantity of the cash and share portions of the awards will be dependent on the achievement of performance objectives, financial targets and potential IPO proceeds. The awards are accounted for as a share-based payment liability and recognised over the vesting period and revalued at each period end based on projected results of the performance conditions, with fair value measured using a Monte-Carlo simulation. The expense recognised during 2011 in relation to this plan was $1.3 million.

OMAM Affiliate Equity Plan

Equity granted during the year to employees of firms participating in the OMAM Affiliate Equity Plan vests 3 to 5 years from the date of grant, conditional upon continued employment over this period. Equity purchased vested immediately. Fair value was determined based on a multiple of prior year earnings. Under the terms of the arrangements, participating employees may sell their equity back to Old Mutual (which acts as a buyer of last resort) at a fixed multiple of prior year earnings, subject to certain restrictions. Accordingly, the schemes are accounted for as cash-settled share-based payments, despite the fact the initial purchase and/or grants of equity are settled in equity instruments.

The following summarises the instruments purchased from and granted by US Asset Management during the year:

Instruments granted and purchased during the year		Affiliate share purchases	Affiliate share grants	Affiliate shares forfeited/ bought back	Total non-controlling interest in affiliate
OMAM Affiliate Equity Plan					
Percentage of affiliate equity	**2011**	**0.07%**	**3.88%**	**(0.11)%**	**3.84%**
	2010	1.64%	2.89%	(0.14)%	4.39%
Fair value of instruments ($USm)[1]	**2011**	**–**	**$31m**	**–**	**$31m**
	2010	–	$18.1m	–	$18.1m

1. Represents fair value in excess of consideration granted for affiliate share purchases.

US Asset Management annual bonus awards

The OMAM Affiliate Equity Plans are 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 2012 in respect of the 2011 financial year has been determined to commence from 1 January 2011.

It is anticipated that instruments with a fair value of US$15.8 million (2010: US$7.9 million and 2009: US$8.7 million) will be granted during 2012 to firms participating in the OMAM Affiliate Equity Plan based on 2011 financial performance.

G: Other notes continued

G2: Share-based payments continued

(d) Restricted share grants

The following summarises the fair value of restricted shares granted by the Group during the year:

		Restricted shares issued on buy-out of M&F minorities*	Number granted	Weighted average fair value
Shares in Old Mutual plc (London Stock Exchange)	**2011**	**–**	**13,429,616**	**£1.44**
	2010	–	17,500,337	£1.20
Shares in Old Mutual plc (Johannesburg Stock Exchange)	**2011**	**–**	**18,961,207**	**R15.49**
	2010	–	14,506,095	R13.90
Shares in Nedbank Group Ltd	**2011**	**–**	**4,806,015**	**R134.64**
	2010	–	–	–
Shares in Mutual & Federal Insurance Company Ltd	**2011**	**–**	**5,147,317**	**R13.98**
	2010	19,418,697	1,052,601	R10.82

The share price at measurement date was used to determine the fair value of the restricted shares. Expected dividends were not incorporated into the measurement of fair value where the holder of the restricted share is entitled to dividends throughout the vesting period.

* In February 2010 the Group completed the acquisition of the remaining non-controlling interests in Mutual & Federal Insurance Company Ltd, with new Old Mutual plc shares issued in exchange for Mutual & Federal shares. In conjunction with the acquisition, options previously held over shares in Mutual & Federal were converted into options over shares in Old Mutual plc, being converted at a rate consistent with the acquisition terms.

(e) 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 South African 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 nil options (2010: 21,954,975 options) and 15,983,524 restricted shares (2010: 18,612,145 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 R17.04 (2010: R12.99).

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 2011		Year ended 31 December 2010	
	Total fair value, £m	**Vesting period**	Total fair value, £m	Vesting period
Old Mutual plc performance share plans – restricted shares	**12**	**4.2 years**	6	4.2 years
Old Mutual plc performance share plans – options	**–**	**–**	3	4.2 years

(f) Financial impact

		£m
	Year ended 31 December 2011	Year ended 31 December 2010
Expense arising from equity settled share and share option plans	**24**	13
Expense arising from cash settled share and share option plans	**37**	7
	61	20
Closing balance of liability for cash settled share awards	**37**	21
Total intrinsic value liability for vested benefits	**–**	–

G3: Related parties

The Group provides certain pension fund, insurance, banking and financial services to related parties. These are conducted on an arm's length basis and are not material to the Group's results.

(a) Transactions with key management personnel, remuneration and other compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. Details of the compensation paid to the Board of directors as well as their shareholdings in the Company are disclosed in the Remuneration Report on page 119 and Corporate Governance report on page 100 respectively.

(b) Key management personnel remuneration and other compensation

	Year ended 31 December 2011		Year ended 31 December 2010	
	Number of personnel	**Value £000s**	Number of personnel	Value £000s
Directors' fees	**12**	**1,638**	12	1,510
Remuneration		**25,176**		22,819
Cash remuneration	**17**	**5,969**	18	6,675
Short-term employee benefits	**17**	**8,751**	18	7,660
Post-employment benefits	**14**	**1,296**	10	451
Other long-term benefits	**5**	**12**	7	14
Share-based payments	**13**	**9,148**	17	8,019
		26,814		24,329

	Year ended 31 December 2011		Year ended 31 December 2010	
Share options	**Number of personnel**	**Number of options/ shares '000s**	Number of personnel	Number of options/shares '000s
Outstanding at beginning of the year	**13**	**14,499**	11	15,613
Leavers	**1**	**(70)**	2	(482)
New appointments	**1**	**274**	4	704
Granted during the year		**193**		425
Exercised during the year		**(2,079)**		(966)
Lapsed during the year		**(1,335)**		(795)
Outstanding at end of the year	**11**	**11,482**	13	14,499

	Year ended 31 December 2011		Year ended 31 December 2010	
Restricted shares	**Number of personnel**	**Number of options/ shares '000s**	Number of personnel	Number of options/shares '000s
Outstanding at beginning of the year	**14**	**19,142**	10	7,832
Leavers	**1**	**(641)**	2	(1,565)
New appointments	**2**	**1,580**	6	1,314
Granted during the year		**7,111**		12,282
Lapsed during the year		**(2,270)**		(151)
Released during the year		**(3,270)**		(570)
Outstanding at end of the year	**14**	**21,652**	14	19,142

G: Other notes continued

G3: Related parties

(c) Key management personnel transactions

Key management personnel and members of their close family have undertaken transactions with Old Mutual plc and its subsidiaries, jointly controlled entities and associated undertakings in the normal course of business, details of which are given below. For current accounts positive values indicate assets of the individual whilst for credit cards and mortgages positive values indicate liabilities of the individual.

	Year ended 31 December 2011		Year ended 31 December 2010	
	Number of personnel	Value £000s	Number of personnel	Value £000s
Current accounts				
Balance at beginning of the year	8	672	7	265
Net movement during the year		(348)		407
Balance at end of the year	5	324	8	672
Credit cards				
Balance at beginning of the year	5	29	4	22
Net movement during the year		(3)		7
Balance at end of the year	5	26	5	29
Mortgages				
Balance at beginning of the year	5	1,791	5	3,028
Net movement during the year		(627)		(1,125)
Interest charged		49		86
Less repayments		(778)		(334)
Foreign exchange movements		186		136
Balance at end of the year	4	621	5	1,791
General insurance contracts				
Total premium paid during the year	3	15	3	18
Claims paid during the year	1	1	1	1
Life insurance products				
Total sum assured/value of investment at end of the year	10	16,029	13	23,501
Pensions, termination benefits paid				
Value of pension plan as at end of the year	10	5,700	13	6,714

Various members of key management personnel hold, and/or have at various times during the year held, investments managed by asset management businesses of the Group. These include unit trusts, mutual funds and hedge funds. None of the amounts concerned are material in the context of the funds managed by the Group business concerned, and all of the investments have been made by the individuals concerned either on terms which are the same as those available to external clients generally or, where that is not the case, on the same preferential terms as were available to employees of the business generally.

(d) Skandia Liv

Livförsäkringsaktiebolaget Skandia (publ) (Skandia Liv), is a related party to the Old Mutual Group. Skandia Liv is a wholly owned subsidiary of Skandia and its business is conducted on a mutual basis. For the reasons given in the accounting policies Skandia Liv's result is not consolidated in these financial statements.

Material transactions between the Group and the Skandia Liv group in the year ended 31 December 2011 were as follows:

- Agreement in principle and framework agreement on co-operation covering market related functions and certain staff functions – this involves distribution and distribution support, customer service, market communication, administration of group insurance products, and staff and service functions. Skandia Liv paid £90 million (2010: £88 million) for services rendered under this agreement.
- Premises – the Group rented office premises from Skandia Liv. The Group paid market rents of £1 million (2010: £16 million) for these premises.
- Occupational pensions – Skandia Liv provides occupational pensions for the employees of the Group, for which the Group paid £17 million (2010: £15 million).
- Agreement on IT services – the Group provides IT services to Skandia Liv. The amount charged to Skandia Liv was £7 million (2010: £7 million).
- Settlement with Skandia Liv regarding the arbitration settlement – in a ruling issue on 2 October 2008, the arbitration board ruled that the going rate level of compensation in the market pursuant to the 2002 Asset Management Agreement is a maximum of ten basis points including value added tax, and that Skandia – for the time from 1 July 2008 and onward – is obligated to pay an amount to Skandia Liv that corresponds to the share of asset management fees received that exceed ten basis points including value added tax. A reserve to cover asset management fees for the time after 1 July 2008 was charged to the income statement. On 21 July 2009, an agreement was reached between Skandia and Skandia Liv, under which Skandia will pay a fixed amount per quarter until the end of 2013. The total remaining amount to be paid to Skandia Liv is less than the reserve provision booked as per July 2009 with the difference resolved in 2009. The remaining provision of £10 million is shown as a liability to Skandia Liv in the statement of financial position.
- Currency derivatives – Skandia Liv hedge their currency position with forward contracts with Skandia Group at the prices prevailing on the foreign exchange market. Skandia Liv paid £7 million (2010: £27 million) for forward contracts during the year.
- Capital Contribution – during the year, Skandia Liv made a group contribution of £154 million to the Skandia Group. Unrelieved tax losses have been used to offset the entire tax charge on this transaction. Simultaneously, the Skandia Group made a capital injection of £110 million back to Skandia Liv, corresponding to the group contribution net of tax relief.
- On 15 December 2011 it was announced that the Group has agreed to sell the Nordic business unit to Skandia Liv. Further detail has been provided in note A2.

The balance outstanding at 31 December 2011 due from Skandia Liv was £17 million (2010: £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.

G: Other notes continued

G4: Principal subsidiaries and Group enterprises

The following table lists the principal Group undertakings whose results are included in the consolidated financial statements. All shares held are ordinary shares and, except for OM Group (UK) Ltd, are held indirectly by the Company.

Name	Nature of business	Percentage holding	Country of incorporation
Old Mutual (South Africa) Ltd	Holding company	100	Republic of South Africa
Old Mutual Africa Holdings (Pty) Ltd	Holding company	100	Republic of South Africa
Old Mutual Life Assurance Company (South Africa) Ltd	Life assurance	100	Republic of South Africa
Old Mutual Investment Group (South Africa) (Pty) Ltd	Asset management	100	Republic of South Africa
Nedbank Group Ltd	Banking	58	Republic of South Africa
Nedbank Ltd	Banking	58	Republic of South Africa
Mutual & Federal Insurance Company Ltd	General insurance	100	Republic of South Africa
Old Mutual Life Assurance Company (Namibia) Ltd	Life assurance	100	Namibia
Old Mutual (US) Holdings, Inc	Holding company	100	Delaware, USA
Dwight Asset Management Company	Asset management	100	Delaware, USA
Old Mutual (Bermuda) Ltd	Life assurance	100	Bermuda
Acadian Asset Management LLC[1]	Asset management	100	Delaware, USA
Barrow, Hanley, Mewhinney & Strauss LLC	Asset management	100	Delaware, USA
OM Group (UK) Ltd	Holding company	100	England and Wales
Old Mutual Wealth Management Limited	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
Old Mutual (Netherlands) B.V.	Holding company	100	Netherlands

1. The Group holds 100% Class A shares and 71.43% Class B shares in Acadian Asset Management. The remaining 28.57% Class B shares are held by the employees as described in note G2(e).

A complete list of subsidiaries is filed with the UK Registrar of Companies with the annual return. All the above companies have a year end of 31 December.

As described in the accounting policies Skandia Liv is not consolidated in these financial statements. Skandia Liv's unaudited capital and reserves are summarised as follows:

	£m (unaudited)	
	At 31 December 2011	At 31 December 2010
Capital and reserves	**32**	31
(Loss)/profit after tax	**(2)**	2

G5: Investments in associated undertakings and joint ventures

(a) Investments in associated undertakings and joint ventures

The Group's investments in associated undertakings and joint ventures accounted for under the equity method are as follows:

At 31 December 2011	Country of operation	% interest held	Carrying value	£m Group share of profit/(loss)
Visigro Investments (Pty) Ltd	Republic of South Africa	**30%**	**6**	**–**
Odyssey Developments (Pty) Ltd	Republic of South Africa	**49%**	**8**	**–**
Old Mutual Finance (Pty) Ltd	Republic of South Africa	**50%**	**6**	**7**
Kotak Mahindra Old Mutual Life Insurance Ltd	India	**26%**	**26**	**6**
Old Mutual–Guodian Life Insurance Company Ltd	China	**50%**	**12**	**(4)**
All other associated undertakings			**53**	**1**
			111	**10**

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 2011.

At 31 December 2010	Country of operation	% interest held	Carrying value	£m Group share of profit/(loss) Restated
Clidet No. 638 (Pty) Ltd	Republic of South Africa	49%	29	–
Visigro Investments (Pty) Ltd	Republic of South Africa	30%	8	–
Odyssey Developments (Pty) Ltd	Republic of South Africa	49%	10	–
Old Mutual Finance (Pty) Ltd	Republic of South Africa	50%	5	4
Kotak Mahindra Old Mutual Life Insurance Ltd	India	26%	13	2
Old Mutual–Guodian Life Insurance Company Ltd	China	50%	12	(4)
All other associated undertakings			85	3
			162	5

(b) Aggregate financial information of investments in associated undertakings and joint ventures

The aggregate financial information for all investments in associated undertakings and joint ventures is as follows:

	Year ended 31 December 2011	£m Year ended 31 December 2010
Restated		
Total assets	**2,172**	2,032
Total liabilities	**1,947**	1,857
Total revenues	**607**	653
Net profit after tax	**10**	5

(c) Aggregate Group investment in associated undertakings and joint ventures

The aggregate amounts for the Group's investment in associated undertakings and joint ventures are as follows:

	Year ended 31 December 2011	£m Year ended 31 December 2010
Balance at beginning of the year	**162**	135
Net (disposals)/additions of investment in associated undertakings and joint ventures	**(7)**	11
Share of profit after tax	**10**	7
Dividends paid	**(4)**	–
Foreign exchange and other movements	**(50)**	9
Balance at end of the year	**111**	162

The Group has no significant investments in which it owns less than 20% of the ordinary share capital that it accounts for using the equity method.

G: Other notes continued

G5: Investments in associated undertakings and joint ventures continued

(d) Contingent liabilities

The Group is severally liable for the contingent liabilities relating to investments in associated undertakings of £nil (2010: £1 million).

(e) Other Group holdings

The above does not include companies whereby the Group has a holding of more than 20%, but does not have significant influence over these companies by virtue of the Group not having any direct involvement in decision making or the other owners possessing veto rights.

G6: Contingent liabilities

		£m
	At 31 December 2011	At 31 December 2010
Guarantees and assets pledged as collateral security	**2,251**	2,883
Irrevocable letters of credit	**193**	207
Secured lending	**515**	775
Other contingent liabilities	**72**	55

The Group has pledged debt securities amounting to £1,196 million (2010: £1,379 million) as collateral for deposits received under re-purchase agreements. These amounts represent assets that have been transferred but do not qualify for derecognition under IAS 39. These transactions are entered into under terms and conditions that are standard industry practice for securities borrowing and lending activities.

Contingent liabilities – tax

The Revenue authorities in the principle jurisdictions in which the Group operates (South Africa and the United Kingdom) are reviewing certain historic transactions undertaken and tax law interpretations made by the Group. More generally the Group is also experiencing increased review by fiscal authorities of routine matters. Whilst provisions are made for liabilities which might reasonably be expected to materialise, and whether or not legal proceedings will be required to resolve them, the outcome is uncertain at this stage. Further detail is provided in note A3(e).

Nedbank structured financing

Historically the Group's South African banking business 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. 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 the Group could be obliged to pay additional amounts to SARS and recover these from clients under the applicable contractual arrangements.

Nedbank litigation

There are a number of legal or potential claims against Nedbank and its subsidiary companies, the outcome of which cannot at present be foreseen. The largest of these potential actions is a claim in the High Court for R1.3 billion against Nedbank by certain shareholders in Pinnacle Point Group Limited, alleging that Nedbank had a legal duty of care to them arising from a share swap transaction.

During 2011 further actions were instituted against Nedbank by other stakeholders relating to this same issue. Nedbank and its legal advisers remain of the opinion that the claims are extremely ambitious and that the claimants will have great difficulty succeeding.

Nedbank securitisations

The Group through Nedbank uses securitisation primarily as a funding diversification tool and to add flexibility in mitigating structural liquidity risk. Nedbank currently has two active traditional securitisation transactions:

- Synthesis Funding Limited (Synthesis), an asset- backed commercial paper (ABCP) programme launched in 2004; and
- GreenHouse Funding (Pty) Limited, Series 1 (GreenHouse), a residential mortgage-backed securitisation programme launched in December 2007.

During October 2011 Octane ABS 1(Pty) Limited (Octane), a securitisation of motor vehicle loans launched in 2007, exercised its clean up call option. The remaining portfolio of securitised motor vehicle loans were acquired by Nedbank at fair value and the proceeds used by Octane to fully redeem all outstanding notes.

Synthesis primarily invests in long-term rated bonds and offers capital market funding to South African corporates. These assets are funded through the issuance of short-dated investment-grade commercial paper to institutional investors. All the commercial paper issued by Synthesis is assigned the highest short-term RSA local-currency credit rating by Fitch, and is listed on JSE Limited.

Under GreenHouse Series 1, R2 billion of residential mortgages originated by Nedbank were securitised. The commercial paper issued by GreenHouse has been assigned credit ratings by both Fitch and Moody's and is listed on JSE Limited. Fitch placed the GreenHouse commercial paper on rating watch negative as a result of changes it is effecting to its rating criteria for South African residential mortgage backed securities transactions. This process is ongoing. As the GreenHouse transaction was undertaken for funding and liquidity purposes, only the senior notes were placed with third party investors and the junior notes and subordinated loans to the special purpose entity were retained by Nedbank. The assets transferred to the special purpose entity have continued to be recognised as financial assets. GreenHouse continues to direct all capital repayments it receives on the residential mortgage portfolio to noteholders as a result of the stop purchase activated by a breach of the arrear trigger in 2010. The GreenHouse commercial paper is scheduled to be redeemed in November 2012.

The following table shows the carrying amount of securitised assets, stated at the amount of the Group's continuing involvement where appropriate, together with the associated liabilities, for each category of asset in the statement of financial position:*

				£m
	Carrying amount of assets		**Associated liabilities**	
At 31 December	**2011**	2010	**2011**	2010
Loans and advances to customers				
Residential mortgage loans	**116**	165	**132**	171
Motor vehicle financing	**–**	59	**–**	78
Other financial assets				
Corporate and bank paper	**116**	155	**–**	–
Other securities	**199**	327	**–**	–
Commercial paper	**–**	–	**320**	484
Total	**431**	706	**452**	733

This table presents the gross balances within the securitisation schemes and does not reflect any eliminations of intercompany and cash balances held by the various securitisation vehicles.

* The value of any derivative instruments taken out to hedge any financial asset or liability is adjusted against such instrument in this disclosure.

G7: Commitments

Capital commitments

The Group's capital commitments are detailed in the table below. The Group's management is confident that future net revenues and funding will be sufficient to cover these commitments.

		£m
	At 31 December 2011	At 31 December 2010
Investment property	**85**	118
Property, plant and equipment	**70**	95

Commitments to extend credit to customers

The following table presents the contractual amounts of the Group's financial instruments not included in the statement of financial position that commit it to extend credit to customers.

		£m
	At 31 December 2011	At 31 December 2010
Original term to maturity of one year or less	**2,057**	4,294
Original term to maturity of more than one year	**1,396**	1,885
Other commitments, note issuance facilities and revolving underwriting facilities	**2,093**	1,367

Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures, options and stock exchange memberships. Mandatory reserve deposits are also held with local Central Banks in accordance with statutory requirements. These deposits are not available to finance the Group's day-to-day operations.

Commitments under the Group's operating lease arrangements are described in note G8.

G: Other notes continued

G8: Operating lease arrangements

(a) The Group as lessee

Outstanding commitments under non-cancellable operating leases fall due as follows:	At 31 December 2011 Banking	At 31 December 2011 Non-banking	At 31 December 2011 Total	At 31 December 2010 Banking	At 31 December 2010 Non-banking	At 31 December 2010 Total
						£m
Within one year	**67**	**15**	**82**	68	35	103
In the second to fifth years inclusive	**173**	**52**	**225**	233	97	330
After five years	**210**	**39**	**249**	292	70	362
	450	**106**	**556**	593	202	795

(b) The Group as lessor

Assets subject to operating leases	At 31 December 2011	At 31 December 2010
		£m
Land	**10**	15
Buildings	**81**	115
Investment property	**2,064**	2,040
	2,155	2,170

Future minimum lease payments of contracts with tenants	At 31 December 2011	At 31 December 2010
		£m
Within one year	**61**	59
In the second to fifth years inclusive	**159**	142
After five years	**90**	76
	310	277

G9: Fiduciary activities

The Group provides custody, trustee, corporate administration, and investment management and advisory services to third parties that involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of misadministration or under-performance.

G10: Events after the reporting date

On 18 January 2012 the Group redeemed the remaining €200 million of the €750 million Lower Tier 2 Bond which had not been repaid during 2011. On 3 February 2012 the Group issued a circular in respect of the proposed disposal of the Nordic business unit. Additional details have been provided in notes A2, H1 and H2. On 7 February 2012 the Group announced that it had sold Dwight Asset Management subject to certain conditions. On 22 February 2012 the Group announced that a preliminary non-binding offer had been accepted by Ecobank Transnational Incorporated for the acquisition of Oceanic Life. In March 2012 Bermuda enhanced its hedging strategy by implementing an option based hedging arrangement, with further detail provided in note A3(a). On 8 March 2012 final regulatory approval was received in respect of the disposal of the Nordic business unit.

H: Discontinued operations and held for sale operations

H1: Discontinued operations

The results of the Group's Swedish, Danish and Norwegian life businesses, collectively Nordic, and United States life business, US Life, are shown as discontinued operations in these financial statements. At 31 December 2011 the Group had entered into an agreement to dispose of the controlling interest in Nordic to Skandia Liv, which remains subject to shareholder approval for the sale. The disposal of US Life was completed on 7 April 2011 following regulatory approval, and has been reported up until that date.

Analysis of the results is given below.

(a) Income statement from discontinued operations

£m

For the year ended 31 December	Nordic 2011	Nordic 2010	US Life 2011	US Life 2010	Total 2011	Total 2010
Revenue	**(421)**	1,779	**342**	1,608	**(79)**	3,387
Expenses	**541**	(1,729)	**(330)**	(1,557)	**211**	(3,286)
Profit before tax from discontinued operations	**120**	50	**12**	51	**132**	101
Impairment on remeasurement to fair value less costs to sell	**–**	–	**–**	(827)	**–**	(827)
Loss on disposal	**–**	–	**(29)**	–	**(29)**	–
Realised available-for-sale investment gains and exchange differences on disposal	**–**	–	**133**	–	**133**	–
Profit/(loss) before tax	**120**	50	**116**	(776)	**236**	(726)
Income tax (charge)/credit	**(52)**	(65)	**14**	63	**(38)**	(2)
Profit/(loss) from discontinued operations after tax	**68**	(15)	**130**	(713)	**198**	(728)

(b) Statement of comprehensive income from discontinued operations

£m

For the year ended 31 December	Nordic 2011	Nordic 2010	US Life 2011	US Life 2010	Total 2011	Total 2010
Profit/(loss) after tax for the financial year	**68**	(15)	**130**	(713)	**198**	(728)
Other comprehensive income for the financial year						
Fair value gains/(losses)						
Available-for-sale investments						
Fair value gains/(losses)	**3**	(5)	**48**	530	**51**	525
Recycled to the income statement	**–**	–	**(5)**	(12)	**(5)**	(12)
Realised on disposal	**–**	–	**(157)**	–	**(157)**	–
Exchange differences realised on disposal	**–**	–	**24**	–	**24**	–
Shadow accounting	**–**	–	**(43)**	(334)	**(43)**	(334)
Currency translation differences/exchange differences on translating foreign operations	**(43)**	157	**–**	29	**(43)**	186
Other movements	**10**	14	**–**	(34)	**10**	(20)
Aggregate tax on transfers from equity	**(1)**	–	**3**	(67)	**2**	(67)
Total other comprehensive (loss)/income for the financial year	**(31)**	166	**(130)**	112	**(161)**	278
Total comprehensive income/(loss) for the financial year	**37**	151	**–**	(601)	**37**	(450)
Attributable to						
Equity holders of the parent	**37**	151	**–**	(601)	**37**	(450)

(c) Net cash flows from discontinued operations

£m

For the year ended 31 December	Nordic 2011	Nordic 2010	US Life 2011	US Life 2010	Total 2011	Total 2010
Operating activities	**1,609**	144	**2**	(167)	**1,611**	(23)
Investing activities	**(1,411)**	(404)	**146**	63	**(1,265)**	(341)
Net cash flows from discontinued operations	**198**	(260)	**148**	(104)	**346**	(364)

H: Discontinued operations and held for sale operations continued

H2: Disposal groups held for sale

The assets and liabilities of the Group's Nordic business, Skandia Insurance Company Ltd (publ) (Nordic), comprising Old Mutual's long-term savings and banking operations in Sweden, Denmark and Norway operating under the Skandia brand, are shown as held for sale in these financial statements. The Group has entered into an agreement to dispose of the controlling interest in Nordic to Skandia Liv which remains subject to shareholder approval for the sale. On 8 March 2012 final regulatory approval was received. Further detail has been provided in note A2.

In addition to the above the Group has agreed to sell the Finnish branch of Skandia Life Assurance Company Ltd, a part of Wealth Management, to OP-Pohjola osk and as a result of this the assets and liabilities of the Finnish branch have been classified as held for sale.

(a) Statement of financial position

Assets directly associated with disposal groups held for sale

			£m
At 31 December 2011	**Nordic**	**Finnish branch**	**Total**
Assets			
Goodwill and other intangible assets	**901**	**72**	**973**
Property, plant and equipment	**10**	**–**	**10**
Deferred tax assets	**87**	**–**	**87**
Investments in associated undertakings and joint ventures	**5**	**–**	**5**
Deferred acquisition costs	**75**	**45**	**120**
Reinsurers' share of life assurance policyholder liabilities	**17**	**–**	**17**
Loans and advances	**5,194**	**–**	**5,194**
Investments and securities	**14,127**	**1,034**	**15,161**
Current tax receivable	**3**	**–**	**3**
Trade, other receivables and other assets	**240**	**1**	**241**
Derivative financial instruments – assets	**10**	**–**	**10**
Cash and cash equivalents	**291**	**4**	**295**
Total assets	**20,960**	**1,156**	**22,116**
Liabilities			
Life assurance policyholder liabilities	**10,889**	**1,034**	**11,923**
Third-party interests in consolidated funds	**1,383**	**–**	**1,383**
Borrowed funds	**2**	**–**	**2**
Provisions	**(54)**	**–**	**(54)**
Deferred revenue	**1**	**55**	**56**
Deferred tax liabilities	**103**	**26**	**129**
Current tax payable	**9**	**–**	**9**
Trade, other payables and other liabilities	**388**	**4**	**392**
Amounts owed to bank depositors	**6,552**	**–**	**6,552**
Derivative financial instruments – liabilities	**16**	**–**	**16**
Total liabilities	**19,289**	**1,119**	**20,408**

Of the financial assets and liabilities included within disposal groups held for sale, namely the Nordic business and the Finnish branch, all are level one or level two in respect of the fair value hierarchy. In addition to the disposal groups held for sale, the Group had additional non-current assets held for sale of £22 million (2010: £7 million) and non-current liabilities of £9 million (2010: £nil).

Included within investments and securities is £185 million of short-term cash balances.

(b) Equity attributable to equity holders of the parent directly associated with disposal groups held for sale

At 31 December 2011	Nordic	Finnish branch	Total
			£m
Retained earnings	**1,667**	**37**	**1,704**
Available-for-sale investment reserve	**2**	**–**	**2**
Share-based payment reserve	**2**	**–**	**2**
	1,671	**37**	**1,708**

At 31 December 2010 the assets and liabilities of the Group's United States life business, US Life, were shown as held for sale in the financial statements, being £12,384 million and £12,219 million respectively. The disposal of US Life was completed on 7 April 2011 following US regulatory approval. At the time of disposal the assets directly associated with US Life consisted of £10,518 million of investments and securities and £1,412 million of other assets, with liabilities at this time being £11,494 million of long-term policyholder liabilities and £235 million of other liabilities. Included within investments and liabilities was £565 million of short-term cash balances.

H3: Contingent liabilities in respect of the disposal of US Life

Following completion of the disposal of US Life to the Harbinger group ('Harbinger') on 7 April 2011, the Group has retained certain residual commitments and contingent liabilities. These relate to sale warranties and indemnities that are typical in transactions of this nature including in respect of litigation (including class actions) and regulatory enforcement actions arising from events occurring before completion. The specific conditions are in effect for varying periods of time, the longest dated of which will expire on 31 December 2015. The main elements are summarised below:

- Harbinger intends to establish certain internal reinsurance arrangements which are subject to regulatory approval. In the event that regulatory approval of the full amount of reinsurance is not forthcoming there is potential for a reduction in the purchase price, up to a maximum of US$50 million.
- US statutory regulations require reserving on a worst case scenario basis for deferred annuity policies that permit free partial withdrawals ('CARVM Reserves'). As such there is redundancy when comparing the worst case scenario and the economic scenarios. These CARVM redundant reserves are currently reinsured from US Life to Old Mutual Reassurance until no later than the end of 2015. Old Mutual plc provides a $255 million letter of credit to back these redundant reserves. In the event that this letter of credit is drawn upon Harbinger are obligated to fully reimburse Old Mutual plc.

COMPANY STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	At 31 December 2011 £m	At 31 December 2010 £m
Assets			
Investments in Group subsidiaries	8	**7,805**	9,373
Investments in associated undertakings	9	**26**	26
Other assets (including inter-company)	4	**2,254**	1,299
Derivative financial instruments – assets	2	**86**	109
Cash and cash equivalents		**441**	438
Non-current assets held for sale	12	**2,084**	–
Total assets		**12,696**	11,245
Liabilities			
Borrowed funds	3	**1,140**	1,451
Provisions	6	**12**	15
Other liabilities (including inter-company)	5	**5,384**	4,317
Derivative financial instruments – liabilities	2	**3**	100
Total liabilities		**6,539**	5,883
Net assets		**6,157**	5,362
Shareholders' equity			
Equity attributable to equity holders		**6,157**	5,362

The Company's financial statements on pages 232 to 240 were approved by the Board of Directors on 9 March 2012.

Julian Roberts
Group Chief Executive

Philip Broadley
Group Finance Director

COMPANY STATEMENT OF CASH FLOWS

For the year ended December 2011

		£m
	Year ended 31 December 2011	Year ended 31 December 2010
Cash flows from operating activities		
Profit before tax	**804**	152
Fair value movements on derivatives and borrowed funds	**(62)**	270
Foreign exchange movements on assets and liabilities	**44**	30
Non-cash movements in profit before tax	**(18)**	300
Other operating assets and liabilities	**(123)**	(52)
Changes in working capital	**(123)**	(52)
Net cash inflow from operating activities	**663**	400
Cash flows from investing activities		
Acquisition of interests in subsidiaries	**(12)**	(17)
Proceeds from sale and maturity of other investments	**22**	–
Other investing cash flow	**2**	22
Net cash inflow from investing activities	**12**	5
Cash flows from financing activities		
External interest received	**81**	58
External interest paid	**(144)**	(112)
Inter-company interest paid	**(37)**	(39)
Dividends paid to		
Ordinary equity holders of the Company	**(58)**	(95)
Preferred shareholders	**(44)**	(44)
Net proceeds from issue of ordinary shares	**10**	9
Net acquisition of treasury shares	**(17)**	(20)
Issue of subordinated and other debt	**498**	–
Subordinated and other debt repaid	**(837)**	(104)
Loan financing repaid to Group companies	**(125)**	(35)
Net cash outflow from financing activities	**(673)**	(382)
Net increase in cash and cash equivalents	**2**	23
Effects of exchange rate changes on cash and cash equivalents	**1**	1
Cash and cash equivalents at beginning of the year	**438**	414
Cash and cash equivalents at end of the year	**441**	438

At 31 December 2011 and 2010 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 £2,911 million (2010: £650 million).

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

Year ended 31 December 2011	Note	Millions Number of shares issued and fully paid	Share capital	Share premium	Other reserves	Retained earnings*	Perpetual preferred callable securities	£m Total
Attributable to equity holders of the Company at beginning of the year		**5,695**	**570**	**795**	**2,708**	**601**	**688**	**5,362**
Profit for the year		**–**	**–**	**–**	**–**	**838**	**44**	**882**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**838**	**44**	**882**
Dividends for the year		**–**	**–**	**–**	**–**	**(172)**	**(44)**	**(216)**
Merger reserve realised in the year	11	**–**	**–**	**–**	**(129)**	**129**	**–**	**–**
Shares issued in lieu of cash dividends		**99**	**10**	**–**	**–**	**114**	**–**	**124**
Net purchase of treasury shares		**–**	**–**	**–**	**–**	**(17)**	**–**	**(17)**
Issue of share capital by the Company		**–**	**–**	**5**	**–**	**–**	**–**	**5**
Exercise of share options		**7**	**–**	**5**	**–**	**–**	**–**	**5**
Fair value of equity settled share options		**–**	**–**	**–**	**12**	**–**	**–**	**12**
Attributable to equity holders of the Company at end of the year		**5,801**	**580**	**805**	**2,591**	**1,493**	**688**	**6,157**

Year ended 31 December 2010	Millions Number of shares issued and fully paid	Share capital	Share premium	Other reserves	Retained earnings*	Perpetual preferred callable securities	£m Total
Attributable to equity holders of the Company at beginning of the year	5,518	552	770	2,571	563	688	5,144
Profit for the year	–	–	–	–	142	44	186
Total comprehensive income for the year	–	–	–	–	142	44	186
Dividends for the year	–	–	–	–	(95)	(44)	(139)
Acquisition of non-controlling interest in Mutual & Federal	147	15	–	129	–	–	144
Shares issued in lieu of cash dividends	24	2	17	–	11	–	30
Net purchase of treasury shares	–	–	–	–	(20)	–	(20)
Issue of share capital by the Company	–	–	4	–	–	–	4
Exercise of share options	6	1	4	–	–	–	5
Fair value of equity settled share options	–	–	–	8	–	–	8
Attributable to equity holders of the Company at end of the year	5,695	570	795	2,708	601	688	5,362

* Included within retained earnings of £1,493 million (2010: £601 million) are distributable reserves of £1,398 million (2010: £598 million).

Other reserves	£m **At 31 December 2011**	At 31 December 2010
Merger reserve	**2,532**	2,661
Share-based payment reserve	**59**	47
Attributable to equity holders of Company at end of the year	**2,591**	2,708

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2011

1 Financial assets and liabilities

Company statement of financial position

The Company is principally involved in the management of its investments in subsidiaries, with its risks considered to be consistent with those in the operations themselves. Full details of the financial risks are provided in the consolidated financial statements, notes E1 and E2. 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.

(a) Categories of financial instruments

The financial instruments of the Company consist of derivative assets and liabilities, both of which are treated as held-for-trading, other assets and cash and cash equivalents which are treated as loans and receivables, borrowed funds of which £637 million is designated as fair value through the income statement and £503 million at amortised cost (2010: £905 million and £546 million respectively) and other liabilities which are also measured at amortised cost. Of the financial assets and liabilities measured at fair value through the income statement, the hierarchy classification (as detailed in note E1(b) of the Group accounts) of derivative assets and liabilities is Level 2 and borrowed funds Level 1.

(b) 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 E1 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.

(c) Currency risk

The Company is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows through the impact that currency movements have on its derivative position and the investment in Försäkringsaktiebolaget Skandia (publ) classed as held for sale. The principal foreign currency risk arises from the fact that the Company's functional currency is pounds sterling, whereas the functional currency of its principal operations is South African rand, US dollar, Swedish krona and euro. The exposure of the Group to currency risk is disclosed in the consolidated financial statements, note E1(e). 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. A 10% deterioration in the values of the major currencies the Company is exposed to in relation to pounds sterling would result in a decrease in the Company's equity holders' funds of £297 million (2010: decrease of £17 million).

(d) Credit risk

The Company is principally exposed to credit risk through its derivative asset positions, holdings of cash and cash equivalents and the ability of its subsidiaries to repay amounts due to the Company, which it holds to back shareholder liabilities. The exposure of the Group to credit risk is disclosed in the consolidated financial statements, note E2. Credit risk is managed by placing limits on exposures to any single counterparty, or groups of counterparties and to geographical and industry segments. Credit risk is monitored with reference to established credit rating agencies with limits placed on exposure to below investment grade holdings or the financial position of companies within the Group. Of the Company's financial assets bearing credit risk, derivative assets and cash and cash equivalents are rated as investment grade (being AAA to BBB for Standard & Poor's or an equivalent). The other financial assets bearing credit risk are not rated.

(e) Interest rate risk

Interest rate risk is the risk that fluctuating interest rates will unfavourably affect the Company's earnings and the value of its assets, liabilities and capital.

The Company employs currency and interest rate swap transactions to mitigate against the impact of changes in the fair values of its borrowed funds. Details of the arrangements in place are shown in the Group Accounts note E7 (Hedge accounting).

(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 Company's short, medium and long-term funding and liquidity management requirements. The Company has net current liabilities of £1,582 million (2010: £994 million), all of which represent liabilities to other Group companies. The Company manages liquidity risk by maintaining adequate reserves, banking facilities and continuously monitoring forecast and actual cash flows of both the Company and its subsidiaries.

The key information reviewed by the Company's executive directors and Executive Committee, together with the Capital Management Committee, is a detailed management report on the Company's current and planned capital and liquidity position. Forecasts are updated regularly based on when new information is received, and as part of the annual business planning cycle. The Company's liquidity and capital position and forecast are presented to the Company's Board of directors on a regular basis.

Further information on liquidity and the Company's cash flows is contained in other sections of this annual report, for example the business review and Group Finance Director's statement.

2 Derivative financial instruments

The following tables provide a detailed breakdown of the derivative financial instruments outstanding at the year end. These instruments allow the Company to transfer, modify or reduce foreign exchange and interest rate risks.

The Company undertakes transactions involving derivative financial instruments with other financial institutions. Management has established limits commensurate with the credit quality of the institutions with whom it deals, and manages the resulting exposures such that a default by any individual counterparty is unlikely to have a materially adverse impact on the Company.

£m

	At 31 December 2011		At 31 December 2010	
	Fair values		Fair values	
	Assets	Liabilities	Assets	Liabilities
Exchange rate contracts				
Swaps	30	–	90	89
Forwards	–	3	–	11
	30	3	90	100
Interest rate contracts				
Swaps	56	–	19	–
Total	86	3	109	100

In accordance with the Group's hedging strategy the Group has entered into contracts pre and post year end to mitigate the foreign exchange risks attaching to the potential receipt, and subsequent distribution, of proceeds related to the sale of the Nordic businesses. The net cost of those contracts purchased in 2011 was recognised in the income statement for the year ended 31 December 2011, with the market value not significant at the year end. On completion of the sale any profits and losses in relation to these contracts will be offset by currency losses or gains on the underlying assets.

The contractual maturities of the derivatives/liabilities held are as follows:

£m

At 31 December 2011	Balance sheet amount	Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	No contractual maturity date	Total
Derivative financial liabilities	3	3	–	–	–	–	3
At 31 December 2010							
Derivative financial liabilities	100	100	–	–	–	–	100

3 Borrowed funds

£m

	At 31 December 2011	At 31 December 2010
Senior debt securities and term loans	503	546
Subordinated debt securities	637	905
Total borrowed funds	1,140	1,451

£m

	At 31 December 2011	At 31 December 2010
Fair valued through income statement	637	905
Amortised cost	503	546
Total borrowed funds	1,140	1,451

3 Borrowed funds continued

The table below is a maturity analysis of liability cash flows based on contractual maturity dates for borrowed funds. Maturity analysis is undiscounted and based on year end exchange rates. In addition to the contractual cash flows detailed below, the Company is obligated to make interest payments on borrowed funds, details of which are in the Group consolidated financial statements in note E9.

		£m
	At 31 December 2011	At 31 December 2010
Less than 1 year	**167**	462
Greater than 1 year and less than 5 years	**503**	817
Greater than 5 years	**470**	536
Borrowed funds	**1,140**	1,815

Additional details of these borrowings and undrawn facilities are included in the Group consolidated financial statements in note E9.

4 Other assets

		£m
	At 31 December 2011	At 31 December 2010
Other receivables	**31**	11
Corporation tax	**179**	101
Accrued interest and rent	**12**	41
Other prepayments and accrued income	**6**	–
Amounts owed by Group undertakings:		
Amounts falling due within one year	**405**	157
Amounts falling due after one year	**1,621**	989
Total other assets	**2,254**	1,299

5 Other liabilities

		£m
	At 31 December 2011	At 31 December 2010
Accruals and deferred income	**28**	59
Amounts owed to Group undertakings:		
Amounts falling due within one year	**2,711**	1,692
Amounts falling due after one year	**2,645**	2,566
Total other liabilities	**5,384**	4,317

6 Provisions

			£m
	Note	**At 31 December 2011**	At 31 December 2010
Post employment benefits	7	**11**	14
Other		**1**	1
Total provisions		**12**	15

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2011 continued

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 two employees (2010: two) were directly employed by the Company. The costs for these directors and ex-directors are disclosed within the Remuneration Report on page 119.

		£m
	Pension plans	
Liability for defined benefit obligations	**Year to 31 December 2011**	Year to 31 December 2010
Change in projected benefit obligation		
Projected benefit obligation at beginning of the year	**62**	61
Interest cost on benefit obligation	**3**	3
Benefits paid	**1**	(1)
Actuarial losses	**(1)**	(1)
Projected benefit obligation at end of the year	**65**	62
Change in plan assets		
Plan assets at fair value at beginning of the year	**47**	41
Actual return on plan assets	**5**	4
Benefits paid	**(1)**	(2)
Company contributions	**4**	4
Plan assets at fair value at end of the year	**55**	47
Net liability recognised in balance sheet		
Funded status of plan	**10**	15
Recognised actuarial – gain/(loss)	**1**	(1)
Net amount recognised in balance sheet	**11**	14

		£m
	Pension plans	
Expense recognised in the income statement	**Year to 31 December 2011**	Year to 31 December 2010
Expected return on plan assets	**2**	2
Interest costs	**(3)**	(3)
Total	**(1)**	(1)

Actuarial assumptions used in calculating the projected benefit obligation are based on relevant mortality estimates, with a specific allowance made for future improvements in mortality which is broadly in line with that adopted for the 92 series of mortality tables prepared by the Continuous Mortality Investigation Bureau of the Institute of Actuaries. The expected returns on plan assets have been determined on the basis of long-term expectations, the carrying value of the assets and the market conditions at the balance sheet date specific to the relevant locations. The detailed actuarial assumptions can be viewed on the Group's website at www.oldmutual.com.

		%
	Pension plans	
Plan asset allocation	**Year to 31 December 2011**	Year to 31 December 2010
Equity securities	**35**	39
Debt securities	**63**	60
Other investments	**2**	1

8 Principal subsidiaries

	£m At 31 December 2011	At 31 December 2010
Balance at beginning of the year	**9,373**	8,993
Acquisitions	**12**	22
Additions	**2,501**	358
Disposals	**(22)**	–
Impairments	**(1,975)**	–
Transfer to non-current assets held for sale	**(2,084)**	–
Balance at end of the year	**7,805**	9,373

On 14 March 2011, the Company transferred its investment of £22 million in Skandia Retail Europe Holding GMBH to Skandia Europe and Latin America Holdings in return for one £1 ordinary share in Skandia Europe and Latin America Holdings.

On 25 March 2011, the Company increased its investment in Old Mutual Wealth Management Limited (previously Skandia UK (Holdings) Limited) by £130 million.

On 30 June 2011, the Company received the investment in Skandia UK Limited of £1,835 million as a dividend in specie from Försäkringsaktiebolaget Skandia (publ). On the same date, the Company impaired its investment in Försäkringsaktiebolaget Skandia (publ) by £1,835 million.

On 9 November 2011, the Company invested €25,000 in Old Mutual Europe GMBH.

On 25 November 2011, the Company increased its investment in the ordinary share capital of OM Group (UK) Limited by £500 million via a reduction in loan financing.

On 23 December 2011, the Company invested SEK131 million in Skandia Holdings Aktiebolag.

During December 2011, the Company impaired the investments in Selestia Holdings Limited by £68.4 million, Försäkringsaktiebolaget Skandia (publ) by £67 million and Commsale 2000 Limited by £2.4 million. The investment in Försäkringsaktiebolaget Skandia (publ) has been impaired so that the carrying value is equal to the fair value less costs to sell in accordance with IFRS 5.

Also included within additions is the Company's investment in subsidiary undertakings in respect of movements on the share-based payments (£12 million).

The principal subsidiary undertakings of the Company are as follows:

At 31 December 2011	Country of incorporation	Class of shares	% interest held
Försäkringsaktiebolaget Skandia (publ)	Sweden	Ordinary	100%
Millpencil Limited	England & Wales	Ordinary	100%
OM Group (UK) Ltd	England & Wales	Ordinary	100%
Old Mutual Wealth Management Ltd	England & Wales	Ordinary	100%
Skandia Europe and Latin America (Holdings) Limited	England & Wales	Ordinary	100%
Old Mutual Europe GMBH	England & Wales	Ordinary	100%
Skandia Holdings Aktiebolag	Sweden	Ordinary	100%

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.

9 Investments in associated undertakings

The Company holds the following interest in associated undertakings:

	Country of operation	% interest held	£m At 31 December 2011	At 31 December 2010
Kotak Mahindra Old Mutual Life Insurance Limited	India	26%	**26**	26

10 Commitments, guarantees and contingent liabilities

	At 31 December 2011 £m	At 31 December 2010 £m
Commitments	**498**	499

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 accounts are set out below. Disclosures in respect of the key management personnel of the Company are included in the Group accounts related parties disclosures in note G3.

On 5 February 2010, the Company completed the acquisition of the remaining non-controlling shareholding in Mutual & Federal Insurance Company Limited. As part of the transaction, the Company sold its shares in Mutual & Federal Insurance Company Limited to OMLAC(SA) in a non cash transaction in return for novating Old Mutual plc loan notes totalling $234 million and it assumed the obligation for the discharge in 2015 of the unsettled share-based payment transaction with Mutual & Federal Black Business Partners for nil consideration. As a result of the sale of these shares, the merger reserve recorded in the statement of changes in equity of £129 million created on the acquisition of the holding in Mutual & Federal Insurance Company Limited has subsequently been released to retained earnings in the current year.

There are no transactions entered into by the Company with associated undertakings.

	At 31 December 2011 £m	At 31 December 2010 £m
Balances due from subsidiaries	**2,025**	973
Balances due to subsidiaries	**(5,357)**	(4,087)
Balances due from other related parties – Fairbairn Trust Company Limited[1]	**70**	53

1. This represents amounts paid to the Fairbairn Trust Company Limited in respect of an 'ESOP' for the purchase of the Company's own shares.

Income statement information

£m

	Year ended 31 December 2011			Year ended 31 December 2010		
At 31 December 2011	**Interest received/ (paid)**	**Ordinary dividends received/ (paid)**	**Other amounts received/ (paid)**	Interest received/ (paid)	Ordinary dividends received/ (paid)	Other amounts received/ (paid)
Subsidiaries	**66**	**2,911**[2]	**(76)**	88	658	(122)

2. Dividends received during the year included £1,835 million from Försäkringsaktiebolaget Skandia (publ), being the payment of a dividend in specie of its investment in Skandia UK Limited to the Company.

12 Non-current assets held for sale

As announced on 15 December 2011, the Group has agreed to sell its investment in Försäkringsaktiebolaget Skandia (publ). As a result of this, the investment in Försäkringsaktiebolaget Skandia (publ) has been classified as held for sale in the statement of financial position for the current year in accordance with IFRS 5.

13 Events after the reporting date

On 18 January 2012 the Company redeemed the €200 million Tier 2 bond repayable 18 January (5%), exercising its option to redeem at the first call date.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OLD MUTUAL PLC

For the year ended 31 December 2011

We have audited the financial statements of Old Mutual plc for the year ended 31 December 2011 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Parent Company Statements of Financial Position, the Consolidated and Parent Company Cash Flow Statements, the Consolidated and Parent Company Statements of Changes in Equity and the related notes which include the Reconciliation of adjusted operating profit to profit after tax. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 126, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2011 and of the Group's profit for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- The Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- The part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- The information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- Certain disclosures of directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- The directors' statement, set out on page 126, in relation to going concern; and
- The part of the Corporate Governance Statement on page 97 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- Certain elements of the report to shareholders by the Board on directors' remuneration.

Philip Smart (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
9 March 2012

MCEV

STATEMENT OF DIRECTORS' RESPONSIBILITIES

in relation to the Market Consistent Embedded Value basis supplementary information

The directors of Old Mutual plc have chosen to prepare supplementary information on a Market Consistent Embedded Value (MCEV) basis.

Old Mutual's methodology adopts the Market Consistent Embedded Value Principles (Copyright © Stichting CFO Forum Foundation 2008) issued in June 2008 and updated in October 2009 by the CFO Forum ('the Principles') as the basis for the methodology. The Principles have been fully complied with at 31 December 2011 for all businesses.

In preparing the MCEV supplementary information, the directors have:

- Prepared the supplementary information in accordance with the methodology described above and the basis of preparation as set out on page 248;
- Identified and described the business covered by the MCEV methodology;
- Applied the MCEV methodology consistently to the covered business;
- Determined assumptions on a market consistent basis and operating assumptions on a best estimate entity specific basis, having regard to past, current and expected future experience and to any relevant external data, and then applied them consistently; and
- Where relevant, made estimates that are reasonable and consistent.

Julian Roberts
Group Chief Executive
9 March 2012

Philip Broadley
Group Finance Director
9 March 2012

INDEPENDENT AUDITOR'S REPORT

to Old Mutual plc on the Market Consistent Embedded Value basis supplementary information

We have audited the Market Consistent Embedded Value (MCEV) basis supplementary information ('the supplementary information') of Old Mutual plc ('the Company') on pages 244 to 285 in respect of the year ended 31 December 2011. The financial reporting framework that has been applied in the preparation of the supplementary information is the Market Consistent Embedded Value Principles issued in October 2009 by the European CFO Forum ('the MCEV Principles'). The supplementary information should be read in conjunction with the Group financial statements which are on pages 127 to 231.

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 auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 242, the directors have accepted responsibility for preparing the supplementary information on an MCEV basis in accordance with the MCEV Principles.

Our responsibility is to audit, and express an opinion on, the supplementary information in accordance with the terms of our engagement and having regard to International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the supplementary information

An audit involves obtaining evidence about the amounts and disclosures in the supplementary information to give reasonable assurance that the supplementary information is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors. In view of the purpose for which the supplementary information has been prepared, however, we did not assess the overall presentation of the supplementary information which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Opinion on the supplementary information

In our opinion, the MCEV basis supplementary information of the Company for the year ended 31 December 2011 has been properly prepared, in all material respects, in accordance with the MCEV Principles using the methodology and assumptions as detailed in the basis of preparation of the supplementary information on page 248.

Philip Smart (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL
9 March 2012

ADJUSTED GROUP MCEV BY LINE OF BUSINESS

At 31 December 2011

	Notes	At 31 December 2011	At 31 December 2010
			£m
MCEV of the core covered business (Long-Term Savings)	B3	**5,713**	5,913
Adjusted net worth*		**2,204**	2,228
Value of in-force business		**3,509**	3,685
MCEV of the non-core covered business (Bermuda)	B3	**66**	287
Adjusted net worth		**187**	403
Value of in-force business		**(121)**	(116)
MCEV of the discontinued covered business (Nordic and US Life)	B3	**1,433**	1,315
Adjusted net worth		**285**	720
Value of in-force business		**1,148**	595
Adjusted net worth of asset management and other businesses		**1,955**	1,939
Emerging Markets		**499**	289
Retail Europe		**14**	14
Wealth Management		**165**	171
US Asset Management		**1,270**	1,461
Nordic**		**7**	4
Value of the banking business		**3,286**	3,603
Nedbank (market value)		**2,935**	3,275
Emerging Markets (adjusted net worth)		**29**	–
Nordic (adjusted net worth)		**322**	328
Value of the general insurance business			
Mutual & Federal (adjusted net worth)		**294**	409
Net other business* **		**175**	42
Adjustment for present value of Black Economic Empowerment scheme deferred consideration******		**270**	266
Adjustment for value of own shares in ESOP schemes*******		**117**	85
Market value of perpetual preferred securities	A2(r)	**(465)**	(449)
Market value of perpetual preferred callable securities	A2(r)	**(605)**	(598)
Market value of subordinated debt	A2(r)	**(1,445)**	(1,782)
Adjusted Group MCEV		**10,794**	11,030
Adjusted Group MCEV per share (pence)		**194.1**	202.2
Number of shares in issue at the end of the financial period less treasury shares – millions******		**5,562**	5,456

* Adjusted net worth is after the elimination of inter-company loans.
** Includes the adjusted net worth of Nordic holding companies that are classified as non-covered business, net of the holding companies' investment in Group subsidiaries.
*** Includes any other business that is not included within the main lines of business, largely Old Mutual parent company IFRS equity net of Group adjustments, consolidation adjustments in respect of intercompany transactions and debt, and Bermuda asset management.
**** The effect of the acquisition of the minority interest in Mutual & Federal during 2010 has been included in this adjustment for the first time during 2011.
***** Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2010 and 31 December 2011 is the net effect of the increase in the Old Mutual plc share price, the reduction in excess own shares following employee share grants in March 2011 and the reduction in overall shares held due to exercises of rights to take delivery of, or net settle, share grants during the financial period. The effect of the acquisition of the minority interest in Mutual & Federal during 2010 has been included in this adjustment for the first time during 2011.
****** The 239 million treasury shares were cancelled on 13 January 2012.

ADJUSTED OPERATING GROUP MCEV STATEMENT OF EARNINGS

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011	Year ended 31 December 2010
			£m
Long-Term Savings			
Covered business	B2	**714**	640
Asset management and other business		**123**	124
Banking		**15**	–
		852	764
Nedbank			
Banking		**755**	601
Mutual & Federal			
General insurance		**89**	103
US Asset Management			
Asset management		**67**	72
Other operating segments			
Finance costs*		**(155)**	(183)
Corporate costs**		**(43)**	(46)
Other shareholders' (expenses)/income		**(18)**	4
Adjusted operating Group MCEV earnings before tax from core operations		**1,547**	1,315

* This includes interest payable from Old Mutual plc to non-core operations of £27 million for the year ended 31 December 2011 (2010: £55 million).

** Central costs of £14 million are allocated to the covered business and provisioned in the VIF (2010: £14 million) hence corporate costs under MCEV of £43 million differ from the IFRS amount of £57 million (2010: £60 million).

Commentary on key changes in the 2011 MCEV primary statements compared to 2010

Bermuda reduction in MCEV

The closing MCEV balance reduced considerably as a result of unfavourable market impacts on the Variable Annuity Guaranteed Minimum Accumulation Benefit (GMAB) reserves.

Treatment of Nordic

On 15 December 2011, the Company announced that it had entered into an agreement to sell the assets and liabilities of its Nordic business unit to Skandia Liv for the sum of SEK 22.5 billion (£2.1 billion). This transaction is still subject to shareholder approval. The Nordic business unit has been classified as discontinued for IFRS reporting purposes, but continues to be included with full disclosure in the covered business for MCEV reporting purposes.

Net other business

The material components include the increased dividends paid to Group from business units and Group proceeds from the disposal of US Life, a reduced book value of debt component (due to repayment of debt) and inter-company loan movements.

Inclusion of other African businesses

The life businesses in Kenya, Malawi, Nigeria, Swaziland and Zimbabwe do not calculate an embedded value, however they are included in the MCEV of the covered business (within Emerging Markets) at their IFRS NAV at 31 December 2011. The impact of these results on the Emerging Markets MCEV is noted in B4: Analysis of covered business MCEV earnings. The asset management and Zimbabwean banking businesses are included within the Group MCEV at the IFRS NAV. The inclusion of the new African businesses increased the Adjusted Group MCEV by £203 million at 31 December 2011.

US Asset Management

Consistent with the Consolidated Financial Statements Note A2, comparative information in respect of the operating earnings and the value at period end has been revised in accordance with changes to presentation made in the current year. This has resulted in corresponding equal and opposite revisions to the 'Other shareholder expenses' and 'Net other business'. The closing value has reduced significantly compared to prior year due to the goodwill write down of £264 million. See Note A3 (b) to the Consolidated Financial Statements.

ADJUSTED OPERATING GROUP MCEV EARNINGS PER SHARE

For the year ended 31 December 2011

Year ended 31 December 2011	Notes	Core continuing operations	Non-core continuing operations	Discontinued operations	Total £m
Adjusted operating Group MCEV earnings before tax		**1,547**	**48**	**173**	**1,768**
Covered business	B2	**714**	**48**	**156**	**918**
Other business		**833**	**–**	**17**	**850**
Tax on adjusted operating Group MCEV earnings		**(364)**	**(1)**	**(31)**	**(396)**
Covered business	B2	**(162)**	**(1)**	**(28)**	**(191)**
Other business		**(202)**	**–**	**(3)**	**(205)**
Adjusted operating Group MCEV earnings after tax		**1,183**	**47**	**142**	**1,372**
Non-controlling interests					
Ordinary shares		**(255)**	**–**	**–**	**(255)**
Preferred securities		**(62)**	**–**	**–**	**(62)**
Adjusted operating MCEV earnings after tax attributable to equity holders		**866**	**47**	**142**	**1,055**
Adjusted operating Group MCEV earnings per share*		**15.9**	**0.9**	**2.6**	**19.4**
Adjusted weighted average number of shares – millions					**5,435**

Year ended 31 December 2010	Notes	Core continuing operations	Non-core continuing operations	Discontinued operations	Total £m
Adjusted operating Group MCEV earnings before tax		1,315	(28)	132	1,419
Covered business	B2	640	(28)	113	725
Other business		675	–	19	694
Tax on adjusted operating Group MCEV earnings	B2	(288)	4	(26)	(310)
Covered business		(118)	4	(21)	(135)
Other business		(170)	–	(5)	(175)
Adjusted operating Group MCEV earnings after tax		1,027	(24)	106	1,109
Non-controlling interests					
Ordinary shares		(217)	–	–	(217)
Preferred securities		(62)	–	–	(62)
Adjusted operating MCEV earnings after tax attributable to equity holders		748	(24)	106	830
Adjusted operating Group MCEV earnings per share*		13.9	(0.4)	2.0	15.5
Adjusted weighted average number of shares – millions					5,359

* Adjusted operating Group MCEV earnings per share is calculated on the same basis as adjusted operating Group MCEV earnings, but is stated after tax and non-controlling interests. It excludes income attributable to Black Economic Empowerment trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and Black Economic Empowerment trusts.

GROUP MARKET CONSISTENT EMBEDDED VALUE STATEMENT OF EARNINGS

For the year ended 31 December 2011

	Notes	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m
Adjusted operating Group MCEV earnings before tax from core operations		**1,547**	1,315
Adjusted operating Group MCEV earnings before tax from Bermuda non-core operations	B2	**48**	(28)
Adjusted operating Group MCEV earnings before tax from continuing operations*		**1,595**	1,287
Adjusting items from continuing operations	C3	**(437)**	395
Total Group MCEV earnings before tax from continuing operations		**1,158**	1,682
Income tax attributable to shareholders		**(168)**	(387)
Total Group MCEV earnings after tax from continuing operations		**990**	1,295
Total Group MCEV earnings after tax from discontinued operations**			
Nordic		**(15)**	165
US Life	A4	**–**	227
Total Group MCEV earnings after tax for the financial period		**975**	1,687

Total Group MCEV earnings for the financial period attributable to:			
Equity holders of the parent		**674**	1,429
Non-controlling interests			
Ordinary shares		**239**	196
Preferred securities		**62**	62
Total Group MCEV earnings after tax for the financial period		**975**	1,687
Basic total Group MCEV earnings per ordinary share (pence)		**13.1**	28.2
Weighted average number of shares – millions		**5,136**	5,064

* For long-term business and general insurance businesses, adjusted operating Group MCEV earnings are based on long-term and short-term investment returns respectively, include investment returns on life fund investments in Group equity and debt instruments, and are stated net of income tax attributable to policyholder returns. For the US asset management business it includes compensation costs in respect of certain long-term incentive schemes defined as non-controlling interests in accordance with IFRS. For all businesses, adjusted operating MCEV earnings exclude goodwill impairment, the impact of acquisition accounting, option revaluations related to long-term incentive schemes, the impact of closure of unclaimed shares trusts, profit/(loss) on acquisition/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 instruments.

** For Nordic, these are composed of earnings before tax of £173 million (2010: £84 million), adjusting items of £(161) million (2010: £104 million) and tax of £(27) million (2010: £(23) million). For US Life, these are composed of earnings before tax of £48 million, adjusting items of £180 million and tax of £(1) million for the year ended 31 December 2010. Further detail relating to adjusting items can be found in section C3.

Reconciliation of movements in Group and Adjusted Group MCEV (after tax)

£m

	Notes	**Year ended 31 December 2011** Covered business MCEV	Non-covered business IFRS	Total Group MCEV	Year ended 31 December 2010 Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Opening Group MCEV		**7,515**	**2,386**	**9,901**	6,027	1,602	7,629
Adjusted operating MCEV earnings	B4	**727**	**328**	**1,055**	590	240	830
Non-operating MCEV earnings		**(331)**	**(50)**	**(381)**	786	(187)	599
Total Group MCEV earnings		**396**	**278**	**674**	1,376	53	1,429
Other movements in IFRS net equity	C4	**(699)**	**(148)**	**(847)**	112	731	843
Closing Group MCEV		**7,212**	**2,516**	**9,728**	7,515	2,386	9,901
Adjustments to bring Group investments to market value	B1	**–**	**1,066**	**1,066**	–	1,129	1,129
Adjusted Group MCEV		**7,212**	**3,582**	**10,794**	7,515	3,515	11,030

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011

A: MCEV policies

A1: Basis of preparation

The Market Consistent Embedded Value methodology (referred to herein and in the supplementary statements on pages 244 to 285 as 'MCEV') adopts the Market Consistent Embedded Value Principles (Copyright © Stichting CFO Forum Foundation 2008) issued in June 2008 and updated in October 2009 by the CFO Forum ('the Principles') as the basis for the methodology used in preparing the supplementary information.

The CFO Forum announced changes to the MCEV Principles in October 2009 to reflect *inter alia* the inclusion of a liquidity premium. These changes affirm that the risk free reference rate to be applied under MCEV should include both the swap yield curve appropriate to the currency of the cash flows and a liquidity premium where appropriate. The CFO Forum is undertaking further work to develop more detailed application guidance.

The Principles have been fully complied with for all businesses as at 31 December 2011. The detailed methodology and assumptions made in presenting this supplementary information are set out in notes A2 and A3. Any reference made to US Life relates only to methodology applied at 31 December 2010.

Throughout the supplementary information the following terminology is used to distinguish between the terms 'MCEV', 'Group MCEV' and 'adjusted Group MCEV':

- MCEV is a measure of the consolidated value of shareholders' interests in the covered business and consists of the sum of the shareholders' adjusted net worth in respect of the covered business and the value of the in-force covered business.
- Group MCEV is a measure of the consolidated value of shareholders' interests in covered and non-covered business. Non-covered business is valued at the IFRS net asset value detailed in the primary financial statements adjusted to eliminate inter-company loans.
- The adjusted Group MCEV, a measure used by management to assess the shareholders' interest in the value of the Group, includes the impact of marking all debt to market value, the market value of the Group's listed banking subsidiary, marking the value of deferred consideration due in respect of Black Economic Empowerment arrangements in South Africa ('the BEE schemes') to market, as well as including the market value of excess own shares held in ESOP schemes.

A2: Methodology

(a) Introduction

MCEV represents the present value of shareholders' interests in the earnings distributable from assets allocated to the in-force covered business after sufficient allowance for the aggregate risks in the covered business and is measured in a way that is consistent with the value that would normally be placed on the cash flows generated by these assets and liabilities in a deep and liquid market. MCEV is therefore a risk-adjusted measure to the extent that financial risk is reflected through the use of market consistent techniques in the valuation of both assets and distributable earnings and a transparent explicit allowance is made for non-financial risks.

The MCEV consists of the sum of the following components:

- Adjusted net worth, which excludes acquired intangibles and goodwill, consisting of:
  - free surplus allocated to the covered business; and
  - required capital to support the covered business.
- Value of in-force covered business (VIF).

The adjusted net worth of the covered business is the market value of shareholders' assets held in respect of the covered business after allowance for the liabilities of the in-force covered business which are dictated by local regulatory reserving requirements.

MCEV is calculated net of non-controlling shareholder interests and excludes the value of future new business.

(b) Coverage

Covered business includes, where material, any contracts that are regarded by local insurance supervisors as long-term life assurance business, and other business, where material, directly related to such long-term life assurance business where the profits are included in the IFRS long-term business profits in the primary financial statements. For the life businesses in Kenya, Malawi, Nigeria, Swaziland and Zimbabwe, and where the covered business is not material, the treatment within this supplementary information is the same as in the primary financial statements (i.e. expected future profits for this business are not capitalised for MCEV reporting purposes).

The covered business does not include any business written in Skandia Liv. Skandia Liv is a mutual life insurance company within the Group. All assets and liabilities are wholly attributable to the policyholders of the mutual company.

Some types of business are legally written by a life company, but under IFRS are classified as asset management because 'long-term business' only serves as a wrapper. This business continues to be excluded from covered business, for example:

- New institutional investment platform pensions business written in the United Kingdom as it is more appropriately classified as unit trust business; and
- 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 and asset administration 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 USAM where the value includes the allowance for the loan note from plc. The adjusted Group MCEV includes the impact of marking all debt to market value, the market value of the Group's listed banking subsidiary, marking the value of deferred consideration due in respect of Black Economic Empowerment arrangements in South Africa ('the BEE schemes') to market, as well as including the market value of excess own shares held in ESOP schemes.

(c) Free surplus

Free surplus is the market value of any assets allocated to, but not required to support, the in-force covered business. It is determined as the market value of any excess assets attributed to the covered business but not backing the regulatory liabilities, less the required capital to support the covered business.

(d) Required capital

Required capital is the market value of assets that is attributed to support the covered business, over and above that required to back statutory liabilities for covered business, whose distribution to shareholders is restricted. The following capital measures are considered in determining the required capital held for covered business so that it reflects the level of capital considered by the directors to be appropriate to manage the business:

- Economic capital;
- Regulatory capital (i.e. the level of solvency capital which the local regulators require);
- Capital required by rating agencies in order to maintain the desired credit rating; and
- Any other required capital definition to meet internal management objectives.

Economic capital for the covered business is based upon Old Mutual's own internal assessment of risks inherent in the underlying business. It measures capital requirements on a basis consistent with a 99.93% confidence level over a one-year time horizon.

For Emerging Markets, Retail Europe and Wealth Management, capital determined with reference to internal management objectives is the most onerous and is the capital measure used, whilst for Nordic the regulatory capital requirement is the most onerous.
For US Life, the required capital was based on the amount that management deemed necessary to maintain the desired credit rating for the Company, whilst for Bermuda the required capital is set with reference to internal management objectives, i.e. the adjusted net worth.

The required capital in respect of OMLAC(SA)'s covered business is partially covered by the market value of the Group's investments in banking and general insurance in South Africa. On consolidation these investments are shown separately.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

The table below shows the level of required capital expressed as a percentage of the minimum local regulatory capital requirements.

		At 31 December 2011			At 31 December 2010		£m
	Notes	**Required capital (a)**	**Regulatory capital (b)**	**Ratio (a/b)**	Required capital (a)	Regulatory capital (b)	Ratio (a/b)
Emerging Markets*	B3	**1,368**	**1,012**	**1.4**	1,498	1,153	1.3
Retail Europe**	B3	**52**	**77**	**0.7**	62	85	0.7
Wealth Management	B3	**262**	**164**	**1.6**	278	162	1.7
Bermuda***	B3	**187**	**77**	**2.4**	403	–	n/a
Nordic	B3	**127**	**127**	**1.0**	135	135	1.0
US Life	B3	**n/a**	**n/a**	**n/a**	468	196	2.4
Total		**1,996**	**1,457**	**1.4**	2,844	1,731	1.6

* The required capital and regulatory capital relating to the life businesses in Kenya, Malawi, Nigeria, Swaziland and Zimbabwe are included in the 31 December 2011 results for Emerging Markets.

** Local regulators within many of the Retail Europe countries allow intangible assets to be included as admissible regulatory capital. In such cases the required capital reported for MCEV is net of these items, although each of the countries continues to be sufficiently capitalised on the local solvency basis. Skandia Leben in Germany is permitted under local regulations to include the unallocated policyholder profit sharing liability as admissible capital.

*** During December 2011, the BMA insurance (Prudential Standards) (Class E Solvency Requirements) Rules 2011 were formally signed into Bermudan law. The regulations allow for a three-year transition period for the new capital requirement (50% for financial year 2011, 75% for financial year 2012, 100% for financial year 2013). The required capital calculated on this statutory basis is approximately $120 million at 31 December 2011. We continue to calculate the required capital as the adjusted net worth held in the business as this exceeds the transitional capital. Capital for this business is managed at Group level on an economic capital basis. The Bermudan regulator allows intangible assets to be included as admissible regulatory capital. The movement in required capital is discussed further in Note B4: Analysis of covered business MCEV earnings (after tax) for Bermuda.

(e) Value of in-force covered business

Under the MCEV methodology, VIF consists of the following components:

- Present value of future profits (PVFP) from in-force covered business; less
- Time value of financial options and guarantees; less
- Frictional costs of required capital; less
- Cost of residual non-hedgeable risks (CNHR).

Projected liabilities and cash flows are calculated net of outward risk reinsurance with allowance for default risk of reinsurance counterparties where material.

(f) Present value of future profits

The PVFP is calculated as the discounted value of future distributable earnings (taking account of local statutory reserving requirements) that are expected to emerge from the in-force covered business, including the value of contractual renewal of in-force business, on a best estimate basis where assumed earned rates of return and discount rates are equal to the risk free reference rates. It therefore represents a deterministic certainty equivalent valuation of future distributable earnings. The certainty equivalent valuation approach is described in more detail in note A3. Any limitations on distribution of such earnings due to statutory or internal capital requirements are taken into account separately in the calculation of frictional costs of required capital.

PVFP captures the intrinsic and time value of financial options and guarantees on in-force covered business which are included in the local statutory reserves according to local requirements, but excludes any additional allowance for the time value of financial options and guarantees.

(g) 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.

(g) Financial options and guarantees continued

The time value of financial options and guarantees also includes allowance for potential burn-through costs on participating business, i.e. the extent to which shareholders are unable to recover a loan made to participating funds to meet either regulatory or internal capital management requirements or the extent to which reserves are inadequate to cover severely adverse experience.

In the generated economic scenarios allowance is made, where appropriate, for the effect of dynamic management and/or policyholder actions in different circumstances:

- Management has some discretion in managing exposure to financial options and guarantees, particularly within participating business. Such dynamic management actions are reflected in the valuation of financial options and guarantees provided that such discretion is consistent with established and justifiable practice taking into account policyholders' reasonable expectations (e.g. with due consideration of the Principles and Practices of Financial Management, or PPFM, for South African business), subject to any contractual guarantees and regulatory or legal constraints and has been passed through an appropriate approval process by the local Executive team and, where applicable, the Board. Assumptions that depend on the market performance (such as crediting rates or bonus rates) are set relative to the risk free reference rates (subject to contractual guarantees) and assuming that all market participants are subjected to the same market conditions.
- Where credible evidence exists that persistency rates are linked to economic scenarios, allowance is made for dynamic policyholder behaviour in response to changes in economic conditions.
- Modelled dynamic management and policyholders' actions include the following:
  - changes in future bonus and crediting rates subject to contractual guarantees, including removing all or part of previously declared non-vested balances where circumstances warrant such action;
  - dynamic persistency rates for the US Life and Bermuda businesses, and dynamic guaranteed annuity option take-up rates for the South African business driven by changes in economic conditions and management actions; and
  - changes in surrender values.

In determining the time value of financial options and guarantees at least 1,000 simulations are run to ensure that a reasonable degree of convergence of results has been obtained. Where deemed appropriate, the number of simulations is increased to reduce sampling error.

Europe

Whilst certain products within the European businesses provide financial options and guarantees, these are immaterial due to the predominantly unit-linked nature of the business.

Emerging Markets

The financial options and guarantees mainly relate to maturity guarantees and guaranteed annuity options.

As required by the applicable Actuarial Society of South Africa guidance note, the time value of the financial options and guarantees included in the statutory reserves in the Emerging Markets businesses as at 31 December 2011 has been valued using a risk-neutral market consistent asset model, and is referred to as the 'Investment Guarantee Reserve' (IGR). This reserve includes a discretionary margin as defined by local guidelines to allow for the sensitivity of the reserve to market movements, including interest rates, equity levels and the volatility implicit in the pricing of derivative instruments in these markets. This discretionary margin is valued in the VIF.

US Life

The financial options and guarantees mainly relate to minimum crediting (bonus) rates.

Bermuda

The financial options and guarantees mainly relate to the guaranteed minimum accumulation benefits on Variable Annuity contracts.

(h) Frictional costs of required capital

From the shareholders' viewpoint there is a cost due to restrictions on the distribution of required capital that is locked in the Company. Where material, an allowance has been made for the frictional costs in respect of the taxation on investment return (income and capital gains) and investment costs on the assets backing the required capital for covered business. The allowance for taxation is based on the taxation rates applicable to investment earnings on assets backing the required capital, although such tax rates are reduced, where applicable, to allow for interest paid on debt which is used partly to finance the required capital.

The run-off pattern of the required capital is projected on an approximate basis over the lifetime of the underlying risks in line with drivers of the capital requirement. The same drivers are used to split the total required capital between existing business and new business.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

The allowance for frictional costs is independent of the allowance for the cost of residual non-hedgeable risks as described below.

(i) Cost of residual non-hedgeable risks

Sufficient allowance for most financial risks has been made in the PVFP and the time value of financial options and guarantees by using techniques that are similar to the type of approaches used by capital markets. In addition the modelling of some non-hedgeable non-financial risks is incorporated as part of the calculation of the PVFP (e.g. to the extent that expected operational losses are incorporated in the maintenance expense assumptions) or the time value of financial options and guarantees (e.g. dynamic policyholder behaviour such as the interaction of the investment scenario and the persistency rates). Residual non-financial risks include, for example, liability risks such as mortality, longevity and morbidity risks; business risks such as persistency, expense and reinsurance credit risks; and operational risk. All such risks for which no or insufficient allowance is made in the PVFP or time value of financial options and guarantees, together with some allowance for hedge risk and credit spread risk in the US Life and Bermudan businesses, are considered within the allowance for the CNHR.

An allowance is made in the CNHR to reflect uncertainty in the best estimate of shareholder cash flows as a result of both symmetric and asymmetric non-hedgeable risks since these risks cannot be hedged in deep and liquid capital markets and are managed, *inter alia*, by holding risk capital. Considering the Group as a whole, most residual non-hedgeable risks have a symmetric impact on shareholder value with the exception of operational risk.

The CNHR is calculated using a cost of capital approach, i.e. it is determined as the present value of capital charges for all future non-hedgeable risk capital requirements until the liabilities have run off. The capital charge in each year is the product of the projected expected non-hedgeable risk capital held after allowance for some diversification benefits and the cost of capital charge. The cost of capital charge therefore represents the return above the risk free reference rates that the market is deemed to demand for providing this capital.

The residual non-hedgeable risk capital measure is determined using an internal economic capital model based on appropriate shock scenarios consistent with a 99.5% confidence level over a one-year time horizon. The internal economic capital model makes allowance for certain management actions, such as reductions in bonus and crediting rates, where deemed appropriate.

The following allowance is made for diversification benefits in determining the residual non-hedgeable risk capital at a business unit level:

- Diversification benefits within the non-hedgeable risks of the covered business are allowed for.
- No allowance is made for diversification benefits between hedgeable and non-hedgeable risks of the covered business.
- No allowance is made for diversification benefits between covered and non-covered business.

The table below shows the amounts of diversified economic capital held in respect of residual non-hedgeable risks.

Capital held in respect of non-hedgeable risks

£m	At 31 December 2011	At 31 December 2010
Emerging Markets	**808**	751
Retail Europe	**147**	115
Wealth Management	**684**	622
Bermuda	**335**	274
Nordic	**290**	362
US Life	**n/a**	678
Total	**2,264**	2,802

During 2011 the methodology to calculate non-hedgeable risk capital was enhanced and standardised across all insurance business units in order to align with emerging Solvency II requirements. This enhancement has generally led to an increase in the non-hedgeable risk capital in all business units, except for Nordic where it fell due to a significant reduction in the level of operational risk capital as a result of the rebate tax ruling in June 2011 (i.e. tax on rebates is no longer a risk component for operational risk).

A weighted average cost of capital rate of 2.0% has been applied to residual symmetric and asymmetric non-hedgeable capital at a business unit level over the life of the contracts. This translates into an equivalent cost of capital rate of approximately 2.6% being applied to the Group diversified capital required in respect of such non-hedgeable risks.

(j) Participating business

For participating business in Emerging Markets, US Life and Bermuda, the method of valuation makes assumptions about future bonus or crediting rates and the determination of profit allocation between policyholders and shareholders. These assumptions are made on a basis consistent with other projection assumptions, especially the projected future risk free investment returns, established Company practice (with due consideration of the PPFM for South African business), past external communication, any payout smoothing strategy, local market practice, regulatory/contractual restrictions and bonus participation rules.

Where current benefit levels are higher than can be supported by the existing fund assets together with projected investment returns, a downward 'glide path' is projected in benefit levels so that the policyholder fund would be exhausted on payment of the last benefit.

(k) Spread-based products

A market consistent valuation of spread-based products (such as Deferred Annuities in Bermuda, where investment returns are earned at one rate and policyholders' accounts are credited at a different rate with the difference referred to as 'spread') is dependent on the extent that management discretion can target a shareholder profit margin and the decision rules that management would follow in respect of crediting or bonus rates in any particular stochastic scenario.

Where guaranteed terms are offered at outset of a contract that dictate the payments to policyholders throughout the term of the contract, these payments are valued using the certainty equivalent valuation technique. These products, for example immediate annuities in payment, may therefore show a loss at point of sale under MCEV as investment margins are not anticipated while currently pricing practice does anticipate these margins. If returns in excess of the risk free reference rates actually emerge in the future, these will be recognised in the MCEV earnings as they arise.

For business where the crediting (bonus) rate is set in advance, crediting rates are set by considering management's target shareholder margins throughout the contract lifetime (subject to any guarantees). For other business, projected crediting rates are set equal to the risk free reference rates less the anticipated margin to cover profit and expenses (subject to any policyholder guarantees eroding the shareholder margins). However, during the period following the valuation date the existing crediting rate is applied until the next point at which it can be varied. Given the guarantees included within such products (including consideration of a 0% floor for crediting rates), stochastic modelling is used to value such contracts.

(l) Valuation of assets and treatment of unrealised losses

The market values of assets, where quoted in deep and liquid markets, are based on the bid price on the reporting date. Unquoted assets are valued according to IFRS and marked to model.

No smoothing of market values or unrealised gains/losses is applied.

(m) Asset mix

The time value of financial options and guarantees and PVFP (where relevant) are calculated with reference to assets that are projected using the actual asset allocation of the policyholder funds at the reporting date. However, if the current asset mix is materially different to the long-term strategic asset allocation as a result of market movements, projected assets are assumed to revert to the long-term strategic asset allocation in the short- to medium-term as appropriate.

(n) Defined benefit pension scheme

Where a defined benefit pension scheme within the covered business is in surplus or deficit on the liability basis that is used to determine future employer contributions, the employer pension fund expense assumptions incorporated within the VIF allow appropriately for the expected release of surplus or funding of the deficit.

(o) Consolidation adjustments

The MCEV result split by business unit takes account of both sides of any loan arrangements between Group companies, with the Group effect included in net other business.

(p) 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 arises from performance-based fees.

(q) 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.

The value of deferred tax assets is partly recognised in the MCEV. Typically those tax assets are expected to be utilised in future by being offset against expected tax liabilities that are generated on expected profits emerging from in-force business. MCEV may therefore understate the true economic value of such deferred tax assets because it does not allow for future new business sales which could affect the utilisation of such assets.

There was previously uncertainty around both the basis and effective date for possible taxation of fee income earned from fund managers by Swedish insurance companies and the expenses that can be relieved against such income. On 10 June 2011 the Supreme Administrative Court in Sweden delivered the final verdict stating that fund rebates are not taxable for corporate income tax purposes. We will therefore continue to treat fee income from our Swedish unit-linked business as being exempt from corporation tax within our MCEV.

The Emergency Budget of 22 June 2010 announced a reduction in the UK corporation tax rate by 1% per year for four years from the financial year beginning April 2011, ultimately bringing the corporation tax rate down to 24%. The Budget of 23 March 2011 announced an additional 1% reduction to be enacted during 2011, bringing the ultimate tax rate down to 23%. The 31 December 2011 MCEV results therefore reflect the 1% reduction to 26% enacted during 2011, as well as the further 1% reduction to 25% which is effective from April 2012 as this has been substantially enacted.

The effect of the first reduction to 27% was included within the 31 December 2010 MCEV results (£4 million). A further £8 million is allowed for at 31 December 2011 as an assumption change relating to the tax rate reduction from 27% to 25%. The impact of the remaining future reductions from 25% down to 23% is estimated to be an MCEV profit of £8 million and this will be reflected once these future annual reductions are enacted.

A new dividend withholding tax system (replacing the current Secondary Tax on Companies (STC) system) will be introduced in South Africa effective from 1 April 2012. This is reflected in the results at 31 December 2011, i.e. no allowance will be made in future for the impact of the new dividend withholding tax in the MCEV, except for an allowance for withholding tax on the remittance of dividends to Old Mutual plc, as the actual level of taxation will depend on the legal nature of each shareholder. The Emerging Markets MCEV has increased by approximately R1,221 million (£105 million) while the value of new business for the year ending 31 December 2011 has increased by approximately R104 million (£9 million). This has led to the average effective tax rate reducing from 33% to 28%.

(r) Value of debt

Senior and subordinated debt securities are marked to market value (for IFRS reporting, debt is valued at either book value or fair value). The table below shows the comparison of debt on an IFRS and MCEV basis.

					£m
		At 31 December 2011		At 31 December 2010	
Debt securities	Notes to the Consolidated Financial Statements	**Book value**	**MCEV**	Book value	MCEV
£350 million perpetual preferred callable securities	E9	**350**	**263**	350	270
€500 million perpetual preferred callable securities	E9	**338**	**342**	338	328
US$750 million cumulative preference securities	E9	**458**	**465**	458	449
R3.0 billion repayable 27 October 2015 (8.9%)	E9 (e)	**239**	**249**	293	293
€2 million fixed rate note repayable December 2013	H2 (a)	**2**	**2**	2	2
US$16.5 million secured senior debt repayable August 2014 (5.23%)	E9 (b)	**11**	**11**	–	–
€200 million (2010: €750 million) (4.5% to January 2012 and 6 month EURIBOR plus 0.96% thereafter)*	E9 (e)	**166**	**166**	609	609
£500 million repayable 3 June 2021 (8.0%)** – new	E9 (e)	**471**	**471**	–	–
R100 million floating rate note repayable February 2011 (3 month ZAR-JIBAR-SAFEX plus 4.5%) – repaid	E9 (b)	**–**	**–**	10	10
£300 million repayable 21 October 2016 (5.0%)** – repaid	E9 (e)	**–**	**–**	297	297
£500 million euro bond repayable October 2016 (7.125%)***	E9 (e)	**504**	**546**	503	539
US$50 million floating rate note repayable September 2011 (3 month LIBOR plus 0.35%) – repaid	E9 (a)	**–**	**–**	32	32
Value of debt		**2,539**	**2,515**	2,892	2,829

* The principal and coupon on the bond were swapped into sterling and US dollars.
** The coupon on the bond was swapped into krona.
*** This differs from the value in the Borrowed Funds note E9 (e) by the accrued interest at the end of the year, which is included within the book value of the debt in determining the MCEV market value uplift to maintain consistency and comparability with the market value.

Where either the principal or the coupon of the debt security has been swapped into an alternate currency, the mark to market value of these derivative instruments of £86 million (2010: £20 million) has not been included in the value of debt above, however it is included in the 'Net other business' value of £175 million (Adjusted Group MCEV presented per business line). Further information relating to the debt securities can be found in Note E9 in the Notes to the Consolidated Financial Statements.

(s) 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 from premium increases to existing contracts, during the reporting period after allowance for the time value of financial options and guarantees, frictional costs and the cost of residual non-hedgeable risks associated with writing the new business.

VNB includes contractual renewal of premiums and recurring single premiums, where the level of premium is pre-defined and is reasonably predictable, and changes to existing contracts where these are not variations allowed for in the PVFP. Non-contractual increments are treated similarly where the volume of such increments is reasonably predictable or likely (e.g. where premiums are expected to increase in line with salary or price inflation).

Any variations in premiums on renewal of in-force business from that previously anticipated including deviations in non-contractual increases, deviations in recurrent single premiums and re-pricing of premiums for in-force business are treated as experience variances or economic variances on in-force business and not as new business.

VNB is calculated as follows:

- Economic assumptions at the start of the reporting period are used, except for OMLAC(SA)'s Non-Profit Annuities and Fixed Bond products and US Life products where point of sale assumptions are used (where applicable using economic assumptions at the middle of the reporting period as a proxy).
- Demographic and operating assumptions at the end of the reporting period are used.
- At point of sale and rolled forward to the end of the reporting period.
- Generally using a standalone approach unless a marginal approach would better reflect the additional value to shareholders created through the activity of writing new business.
- Expense allowances include all acquisition expenses, including any acquisition expense overruns.
- Net of tax, reinsurance and non-controlling interests.
- No attribution of any investment and operating variances to VNB.

New business margins are disclosed as:

- The ratio of VNB to the present value of new business premiums (PVNBP); and
- The ratio of VNB to annual premium equivalent (APE), where APE is calculated as annualised recurring premiums plus 10% of single premiums.

PVNBP is calculated at point of sale using premiums before reinsurance and applying a valuation approach that is consistent with the calculation of VNB.

(t) Analysis of MCEV earnings

An analysis of MCEV earnings provides a reconciliation of the MCEV for covered business at the beginning of the reporting period and the MCEV for covered business at the end of the reporting period on a net of taxation basis.

Operating MCEV earnings are generated by the value of new business sold during the reporting period, the expected existing business contribution, operating experience variances, operating assumption changes and other operating variances.

- The value of new business includes the impact of new business strain on free surplus that arises, amongst other things, from the impact of initial expenses and additional required capital that is held in respect of such new business.
- The expected existing business contribution is determined by projecting both actual assets and actual liabilities (including assets backing the free surplus and required capital) from the start of the reporting period to the end of the reporting period using expected real-world earned rates of return. The expected existing business contribution is presented in two components:
  - Expected earnings on free surplus and required capital and the expected change in VIF assuming that the assets earn the beginning of period risk free reference rates as well as the deterministic release of the time value of options and guarantees, frictional costs and CNHR; and
  - Additional expected earnings on free surplus and required capital and the additional expected change in VIF as a result of real-world expected earned rates of return on assets in excess of beginning of period risk free reference rates.
- Transfers from VIF and required capital to free surplus includes the release of required capital and modelled profits from VIF into free surplus in respect of business that was in-force at the beginning of the reporting period, although the movement does not contribute to a change in the MCEV.
- Operating experience variances reflect the impact of deviations of the actual operational experience during the reporting period from the expected operational experience. It is analysed before operating assumption changes, i.e. such variances are assessed against opening operating assumptions, and reflects the total impact of in-force and new business variances.
- Operating assumption changes incorporate the impact of changes to operating assumptions from those assumed at the beginning of the reporting period to those assumed at the end of the reporting period. As VNB is calculated using operating assumptions at the end of the reporting period, this impact only relates to the value of in-force business at the end of the reporting period that was also in-force at the beginning of the reporting period.
- Other operating variances include model improvements, changes in methodology and the impact of certain management actions, such as a change in the asset allocation backing required capital.
- Total MCEV earnings also include economic variances and other non-operating variances.
  - Economic variances incorporate the impact of changes in economic assumptions from the beginning of the reporting period to the end of the reporting period (eg different opening and closing interest rates and equity volatility, increases in equity market values during the period) as well as the impact on earnings resulting from actual returns on assets being different to the expected returns on those assets as reflected in the expected existing business contribution. It therefore also includes the impact of economic variances in the reporting period on projected future earnings.
  - Other non-operating variances include the impact of changes in mandatory local regulations and legislative changes in taxation.

An analysis of MCEV earnings requires non-operating closing adjustments in respect of exchange rate movements and capital transfers such as those in respect of payment of dividends and acquiring/divesting businesses.

(t) Analysis of MCEV earnings continued

Return on MCEV for covered business is calculated as the operating MCEV earnings after tax divided by opening MCEV in local currency, except for Wealth Management, Long-Term Savings and total covered business where the calculations are performed in sterling.

The anticipated expected existing business contribution for the 12 months following the year ended 31 December 2011 (at the reference rate as well as in excess of the reference rate) is provided to assist users of the MCEV supplementary information in forecasting operating MCEV earnings. Note that the exchange rates that are used for such disclosure are the same rates that are used to translate current year earnings for comparability purposes, i.e. average exchange rates. Therefore the ultimate expected existing business contribution for the financial year ending 31 December 2012 may differ from these results.

(u) 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, with the exception of USAM. A mark to market adjustment is therefore not performed for external borrowings and other items not on a mark to market basis under IFRS relating to non-covered business.

A3: Assumptions

Non-economic assumptions

The appropriate non-economic projection assumptions for future experience (e.g. mortality, persistency and expenses) are determined using best estimate assumptions of each component of future cash flows, and are specific to the entity concerned, having regard to past, current and expected future experience where sufficient evidence exists (e.g. longevity improvements and AIDS-related claims) as derived from both entity-specific and industry data where deemed appropriate. Material assumptions are actively reviewed by means of detailed experience investigations and updated, as deemed appropriate, at least annually.

These assumptions are based on the covered business being part of a going concern, although favourable changes in maintenance expenses such as productivity improvements are generally not included beyond what has been achieved by the end of the reporting period.

The management expenses attributable to life assurance business have been analysed between expenses relating to the acquisition of new business, maintenance of in-force business (including investment management expenses) and development projects.

- All expected maintenance expense overruns affecting the covered business are allowed for in the calculations.
- The MCEV makes provision for future development costs and one-off expenses (such as those incurred on the integration of businesses following an acquisition, restructuring costs and costs related to Solvency II implementation) that relate to covered business to the extent that such project costs are known with sufficient certainty, based on three-year business plans.
- Unallocated Group holding company expenses have been included to the extent that they are allocated to the covered business. The table below shows the proportion of future expenses attributable to the long-term business. The allocation of these expenses aligns to the proportion of the management expenses incurred by the covered businesses to the total management expenses incurred in the Group.

Group holding company expenses attributable to long-term business

%	At 31 December 2011	At 31 December 2010
Emerging Markets	**17**	17
Retail Europe	**3**	3
Wealth Management	**5**	6
Nordic	**3**	4
US Life	**–**	2
Total	**28**	32

In line with legislation in Germany, a specified proportion of miscellaneous profits is shared with policyholders. The revenue on in-force business can be reduced by various expense items, including those costs arising in respect of new business acquisition expenses in any year. Skandia Leben in Germany therefore sets the best estimate assumptions for the amount to be shared with policyholders in future years after making an allowance for the acquisition expenses in relation to the new business expected to be written over the next three years. However note that, as previously mentioned, MCEV excludes the value of future new business.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

Economic assumptions

An active basis is applied to set pre-tax investment and economic assumptions to reflect the economic conditions prevailing on the reporting date. Economic assumptions are set consistently, for example future bonus or crediting rates are set at levels consistent with the investment return assumptions.

Under a market consistent valuation, economic assumptions are determined such that projected cash flows are valued in line with the prices of similar cash flows that are traded on the capital markets. Thus, risk free cash flows are discounted at a risk free reference rate and equity cash flows at an equity rate. In practice for the PVFP, where cash flows do not depend on or vary linearly with market movements, a certainty equivalent method is used which assumes that actual assets held earn, before tax and investment management expenses, risk free reference rates (including any liquidity adjustment) and all the cash flows are discounted using risk free reference rates (including any liquidity adjustment) which are gross of tax and investment management expenses. The deterministic certainty equivalent method is purely a valuation technique and over time the expectation is still that risk premiums will be earned on assets such as equities and corporate bonds.

(a) 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 Bloomberg. For Bermuda the swap yield curve is sourced from a third party market consistent asset model that is used to generate the economic scenarios that are required to value the time value of financial options and guarantees. For Emerging Markets the swap yield curve is sourced internally (using market data provided by the Bond Exchange of South Africa) and is validated to the Bloomberg swap yield curve.

At 31 December 2011, no adjustments are made to swap yields to allow for liquidity premiums or credit risk premiums, apart from a liquidity premium adjustment to OMLAC(SA)'s Immediate Annuity business and Fixed Bond business. A liquidity premium adjustment is applied to OMLAC(SA)'s Fixed Bond business as OMLAC(SA) holds a portfolio of non-government bonds which have a market yield in excess of the risk free rate and the duration of the asset portfolio and the liability duration are a good match (meaning the asset portfolio is held to maturity). Cash flows on this product are also predictable and the company has adequate liquidity to withstand a substantial increase in lapses at all durations without having to sell bonds which further strengthens the case for applying a liquidity premium.

It is the directors' view that a proportion of non-government bond spreads at 31 December 2011 is attributable to a liquidity premium rather than only to credit and default allowances and that returns in excess of swap rates can be achieved, rather than entire spreads being lost to worsening default experience. For OMLAC(SA)'s Immediate Annuity business the currency, credit quality and duration of the actual bond portfolios were considered and adjusted risk free reference rates were derived at 31 December 2011 by adding 50bps of liquidity premium for this business (31 December 2010: 45bps) to the swap rates used for setting investment return and discounting assumptions. For OMLAC(SA)'s Fixed Bond products 50bps of liquidity premium was added to the swap rates. These adjustments reflect the liquidity premium component in non-government bond spreads over swap rates that is expected to be earned on the portfolios. In deriving the liquidity premia at 31 December 2011, we have reviewed emerging Solvency II matching premium guidance and a comparison of the yields of similar durations on South African government bonds and bonds issues by state-owned enterprises. At those durations where swap yields are not available, e.g. due to lack of a sufficiently liquid or deep swap market, the swap curve is extended using appropriate interpolation or extrapolation techniques.

The risk free reference spot yields (excluding any applicable liquidity adjustments) and expense inflation rates at various terms for each of the significant regions are provided in the table below. The risk free reference spot yield curve has been derived from mid-swap rates at the reporting date.

Risk free reference spot yields (excluding any applicable liquidity adjustments)

%

	GBP	EUR	USD*	ZAR	SEK
At 31 December 2011					
1 year	**1.4**	**1.4**	**0.7**	**5.7**	**2.1**
5 years	**1.6**	**1.7**	**1.2**	**7.1**	**2.3**
10 years	**2.4**	**2.4**	**2.1**	**8.1**	**2.5**
20 years	**3.0**	**2.7**	**2.6**	**8.1**	**2.1**
At 31 December 2010					
1 year	0.9	1.3	0.4	5.6	2.3
5 years	2.7	2.5	2.2	7.4	3.3
10 years	3.6	3.3	3.5	8.2	3.7
20 years	4.0	3.7	4.3	8.1	4.0

* For prior reporting periods, the risk free spot yields disclosed for USD were on a semi-annual par basis. The assumptions at 31 December 2011, as well as the comparative for the prior period, are now shown as annualised spot yields, consistent with other regions.

Expense inflation

%

	GBP	EUR	USD	ZAR	SEK
At 31 December 2011					
1 year	**3.0**	**2.5**	**3.0**	**6.1**	**1.3**
5 years	**3.4**	**2.5**	**3.0**	**7.0**	**2.2**
10 years	**3.8**	**2.5**	**3.0**	**7.7**	**2.5**
20 years	**4.3**	**2.5**	**3.0**	**7.5**	**2.6**
At 31 December 2010					
1 year	3.0	2.5	3.0	5.0	2.2
5 years	4.3	2.5	3.0	6.4	3.0
10 years	5.3	2.5	3.0	7.2	3.2
20 years	5.1	2.5	3.0	7.0	3.3

(b) Volatilities and correlations

Where cash flows contain financial options and guarantees that do not move linearly with market movements, asset cash flows are projected and all cash flows are discounted using risk-neutral stochastic models. These models project the assets and liabilities using a distribution of asset returns where all asset types, on average, earn the same risk free reference rates.

Apart from the risk free reference yields specified above, other key economic assumptions for the calibration of economic scenarios include the implied volatilities for each asset class and correlations of investment returns between different asset classes. For Bermuda, implied volatilities and correlations are determined for each global equity and bond index modelled.

The volatility assumptions for the calibration of economic scenarios that are used in the stochastic models are, where possible, based on those implied from appropriate derivative prices (such as equity options or swaptions in respect of guarantees that are dependent on changes in equity markets and interest rates respectively) as observed on the valuation date. However, historic implied and historic observed volatilities of the underlying instruments and expert opinion are considered where there are concerns over the depth or liquidity of the market. Where strict adherence to the above is not possible, for example where markets only exist at short durations such as the swaption market in South Africa, interpolation or extrapolation techniques and, where appropriate, historical data 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.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

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 swap	5 year swap	10 year swap	20 year swap	Equity (total return index) %
At 31 December 2011					
1 year	**30.6**	**25.0**	**23.1**	**23.3**	**27.6**
5 years	**21.9**	**21.5**	**22.4**	**23.0**	**26.7**
10 years	**22.9**	**23.8**	**24.0**	**23.5**	**26.6**
20 years	**25.8**	**25.7**	**25.1**	**23.7**	**29.3**
At 31 December 2010					
1 year	18.7	16.9	15.8	15.1	23.4
5 years	16.4	15.5	14.9	14.4	25.5
10 years	15.6	15.0	14.5	13.9	27.0
20 years	13.8	13.3	12.8	11.9	27.8

* Due to limited liquidity in the ZAR swaption market, the market consistent asset model has been calibrated by extrapolating swaption and equity implied volatility data beyond a term of one year and 5 years respectively for assumptions at 31 December 2011 (2 years and 3 years respectively for assumptions at 31 December 2010).

Property index implied volatilities have been removed from the table above as they are no longer material to the Emerging Markets stochastic models.

USD volatilities

Option term	1 year swap	5 year swap	10 year swap	20 year swap %
At 31 December 2011				
1 year	**71.8**	**49.1**	**45.1**	**41.8**
5 years	**42.1**	**36.8**	**34.6**	**33.8**
10 years	**32.7**	**31.2**	**31.1**	**29.9**
20 years	**29.8**	**29.3**	**27.9**	**27.5**
At 31 December 2010				
1 year	37.8	34.3	31.2	27.7
5 years	26.2	24.7	23.0	20.9
10 years	20.0	18.8	17.7	16.1
20 years	16.8	15.7	14.7	13.1

International equity volatilities (applicable to Bermuda)*

Option term	SPX	RTY	EWZ	TPX	HSCEI	TWY	KOSP12	NIFTY	SX5E	UKX %
At 31 December 2011										
1 year	**25.0**	**n/a**	**35.9**	**26.7**	**31.5**	**26.1**	**25.1**	**25.6**	**27.2**	**23.9**
5 years	**27.8**	**n/a**	**34.8**	**28.0**	**32.3**	**25.0**	**24.6**	**25.2**	**25.3**	**25.0**
10 years	**27.8**	**n/a**	**34.8**	**28.0**	**32.3**	**25.0**	**24.6**	**25.2**	**25.3**	**25.0**
At 31 December 2010										
1 year	21.5	28.1	n/a	26.7	27.8	21.5	21.4	22.0	24.3	21.5
5 years	23.6	32.6	n/a	28.3	32.3	25.5	24.0	26.6	25.2	24.2
10 years	23.6	32.6	n/a	28.3	32.3	25.5	24.0	26.6	25.2	24.2

International equity volatilities (applicable to Bermuda)*

Option term	EEM	USAgg	EUAgg	APAgg %
At 31 December 2011				
1 year	**33.9**	**5.5**	**13.0**	**12.3**
5 years	**33.0**	**5.5**	**13.0**	**12.3**
10 years	**33.0**	**5.5**	**13.0**	**12.3**
At 31 December 2010				
1 year	27.4	5.5	13.0	12.6
5 years	27.7	5.5	13.0	12.6
10 years	27.7	5.5	13.0	12.6

* Long-term option implied volatility has been calibrated assuming a flat volatility term structure beyond 5 years due to limited data availability for some indices. The assumptions at 31 December 2011, as well as the comparative for the prior period are shown as the annualised volatilities applicable over the entire option term specified, consistent with the disclosure of volatilities for other regions. These volatilities, as represented by their Bloomberg codes, refer to the price indices. Due to ongoing enhancements in the fund mapping process, the indices referenced may vary from period to period. In the first half of 2011, a decision was made to remove the Russell 2000 Index (RTY) and add the MSCI Brazil Index (EWZ) which provides exposure to Latin America.

(c) Exchange rates

All MCEV figures are calculated in local currency and translated to GBP using the appropriate exchange rates as detailed in Note C2 of the consolidated financial statements.

(d) Expected asset returns in excess of the risk free reference rates

The expected asset returns in excess of the risk free reference rates have no bearing on the calculated MCEV other than the calculation of the expected existing business contribution in the analysis of MCEV earnings. Real-world economic assumptions are determined with reference to one-year forward risk free reference rates applicable to the currency of the liabilities at the start of the reporting period. All other economic assumptions, for example future bonus or crediting rates, are set at levels consistent with the real-world investment return assumptions.

Equity and property risk premiums incorporate both historical relationships and the directors' view of future projected returns in each region over the analysis period. Pre-tax real-world economic assumptions are determined as follows:

- The equity risk premium is 3.5% for Africa and 3% for Europe.
- The cash return equals the one-year risk free reference rate for all regions.
- The corporate bond return is based on actual corporate bond spreads on the reporting date less an allowance for defaults.
- The property risk premium is 1.5% in Africa and 2% in Europe.

(e) Tax

The weighted average effective tax rates that apply to the cash flow projections at 31 December 2011 are set out below:

Weighted average effective tax rates

		%
	At 31 December 2011	At 31 December 2010
OMLAC(SA)*	**28**	33
Namibia	**–**	–
Retail Europe	**25**	27
Wealth Management	**8**	11
Bermuda	**–**	–
Nordic	**4**	4

* The reduction in weighted average effective tax rate for OMLAC(SA) from 31 December 2010 to 31 December 2011 is as a result of the new dividend withholding tax effective from 1 April 2012 as detailed in Note A2 (q).

A4: Discontinued business

Disposal of US Life

On 6 August 2010, the Company announced that it had entered into an agreement to sell the assets and liabilities of its US Life insurance business to Harbinger Capital Partners for the sum of £215 million ($350 million) subject to regulatory approval. The sale was completed, following regulatory approval, on 7 April 2011. This transaction has resulted in an uplift of £451 million to the adjusted Group MCEV, as analysed below.

Adjusted Group MCEV uplift from disposal of US Life

			£m
	Covered business	**Other business**	**Total**
Headline purchase price	**–**	**215**	**215**
Advisor fees and costs	**–**	**(17)**	**(17)**
US Life sale proceeds	**–**	**198**	**198**
Retention of OM Re	**–**	**71**	**71**
Total proceeds from US Life disposal	**–**	**269**	**269**
Removal of US Life MCEV*	**182**	**–**	**182**
Adjusted Group MCEV uplift	**182**	**269**	**451**

* The MCEV results for US Life include allowance for Old Mutual Reassurance (Ireland) Limited (OM Re).

The total earnings over the period are equal to the MCEV uplift, however we have not attributed these earnings to specific line items in the analysis of MCEV earnings.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

B: Segment information

B1: Components of Group MCEV and Adjusted Group MCEV

	Notes	At 31 December 2011 £m	At 31 December 2010 £m
Adjusted net worth attributable to ordinary equity holders of the parent		**5,193**	5,737
Equity		**8,488**	8,951
Adjustment to IFRS net asset value	C5	**(2,607)**	(2,526)
Adjustment to remove perpetual preferred callable securities		**(688)**	(688)
Value of in-force business		**4,535**	4,164
Present value of future profits		**5,248**	5,256
Additional time value of financial options and guarantees		**(136)**	(433)
Frictional costs		**(243)**	(276)
Cost of residual non-hedgeable risks		**(334)**	(383)
Group MCEV		**9,728**	9,901
Adjustments to bring Group investments to market value			
Adjustment to bring listed subsidiary (Nedbank) to market value		**655**	715
Adjustment for value of own shares in ESOP schemes*		**117**	85
Adjustment for present value of Black Economic Empowerment scheme deferred consideration**		**270**	266
Adjustment to bring external debt to market value		**24**	63
Adjusted Group MCEV		**10,794**	11,030
Group MCEV value per share (pence)		**174.9**	181.5
Adjusted Group MCEV per share (pence)		**194.1**	202.2
Number of shares in issue at the end of the financial period less treasury shares – millions		**5,562**	5,456
Return on Group MCEV (ROEV) per annum from core operations		**8.8%**	9.8%
Return on Group MCEV (ROEV) per annum from continuing non-core operations		**0.5%**	(0.3)%
Return on Group MCEV (ROEV) per annum from discontinued operations		**1.4%**	1.4%
Return on Group MCEV (ROEV*) per annum**		**10.7%**	10.9%

* Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2010 and 31 December 2011 is the net effect of the increase in the Old Mutual plc share price, the reduction in excess own shares following employee share grants in March 2011 and the reduction in overall shares held due to exercises of rights to take delivery of, or net settle, share grants during the financial period. The effect of the acquisition of the minority interest in Mutual & Federal during 2010 has been included in this adjustment for the first time during 2011.

** The effect of the acquisition of the minority interest in Mutual & Federal during 2010 has been included in this adjustment for the first time during 2011.

*** The ROEV is calculated as the adjusted operating Group MCEV earnings after tax and non-controlling interests of £1,055 million (2010: £830 million) divided by the opening Group MCEV.

B2: Adjusted operating MCEV earnings for the covered business

£m

Year ended 31 December 2011	Total covered business	Long-Term Savings	Emerging Markets	Retail Europe	Wealth Manage-ment	Bermuda	Nordic	US Life
Adjusted operating Group MCEV earnings before tax	**918**	**714**	**468**	**24**	**222**	**48**	**156**	**–**
Tax on adjusted operating Group MCEV earnings	**(191)**	**(162)**	**(119)**	**(5)**	**(38)**	**(1)**	**(28)**	**–**
Adjusted operating Group MCEV earnings after tax	**727**	**552**	**349**	**19**	**184**	**47**	**128**	**–**

£m

Year ended 31 December 2010	Total covered business	Long-Term Savings	Emerging Markets	Retail Europe	Wealth Manage-ment	Bermuda	Nordic	US Life
Adjusted operating Group MCEV earnings before tax	725	640	443	68	129	(28)	65	48
Tax on adjusted operating Group MCEV earnings	(135)	(118)	(99)	(2)	(17)	4	(20)	(1)
Adjusted operating Group MCEV earnings after tax	590	522	344	66	112	(24)	45	47

B3: Components of MCEV of the covered business

£m

Year ended 31 December 2011	Total covered business	Long-Term Savings	Emerging Markets*	Retail Europe	Wealth Manage-ment	Bermuda	Nordic	US Life
Adjusted net worth	**2,676**	**2,204**	**1,768**	**104**	**332**	**187**	**285**	**–**
Free surplus	**680**	**522**	**400**	**52**	**70**	**–**	**158**	**–**
Required capital	**1,996**	**1,682**	**1,368**	**52**	**262**	**187**	**127**	**–**
Value of in-force	**4,536**	**3,509**	**1,399**	**484**	**1,626**	**(121)**	**1,148**	**–**
Present value of future profits	**5,248**	**4,001**	**1,740**	**547**	**1,714**	**36**	**1,211**	**–**
Additional time value of financial options and guarantees	**(136)**	**(14)**	**–**	**(12)**	**(2)**	**(122)**	**–**	**–**
Frictional costs	**(243)**	**(236)**	**(218)**	**(8)**	**(10)**	**(2)**	**(5)**	**–**
Cost of residual non-hedgeable risks	**(333)**	**(242)**	**(123)**	**(43)**	**(76)**	**(33)**	**(58)**	**–**
MCEV	**7,212**	**5,713**	**3,167**	**588**	**1,958**	**66**	**1,433**	**–**

£m

Year ended 31 December 2010	Total covered business	Long-Term Savings	Emerging Markets*	Retail Europe	Wealth Manage-ment	Bermuda	Nordic	US Life
Adjusted net worth	3,351	2,228	1,804	103	321	403	186	534
Free surplus	507	390	306	41	43	–	51	66
Required capital	2,844	1,838	1,498	62	278	403	135	468
Value of in-force	4,164	3,685	1,509	520	1,656	(116)	1,318	(723)
Present value of future profits	5,256	4,160	1,849	573	1,738	145	1,397	(446)
Additional time value of financial options and guarantees	(433)	(12)	–	(10)	(2)	(235)	–	(186)
Frictional costs	(276)	(261)	(240)	(11)	(10)	(2)	(6)	(7)
Cost of residual non-hedgeable risks	(383)	(202)	(100)	(32)	(70)	(24)	(73)	(84)
MCEV	7,515	5,913	3,313	623	1,977	287	1,504	(189)

* The required capital in respect of Emerging Markets is partially covered by the market value of the Group's investments in banking and general insurance in South Africa. On consolidation these investments are shown separately.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

B4: Analysis of covered business MCEV earnings

£m

Total covered business	Year ended 31 December 2011 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2010 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**507**	**2,844**	**3,351**	**4,164**	**7,515**	416	2,399	2,815	3,212	6,027
New business value	**(444)**	**187**	**(257)**	**490**	**233**	(485)	226	(259)	431	172
Expected existing business contribution (reference rate)	**17**	**65**	**82**	**179**	**261**	9	89	98	192	290
Expected existing business contribution (in excess of reference rate)	**7**	**34**	**41**	**87**	**128**	7	27	34	174	208
Transfers from VIF and required capital to free surplus	**943**	**(236)**	**707**	**(707)**	**–**	899	(276)	623	(623)	–
Experience variances	**10**	**30**	**40**	**111**	**151**	(1)	6	5	71	76
Assumption changes	**23**	**4**	**27**	**1**	**28**	(2)	2	–	(98)	(98)
Other operating variance	**188**	**(205)**	**(17)**	**(57)**	**(74)**	(125)	74	(51)	(7)	(58)
Operating MCEV earnings	**744**	**(121)**	**623**	**104**	**727**	302	148	450	140	590
Economic variances	**(221)**	**(22)**	**(243)**	**(214)**	**(457)**	224	23	247	521	768
Other non-operating variance	**32**	**1**	**33**	**93**	**126**	(7)	25	18	–	18
Total MCEV earnings	**555**	**(142)**	**413**	**(17)**	**396**	519	196	715	661	1,376
Closing adjustments	**(382)**	**(706)**	**(1,088)**	**389**	**(699)**	(428)	249	(179)	291	112
Capital and dividend flows	**(243)**	**55**	**(188)**	**–**	**(188)**	(468)	–	(468)	–	(468)
Foreign exchange variance	**(75)**	**(312)**	**(387)**	**(306)**	**(693)**	40	249	289	291	580
MCEV of acquired/sold business	**(64)**	**(449)**	**(513)**	**695**	**182**	–	–	–	–	–
Closing MCEV	**680**	**1,996**	**2,676**	**4,536**	**7,212**	507	2,844	3,351	4,164	7,515
Return on MCEV (RoEV)% per annum					**9.7%**					9.8%

Return on MCEV for total covered business is calculated as the operating MCEV earnings after tax divided by opening MCEV in sterling.

£m

	Year ended 31 December 2011 Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2010 Adjusted net worth	Value of in-force	MCEV
Experience variances	**40**	**111**	**151**	5	71	76
Persistency	**20**	**84**	**104**	7	57	64
Risk	**43**	**4**	**47**	22	(2)	20
Expenses	**(44)**	**13**	**(31)**	(37)	5	(32)
Other	**21**	**10**	**31**	13	11	24
Assumption changes	**27**	**1**	**28**	–	(98)	(98)
Persistency	**21**	**40**	**61**	(22)	(53)	(75)
Risk	**–**	**8**	**8**	19	12	31
Expenses	**(7)**	**(99)**	**(106)**	(2)	(44)	(46)
Other	**13**	**52**	**65**	5	(13)	(8)

£m

	Year ended 31 December 2012 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	**23**	**71**	**94**	**201**	**295**
Expected existing business contribution (in excess of reference rate)	**4**	**36**	**40**	**75**	**115**

B4: Analysis of covered business MCEV earnings (after tax)

The Long-Term Savings segment consists of Emerging Markets, Retail Europe and Wealth Management.

£m

Long-Term Savings (LTS)	Year ended 31 December 2011					Year ended 31 December 2010				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**390**	**1,838**	**2,228**	**3,685**	**5,913**	289	1,470	1,759	3,079	4,838
New business value	**(390)**	**179**	**(211)**	**388**	**177**	(370)	154	(216)	375	159
Expected existing business contribution (reference rate)	**14**	**60**	**74**	**137**	**211**	8	76	84	154	238
Expected existing business contribution (in excess of reference rate)	**7**	**10**	**17**	**40**	**57**	7	(3)	4	33	37
Transfers from VIF and required capital to free surplus	**748**	**(179)**	**569**	**(569)**	**–**	699	(184)	515	(515)	–
Experience variances	**(5)**	**32**	**27**	**103**	**130**	(46)	33	(13)	44	31
Assumption changes	**9**	**4**	**13**	**27**	**40**	23	2	25	30	55
Other operating variance	**33**	**(28)**	**5**	**(68)**	**(63)**	(49)	33	(16)	18	2
Operating MCEV earnings	**416**	**78**	**494**	**58**	**552**	272	111	383	139	522
Economic variances	**23**	**(6)**	**17**	**(24)**	**(7)**	104	29	133	256	389
Other non-operating variance	**(7)**	**–**	**(7)**	**96**	**89**	(24)	25	1	–	1
Total MCEV earnings	**432**	**72**	**504**	**130**	**634**	352	165	517	395	912
Closing adjustments	**(300)**	**(228)**	**(528)**	**(306)**	**(834)**	(251)	203	(48)	211	163
Capital and dividend flows	**(232)**	**55**	**(177)**	**–**	**(177)**	(283)	–	(283)	–	(283)
Foreign exchange variance	**(68)**	**(283)**	**(351)**	**(306)**	**(657)**	32	203	235	211	446
Closing MCEV	**522**	**1,682**	**2,204**	**3,509**	**5,713**	390	1,838	2,228	3,685	5,913
Return on MCEV (RoEV)% per annum					**9.3%**					10.8%

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV in sterling.

£m

	Year ended 31 December 2011			Year ended 31 December 2010		
	Adjusted net worth	**Value of in-force**	**MCEV**	Adjusted net worth	Value of in-force	MCEV
Experience variances	**27**	**103**	**130**	(13)	44	31
Persistency	**9**	**70**	**79**	20	26	46
Risk	**43**	**3**	**46**	17	8	25
Expenses	**(37)**	**13**	**(24)**	(56)	5	(51)
Other	**12**	**17**	**29**	6	5	11
Assumption changes	**13**	**27**	**40**	25	30	55
Persistency	**7**	**40**	**47**	–	3	3
Risk	**–**	**8**	**8**	17	14	31
Expenses	**(3)**	**(77)**	**(80)**	(2)	(2)	(4)
Other	**9**	**56**	**65**	10	15	25

£m

	Year ended 31 December 2012				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**20**	**67**	**87**	**166**	**253**
Expected existing business contribution (in excess of reference rate)	**4**	**12**	**16**	**45**	**61**

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

	Year ended 31 December 2011					Year ended 31 December 2010				
Emerging Markets*	**Free surplus**	**Required Capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**306**	**1,498**	**1,804**	**1,509**	**3,313**	80	1,225	1,305	1,158	2,463
New business value	**(189)**	**155**	**(34)**	**133**	**99**	(159)	134	(25)	111	86
Expected existing business contribution (reference rate)	**11**	**58**	**69**	**105**	**174**	6	73	79	124	203
Expected existing business contribution (in excess of reference rate)	**2**	**10**	**12**	**18**	**30**	–	(3)	(3)	16	13
Transfers from VIF and required capital to free surplus	**359**	**(150)**	**209**	**(209)**	**–**	356	(166)	190	(190)	–
Experience variances	**28**	**24**	**52**	**50**	**102**	11	14	25	10	35
Assumption changes	**1**	**4**	**5**	**1**	**6**	19	–	19	18	37
Other operating variance	**(7)**	**(11)**	**(18)**	**(44)**	**(62)**	(6)	(2)	(8)	(22)	(30)
Operating MCEV earnings	**205**	**90**	**295**	**54**	**349**	227	50	277	67	344
Economic variances	**1**	**8**	**9**	**23**	**32**	57	21	78	84	162
Other non-operating variance	**(7)**	**–**	**(7)**	**100**	**93**	4	–	4	1	5
Total MCEV earnings	**199**	**98**	**297**	**177**	**474**	288	71	359	152	511
Closing adjustments	**(105)**	**(228)**	**(333)**	**(287)**	**(620)**	(62)	202	140	199	339
Capital and dividend flows	**(39)**	**51**	**12**	**–**	**12**	(93)	–	(93)	–	(93)
Foreign exchange variance	**(66)**	**(279)**	**(345)**	**(287)**	**(632)**	31	202	233	199	432
Closing MCEV	**400**	**1,368**	**1,768**	**1,399**	**3,167**	306	1,498	1,804	1,509	3,313
Return on MCEV (RoEV)% per annum					**11.9%**					13.2%

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV in rand.

£m

	Year ended 31 December 2011			Year ended 31 December 2010		
	Adjusted net worth	**Value of in-force**	**MCEV**	Adjusted net worth	Value of in-force	MCEV
Experience variances	**52**	**50**	**102**	25	10	35
Persistency	**25**	**31**	**56**	29	5	34
Risk	**39**	**(1)**	**38**	11	7	18
Expenses	**(17)**	**8**	**(9)**	(15)	4	(11)
Other	**5**	**12**	**17**	–	(6)	(6)
Assumption changes	**5**	**1**	**6**	19	18	37
Persistency	**7**	**48**	**55**	–	2	2
Risk	**–**	**–**	**–**	17	(1)	16
Expenses	**(2)**	**(47)**	**(49)**	2	15	17
Other	**–**	**–**	**–**	–	2	2

£m

	Year ended 31 December 2012				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**18**	**63**	**81**	**122**	**203**
Expected existing business contribution (in excess of reference rate)	**3**	**12**	**15**	**21**	**36**

* The MCEV for Emerging Markets is presented after the adjustment for market value of life fund investments in Group equity and debt instruments.

Emerging Markets: *Overview*

New business: The new business value increased (compared to 2010) largely driven by very strong Mass Foundation Cluster sales volumes and an improvement in margins resulting from changes to economic and operating assumptions.

Operating earnings: The operating profits on the in-force book were driven by strong positive mortality and persistency experience variances.

Non-operating earnings and closing adjustments: The most material impact was caused by the rand depreciating against sterling, leading to a large negative foreign exchange variance. The changes to tax legislation in South Africa (in particular, the move to a withholding tax regime for dividends) account for most of the large one-off positive non-operating variance.

New business
The increase in the value of new business was largely driven by the increased sales of higher margin Mass Foundation Cluster business. Margins in general were impacted positively by operating assumption changes (mainly relating to persistency) and a more favourable economic basis. However, there were also offsetting negative impacts on margins resulting from a less profitable mix of business (more market-linked business sold relative to with-profit business). There was a small net negative impact on the value of new business from tax legislation changes. This was a combination of the negative effect of tax legislation changes affecting the Fixed Bond product and the positive effect of moving to a dividend withholding tax regime (increase to VNB of £9 million).

Expected existing business contribution
The unwind of returns on the in-force business over 2011 was slightly lower than 2010. The lower unwind was the combined effect of the negative impact due to lower one-year risk free rates, offset by positive impacts due to a higher assumed real world expected return on cash and a higher opening MCEV balance on which the unwind is based.

Experience variances
Both mortality and persistency experience were very strong in 2011 and included a number of one-off items, leading to a significantly improved positive experience variance compared to 2010. The mortality variance was the result of exceptionally good experience in Retail Affluent, continued good experience in Mass Foundation Cluster and improved Corporate Segment experience. The persistency profits were improved by continued business efforts to improve retention. It should be noted that the experience variance includes ANW earnings of £14 million relating to the life business in Kenya, Malawi, Nigeria, Swaziland and Zimbabwe as profits not modelled.

Operating assumption changes
The small overall assumption change impact was the result of a number of different offsetting effects, particularly an improvement in the persistency basis (to reflect the good experience in recent years) and negative impacts from expense assumption changes, mainly the increased provision for project costs. Although mortality experience was very positive in 2011, no mortality assumption changes were made as the experience appeared unusually positive compared to recent years and was further boosted by one-off items which contributed significantly to the profit. The assumptions will be considered again in 2012 following a review of the experience.

Other operating variances
The negative other operating variance was the result of an increase in the CNHR resulting from implementation of a new economic capital model (alignment with Solvency II requirements) to determine non-hedgeable risk capital and the effect of other miscellaneous modelling changes.

Economic variances
Investment returns over 2011 were lower than 2010. The JSE SWIX index increased slightly by 1% over 2011 (compared with 18% over 2010). The year-end economic basis (mainly the swap curve) boosted MCEV. In aggregate, this had the impact of leading to a small positive economic variance.

Other non-operating variances
A new dividend withholding tax system (replacing the current Secondary Tax on Companies (STC) system) will be introduced in South Africa effective from 1 April 2012. The current STC tax allowance was removed from the embedded value models, resulting in an increase in VIF. This was offset by an allowance for dividend withholding tax on remittance of dividends to Old Mutual plc. The overall effect is a material increase in the net of tax VIF of £105 million.

Capital and dividend flows
This includes a large one-off positive effect of £69 million for the inclusion of the opening ANW for the life businesses in Kenya, Malawi, Nigeria, Swaziland and Zimbabwe which are included in Emerging Markets for the first time in 2011, with any foreign exchange movement on this balance allocated as a foreign exchange variance. This is largely offset by dividends paid.

Foreign exchange effects
The large negative effect was caused by the 18% depreciation in the rand against sterling applied to the MCEV closing balance. The majority of Emerging Market's MCEV earnings are rand denominated, and the volatility of the rand against sterling is largely unhedged. Hence, all the line items shown in the analysis of covered business MCEV earnings are also implicitly impacted by movements in the rand against sterling.

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Retail Europe	Year ended 31 December 2011 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2010 Free surplus	Required capital	Adjusted net worth	Value of In-force	MCEV
Opening MCEV	**41**	**62**	**103**	**520**	**623**	46	32	78	453	531
New business value	**(73)**	**1**	**(72)**	**80**	**8**	(69)	1	(68)	75	7
Expected existing business contribution (reference rate)	**1**	**–**	**1**	**8**	**9**	1	–	1	8	9
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**5**	**5**	–	–	–	3	3
Transfers from VIF and required capital to free surplus	**93**	**1**	**94**	**(94)**	**–**	97	2	99	(99)	–
Experience variances	**3**	**–**	**3**	**(3)**	**–**	5	(1)	4	1	5
Assumption changes	**–**	**–**	**–**	**2**	**2**	–	–	–	11	11
Other operating variance	**6**	**(6)**	**–**	**(5)**	**(5)**	(9)	–	(9)	40	31
Operating MCEV earnings	**30**	**(4)**	**26**	**(7)**	**19**	25	2	27	39	66
Economic variances	**2**	**(4)**	**(2)**	**(13)**	**(15)**	1	2	3	19	22
Other non-operating variance	**–**	**–**	**–**	**–**	**–**	(26)	25	(1)	(5)	(6)
Total MCEV earnings	**32**	**(8)**	**24**	**(20)**	**4**	–	29	29	53	82
Closing adjustments	**(21)**	**(2)**	**(23)**	**(16)**	**(39)**	(5)	1	(4)	14	10
Capital and dividend flows	**(19)**	**–**	**(19)**	**–**	**(19)**	(6)	–	(6)	–	(6)
Foreign exchange variance	**(2)**	**(2)**	**(4)**	**(16)**	**(20)**	1	1	2	14	16
Closing MCEV	**52**	**52**	**104**	**484**	**588**	41	62	103	520	623
Return on MCEV (RoEV)% per annum					**3.0%**					12.8%

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV in euro.

£m

	Year ended 31 December 2011 Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2010 Adjusted net worth	Value of in-force	MCEV
Experience variances	**3**	**(3)**	**–**	4	1	5
Persistency	**(2)**	**3**	**1**	(2)	3	1
Risk	**3**	**2**	**5**	3	–	3
Expenses	**(3)**	**–**	**(3)**	(3)	–	(3)
Other	**5**	**(8)**	**(3)**	6	(2)	4
Assumption changes	**–**	**2**	**2**	–	11	11
Persistency	**–**	**(2)**	**(2)**	–	9	9
Risk	**–**	**–**	**–**	–	–	–
Expenses	**–**	**5**	**5**	–	(4)	(4)
Other	**–**	**(1)**	**(1)**	–	6	6

£m

	Year ended 31 December 2012 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	**–**	**1**	**1**	**11**	**12**
Expected existing business contribution (in excess of reference rate)	**1**	**–**	**1**	**3**	**4**

Retail Europe: *Overview*

Operating earnings: The operating profits on the in-force book were mainly driven by new business contribution and the expected unwind of the MCEV.

Non-operating earnings and closing adjustments: The most material impacts are as a result of the negative economic variances, largely due to reduced fund returns, and the foreign exchange variance as a result of the depreciation of the euro against sterling.

New business
The value of new business has increased due to higher sales volumes in Poland and Switzerland. Margins have also increased as a result of positive volume effects, driven by a decrease in acquisition expense overruns in Switzerland, and favourable economic assumption changes.

Expected existing business contribution
The expected existing business contribution is in line with 2010.

Experience variances
The most significant experience variance is in respect of mortality risk. This is partially offset by adverse expense variances due to higher overhead expenses.

Operating assumption changes
The most significant operating assumption change relates to the lowering of expense assumptions as a result of refinements to the allocation of Retail Europe overhead expenses to individual insurance entities.

Other operating variances
The negative other operating variance mainly relates to a change in methodology used to calculate CNHR to align with Solvency II requirements.

Economic variances
There was a large negative investment return variance on the VIF mainly due to the effect of negative market developments and poor fund returns over 2011. This was partially offset by a positive impact due to the reduction in swap rates across all Retail Europe currencies.

Capital and dividend flows
The main capital flow relates to a significant dividend paid from the covered business to Old Mutual plc.

Foreign exchange effects
The foreign exchange variance is mainly due to unfavourable exchange rate movements on translation as a result of the euro depreciating against sterling.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Wealth Management	Year ended 31 December 2011					Year ended 31 December 2010				
	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV	Free surplus	Required capital	Adjusted net worth	Value of In-force	MCEV
Opening MCEV	**43**	**278**	**321**	**1,656**	**1,977**	163	213	376	1,468	1,844
New business value	**(128)**	**23**	**(105)**	**175**	**70**	(142)	19	(123)	189	66
Expected existing business contribution (reference rate)	**2**	**2**	**4**	**24**	**28**	1	3	4	22	26
Expected existing business contribution (in excess of reference rate)	**5**	**–**	**5**	**17**	**22**	7	–	7	14	21
Transfers from VIF and required capital to free surplus	**296**	**(30)**	**266**	**(266)**	**–**	246	(20)	226	(226)	–
Experience variances	**(36)**	**8**	**(28)**	**56**	**28**	(62)	20	(42)	33	(9)
Assumption changes	**8**	**–**	**8**	**24**	**32**	4	2	6	1	7
Other operating variance	**34**	**(11)**	**23**	**(19)**	**4**	(34)	35	1	–	1
Operating MCEV earnings	**181**	**(8)**	**173**	**11**	**184**	20	59	79	33	112
Economic variances	**20**	**(10)**	**10**	**(34)**	**(24)**	46	6	52	153	205
Other non-operating variance	**–**	**–**	**–**	**(4)**	**(4)**	(2)	–	(2)	4	2
Total MCEV earnings	**201**	**(18)**	**183**	**(27)**	**156**	64	65	129	190	319
Closing adjustments	**(174)**	**2**	**(172)**	**(3)**	**(175)**	(184)	–	(184)	(2)	(186)
Capital and dividend flows	**(174)**	**4**	**(170)**	**–**	**(170)**	(184)	–	(184)	–	(184)
Foreign exchange variance	**–**	**(2)**	**(2)**	**(3)**	**(5)**	–	–	–	(2)	(2)
Closing MCEV	**70**	**262**	**332**	**1,626**	**1,958**	43	278	321	1,656	1,977
Return on MCEV (RoEV)% per annum					**9.3%**					6.1%

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV in sterling.

£m

	Year ended 31 December 2011			Year ended 31 December 2010		
	Adjusted net worth	Value of in-force	MCEV	Adjusted net worth	Value of in-force	MCEV
Experience variances	**(28)**	**56**	**28**	(42)	33	(9)
Persistency	**(14)**	**36**	**22**	(7)	18	11
Risk	**1**	**2**	**3**	3	1	4
Expenses	**(17)**	**5**	**(12)**	(38)	1	(37)
Other	**2**	**13**	**15**	–	13	13
Assumption changes	**8**	**24**	**32**	6	1	7
Persistency	**–**	**(6)**	**(6)**	–	(8)	(8)
Risk	**–**	**8**	**8**	–	15	15
Expenses	**(1)**	**(35)**	**(36)**	(4)	(13)	(17)
Other	**9**	**57**	**66**	10	7	17

£m

	Year ended 31 December 2012				
	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	**2**	**3**	**5**	**33**	**38**
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**21**	**21**

Wealth Management: *Overview*

New business: The new business value increased (compared to 2010) largely driven by a change in business mix and assumption changes. Sales volumes were below 2010 levels for all Wealth Management businesses, except for the UK Platform which saw 2% year-on-year growth.

Operating earnings: The operating profits on the in-force book were driven by the expected unwind of the MCEV, favourable rebate assumption changes, and strong positive rebate, persistency and mortality experience variances.

Non-operating earnings and closing adjustments: The most material impact below the line was the capital returned to Group during the year and foreign exchange variances due to funds held in non-sterling denominations.

New business

The increase in the value of new business was largely due to the lower internal acquisition costs following a cost reduction programme, together with the higher rebate and improved persistency assumptions. Margins in general were impacted positively by external factors, in particular the more favourable economic basis. However, there were also offsetting negative impacts on margins resulting from lower volumes.

Expected existing business contribution

The expected existing business contribution (in excess of reference rate) is not significant on the required capital portion of the business as shareholder assets backing capital requirements are typically invested in highly secure government paper and other short-term instruments.

Experience variances

Rebate, persistency and mortality experience was strong in 2011 leading to a positive experience variance compared to 2010. The persistency variance was as a result of assumptions made for the anticipated impacts of the Retail Distribution Review (RDR)* that have yet to emerge on Legacy business in the UK. The adverse expense experience was due to one-off variances relating to software development. Maintenance expenses have come under pressure due to lower than assumed sales on UK Platform and a changing mix of business.

Operating assumption changes

Assumptions changes were generally favourable with the release of margins on rebates following strong recent experience and more clarity from the FSA regarding the future treatment of rebates. Positive mortality experience led to favourable assumption changes, offset by the adverse expense and persistency assumption changes.

Other operating variances

The other operating variance was the result of some large offsetting items. Modelling changes include the impact of a move to a 50th percentile best estimate basis** offset by an associated move to more granular persistency modelling techniques giving an overall impact of £(13) million. Other operating variances also include the results of modelling improvements for the Platform business following a migration of valuation models (£14 million); an increase in the CNHR resulting from implementation of the 50th percentile best estimate basis; and the effect of other miscellaneous modelling changes.

Economic variances

Investment returns over 2011 were lower than 2010 due to reduced fund growth as a result of the fall in equity markets. The tax position of the Legacy business resulted in large deemed disposal losses. These were partially offset by a reduction in the effective tax rate in the UK businesses and in International's Finnish operation and a positive contribution from lower swap rates in 2011.

Other non-operating variances

Other non-operating variances include the benefit of reductions in headline UK corporation tax. The Emergency Budget of 22 June 2010 announced that the UK's mainstream corporation tax rate would be reduced from its current level of 28% down to 24% in annual 1% steps. The first reduction to 27% was included within the full-year 2010 results. In the 23 March 2011 Budget speech an additional 1% reduction, to come into effect during 2011, was announced. The further reduction to 25% (effective from April 2012) has also been allowed for and the impact of the 2% reduction to 25% is £8 million.

Capital and dividend flows

The capital and dividend flows mainly represent dividends, repayments of loans and capital injections.

Foreign exchange effects

The negative effect was caused by the depreciation of the euro and Swiss franc against sterling.

* Retail Distribution Review (RDR): The RDR is an FSA consumer protection initiative which aims to drive structural change in the retail investments industry to give consumers confidence that the advice they are given, and products they are sold, are best suited to their needs. Whilst the regulations will not be in force until 1 January 2013 the market is already starting to change. The exact impact of the RDR is still uncertain and assumption changes include an allowance for expected worsening persistency experience in 2012 and 2013 because of the RDR impacts.

** Modelling changes to allow for 50th percentile best estimate basis: Traditionally the Group MCEV methodology has allowed assumptions to incorporate a margin over the 50th percentile (best estimate) where this could be justified on the grounds of modelling uncertainty of the best estimate. In preparation for full Solvency II implementation, a revised group-wide MCEV approach is being phased in. The approach requires the release of margins when calculating MCEV on a true best estimate basis.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

	Year ended 31 December 2011					Year ended 31 December 2010				
Bermuda	**Free surplus**	**Required Capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**–**	**403**	**403**	**(116)**	**287**	–	363	363	(165)	198
New business value	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Expected existing business contribution (reference rate)	**–**	**2**	**2**	**6**	**8**	–	3	3	9	12
Expected existing business contribution (in excess of reference rate)	**–**	**24**	**24**	**14**	**38**	–	30	30	35	65
Transfers from VIF and required capital to free surplus	**66**	**(57)**	**9**	**(9)**	**–**	16	(45)	(29)	29	–
Experience variances	**16**	**(1)**	**15**	**9**	**24**	(18)	1	(17)	(2)	(19)
Assumption changes	**14**	**–**	**14**	**(22)**	**(8)**	(19)	–	(19)	(16)	(35)
Other operating variance	**155**	**(177)**	**(22)**	**7**	**(15)**	(32)	37	5	(52)	(47)
Operating MCEV earnings	**251**	**(209)**	**42**	**5**	**47**	(53)	26	(27)	3	(24)
Economic variances	**(251)**	**–**	**(251)**	**(10)**	**(261)**	53	–	53	52	105
Other non-operating variance	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total MCEV earnings	**–**	**(209)**	**(209)**	**(5)**	**(214)**	–	26	26	55	81
Closing adjustments	**–**	**(7)**	**(7)**	**–**	**(7)**	–	14	14	(6)	8
Capital and dividend flows	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Foreign exchange variance	**–**	**(7)**	**(7)**	**–**	**(7)**	–	14	14	(6)	8
Closing MCEV	**–**	**187**	**187**	**(121)**	**66**	–	403	403	(116)	287
Return on MCEV (RoEV)% per annum					**17.0%**					(11.4)%

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV in US dollars.

£m

	Year ended 31 December 2011			Year ended 31 December 2010		
	Adjusted net worth	**Value of in-force**	**MCEV**	Adjusted net worth	Value of in-force	MCEV
Experience variances	**15**	**9**	**24**	(17)	(2)	(19)
Persistency	**14**	**8**	**22**	(15)	(1)	(16)
Risk	**–**	**–**	**–**	–	–	–
Expenses	**3**	**–**	**3**	(8)	–	(8)
Other	**(2)**	**1**	**(1)**	6	(1)	5
Assumption changes	**14**	**(22)**	**(8)**	(19)	(16)	(35)
Persistency	**14**	**6**	**20**	(16)	9	(7)
Risk	**–**	**–**	**–**	2	(1)	1
Expenses	**(4)**	**(22)**	**(26)**	–	(26)	(26)
Other	**4**	**(6)**	**(2)**	(5)	2	(3)

£m

	Year ended 31 December 2012				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**
Expected existing business contribution (reference rate)	**–**	**1**	**1**	**7**	**8**
Expected existing business contribution (in excess of reference rate)	**–**	**24**	**24**	**5**	**29**

Bermuda: *Overview*

Operating earnings: Profits from Variable Annuity surrender experience and persistency assumption changes increased operating earnings in 2011, partially offset by losses from the strengthening of expense assumptions and modelling changes to the CNHR and Fixed Annuity reserves.

Non-operating earnings and closing adjustments: The closing MCEV balance reduced considerably because of unfavourable market impacts on the Variable Annuity Guaranteed Minimum Accumulation Benefit (GMAB) performance.

Expected existing business contribution

The expected contribution in excess of the risk free rate has reduced in 2011, with the VIF component reflecting lower credit spread income as a result of the run-off of the fixed income portfolio and lower earned credit spreads, and the ANW component reflecting lower interest earned on Old Mutual plc loan notes.

Experience variances

Positive persistency variances in 2011 are mainly due to the surrender of Variable Annuity contracts over the period. This includes the impact of special surrender fee waiver offers given to Universal Guarantee Option (UGO) clients outside of Hong Kong during the year, which significantly increased the number of surrenders taking place in 2011. Expense variances in 2011 include a one-off profit impact of £5 million due to the release of a legal expense provision.

Operating assumption changes

Partial withdrawal and surrender assumptions were refined according to the results of the most recent experience investigation, with the main impacts being an increase in surrender rates of out-the-money UGO Variable Annuity contracts, and an increase in partial withdrawal rates on all products apart from Variable Annuities sold outside of Hong Kong. Expense assumptions were strengthened to take account of an updated forecast of business expenditure over the next three years and higher anticipated per-policy expenses over the run-off of the in-force book.

Other operating variances

Losses due to other operating experience variances consist mainly of CNHR modelling changes, where the capital model used has been updated to reflect Old Mutual's Solvency II Internal Model framework, as well as the strengthening of Fixed Annuity reserves to allow for market-value adjustments to withdrawal payments that compensate policyholders in a low interest rate environment. The movement between free surplus and required capital is mostly due to the current policy of calculating required capital as the ANW held in the business. ANW, and therefore required capital, have reduced significantly over the period, largely due to the impact of adverse financial markets on Variable Annuity (GMAB) reserves. Capital requirements for Bermuda are managed at Group on an economic capital basis.

Economic variances

Below-the-line economic variance losses consist largely of increases in Variable Annuity (GMAB) reserves due to adverse equity market and exchange rate movements (net of gains from the partial hedging strategy), as well as significantly lower interest rates.

Foreign exchange effects

The negative effect was caused by the depreciation of the US dollar against sterling applied to the MCEV earnings and closing balance.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

Nordic	Year ended 31 December 2011 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2010 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**51**	**135**	**186**	**1,318**	**1,504**	91	104	195	1,114	1,309
New business value	**(54)**	**8**	**(46)**	**102**	**56**	(49)	6	(43)	84	41
Expected existing business contribution (reference rate)	**3**	**3**	**6**	**36**	**42**	–	1	1	14	15
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**33**	**33**	–	–	–	26	26
Transfers from VIF and required capital to free surplus	**129**	**–**	**129**	**(129)**	**–**	103	–	103	(103)	–
Experience variances	**(1)**	**(1)**	**(2)**	**(1)**	**(3)**	30	(5)	25	(1)	24
Assumption changes	**–**	**–**	**–**	**(4)**	**(4)**	–	–	–	(55)	(55)
Other operating variance	**–**	**–**	**–**	**4**	**4**	(44)	4	(40)	34	(6)
Operating MCEV earnings	**77**	**10**	**87**	**41**	**128**	40	6	46	(1)	45
Economic variances	**7**	**(16)**	**(9)**	**(180)**	**(189)**	(4)	12	8	86	94
Other non-operating variance	**39**	**1**	**40**	**(3)**	**37**	17	–	17	–	17
Total MCEV earnings	**123**	**(5)**	**118**	**(142)**	**(24)**	53	18	71	85	156
Closing adjustments	**(16)**	**(3)**	**(19)**	**(28)**	**(47)**	(93)	13	(80)	119	39
Capital and dividend flows	**(11)**	**–**	**(11)**	**–**	**(11)**	(100)	–	(100)	–	(100)
Foreign exchange variance	**(5)**	**(3)**	**(8)**	**(28)**	**(36)**	7	13	20	119	139
Closing MCEV	**158**	**127**	**285**	**1,148**	**1,433**	51	135	186	1,318	1,504
Return on MCEV (RoEV)% per annum					**8.5%**					3.3%

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV in krona.

£m

	Year ended 31 December 2011 Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2010 Adjusted net worth	Value of in-force	MCEV
Experience variances	**(2)**	**(1)**	**(3)**	25	(1)	24
Persistency	**(3)**	**6**	**3**	(2)	(6)	(8)
Risk	**–**	**1**	**1**	5	–	5
Expenses	**(10)**	**–**	**(10)**	2	–	2
Other	**11**	**(8)**	**3**	20	5	25
Assumption changes	**–**	**(4)**	**(4)**	–	(55)	(55)
Persistency	**–**	**(6)**	**(6)**	–	(7)	(7)
Risk	**–**	**–**	**–**	–	–	–
Expenses	**–**	**–**	**–**	–	(18)	(18)
Other	**–**	**2**	**2**	–	(30)	(30)

£m

	Year ended 31 December 2012 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	**3**	**3**	**6**	**28**	**34**
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**25**	**25**

Nordic: *Overview*

On 15 December 2011, the Company announced that it had entered into an agreement to sell the Nordic business unit to Skandia Liv for the sum of SEK 22.5 billion (£2.1 billion). This transaction is still subject to shareholder approval. The Nordic business was therefore owned by the Company over the entire reporting period.

New business: The new business value increased (compared to 2010) largely driven by the strong sales growth in Skandia Link Denmark.
Operating earnings: The operating profits on the in-force book were driven by the expected unwind of the MCEV. The overall impact of experience variances and assumption changes was small.
Non-operating earnings and closing adjustments: The most material impact was due to the negative economic variance, largely driven by a fall in the equity markets during 2011.

New business
The key reason for the increase in volume and margin is the strong sales growth in Skandia Link Denmark, which tends to attract higher margins. Sales in Sweden were relatively flat in 2011 compared to 2010. The strong sales in Denmark are a result of using a tied agent network as well as the effect of the new commission legislation (which resulted in a surge of new business before the law was effected).

Expected existing business contribution
The unwind of returns on the in-force business over 2011 was higher than 2010. The higher unwind was due to higher assumed real world expected returns and a higher opening MCEV balance on which the unwind is based.

Experience variances
The experience variances are primarily driven by a major restructuring programme implemented in 2011. This was offset by positive rebate experience arising from a higher level of rebate income than expected.

Operating assumption changes
The impact of assumption changes has reduced significantly compared to 2010 and largely reflects a strengthening of the persistency assumptions (premium reductions, transfers and surrenders). The strengthening of persistency assumptions reflects higher anticipated future transfers within a few specific segments rather than recent experience (which has been positive).

Other operating variances
The positive other operating variance was the result of a decrease in the CNHR resulting from implementation of a new economic capital model (to align with Solvency II requirements). This was partially offset by the impact of a change in the methodology used to determine expense inflation assumptions.

Economic variances
The negative economic variance has been driven by a fall in the equity markets during the second half of 2011 (the Swedish OMX index decreased by 17% over 2011 compared with an increase of 18% over 2010), with the downward shift in the swap curve producing a further negative impact.

Other non-operating variances
The other non-operating variance relates primarily to the net effect of a capital contribution from Skandia Liv. During the year, Skandia Liv made a group contribution of £154 million to the Skandia Group. Unrelieved tax losses have been used to offset the entire tax charge on this transaction. Simultaneously, the Skandia Group made a capital injection of £110 million back to Skandia Liv, corresponding to the group contribution net of tax relief.

Capital and dividend flows
The capital and dividend flows mainly represent dividends, repayment of loans and capital injections.

Foreign exchange effects
The negative effect was caused by the 2% depreciation of krona against sterling applied to the MCEV closing balance.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

	Year ended 31 December 2011					Year ended 31 December 2010				
US Life	**Free surplus**	**Required capital**	**Adjusted net worth**	**Value of in-force**	**MCEV**	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**66**	**468**	**534**	**(723)**	**(189)**	36	462	498	(816)	(318)
New business value	**–**	**–**	**–**	**–**	**–**	(66)	66	–	(28)	(28)
Expected existing business contribution (reference rate)	**–**	**–**	**–**	**–**	**–**	1	9	10	15	25
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**–**	**–**	–	–	–	80	80
Transfers from VIF and required capital to free surplus	**–**	**–**	**–**	**–**	**–**	81	(47)	34	(34)	–
Experience variances	**–**	**–**	**–**	**–**	**–**	33	(23)	10	30	40
Assumption changes	**–**	**–**	**–**	**–**	**–**	(6)	–	(6)	(57)	(63)
Other operating variance	**–**	**–**	**–**	**–**	**–**	–	–	–	(7)	(7)
Operating MCEV earnings	**–**	**–**	**–**	**–**	**–**	43	5	48	(1)	47
Economic variances	**–**	**–**	**–**	**–**	**–**	71	(18)	53	127	180
Other non-operating variance	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total MCEV earnings	**–**	**–**	**–**	**–**	**–**	114	(13)	101	126	227
Closing adjustments	**(66)**	**(468)**	**(534)**	**723**	**189**	(84)	19	(65)	(33)	(98)
Capital and dividend flows	**–**	**–**	**–**	**–**	**–**	(85)	–	(85)	–	(85)
Foreign exchange variance	**(2)**	**(19)**	**(21)**	**28**	**7**	1	19	20	(33)	(13)
MCEV of acquired/sold business	**(64)**	**(449)**	**(513)**	**695**	**182**	–	–	–	–	–
Closing MCEV	**–**	**–**	**–**	**–**	**–**	66	468	534	(723)	(189)
Return on MCEV (RoEV)% per annum					**–**					14.1%

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV in US dollars.

£m

	Year ended 31 December 2011			Year ended 31 December 2010		
	Adjusted net worth	**Value of in-force**	**MCEV**	Adjusted net worth	Value of in-force	MCEV
Experience variances	**–**	**–**	**–**	10	30	40
Persistency	**–**	**–**	**–**	4	38	42
Risk	**–**	**–**	**–**	–	(10)	(10)
Expenses	**–**	**–**	**–**	25	–	25
Other	**–**	**–**	**–**	(19)	2	(17)
Assumption changes	**–**	**–**	**–**	(6)	(57)	(63)
Persistency	**–**	**–**	**–**	(6)	(58)	(64)
Risk	**–**	**–**	**–**	–	(1)	(1)
Expenses	**–**	**–**	**–**	–	2	2
Other	**–**	**–**	**–**	–	–	–

US Life

For the year ended 31 December 2011, Old Mutual Reassurance (Ireland) Limited (OM Re), which provides reinsurance to the United States Life Companies, is included within the Old Mutual plc results. For all comparative periods, the results for US Life include allowance for OM Re.

The sale of the US Life insurance business to Harbinger Capital Partners was completed, following regulatory approval, on 7 April 2011. This transaction has resulted in an uplift of £451 million to the adjusted Group MCEV, based on the 31 December 2010 value for US Life. Further details relating to the MCEV impact of this transaction are noted in A4.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

C: Other key performance information

C1: Value of new business (after tax)

The tables below set out the regional analysis of the value of new business (VNB) after tax. New business profitability is measured by both the ratio of the VNB to the present value of new business premiums (PVNBP) as well as to the annual premium equivalent (APE), and shown under PVNBP margin and APE margin below. APE is calculated as recurring premiums plus 10% of single premiums. Bermuda is excluded from the tables below as it is closed to new business.

£m

Year ended 31 December 2011	**Annualised recurring premiums**	**Single premiums**	**PVNBP**	**PVNBP capitalisation factors***	**APE**	**VNB**	**PVNBP margin**	**APE margin**
Long-Term Savings	**569**	**6,211**	**9,113**	**5.1**	**1,189**	**177**	**1.9%**	**15%**
Emerging Markets	**363**	**1,441**	**3,295**	**5.1**	**506**	**99**	**3.0%**	**20%**
Retail Europe	**67**	**56**	**549**	**7.4**	**72**	**8**	**1.5%**	**11%**
Wealth Management	**139**	**4,714**	**5,269**	**4.0**	**611**	**70**	**1.3%**	**11%**
Nordic	**153**	**753**	**1,347**	**3.9**	**229**	**56**	**4.2%**	**25%**
US Life**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total covered business	**722**	**6,964**	**10,460**	**4.8**	**1,418**	**233**	**2.2%**	**16%**

£m

Year ended 31 December 2010	Annualised recurring premiums	Single premiums	PVNBP	PVNBP capitalisation factors*	APE	VNB	PVNBP margin	APE margin
Long-Term Savings	554	7,359	10,162	5.1	1,290	159	1.6%	13%
Emerging Markets	325	1,611	3,269	5.1	487	86	2.6%	18%
Retail Europe	63	63	513	7.2	69	7	1.4%	11%
Wealth Management	166	5,685	6,380	4.2	734	66	1.0%	9%
Nordic	144	573	1,104	3.7	201	41	3.7%	21%
US Life**	10	824	889	6.6	92	(28)	(3.2)%	(31)%
Total covered business	708	8,756	12,155	4.8	1,583	172	1.4%	11%

* The PVNBP capitalisation factors are calculated as follows: (PVNBP – single premiums)/annualised recurring premiums.
** The US Life VNB is negative when calculated on an MCEV basis, due to the reliance on spread in the pricing basis, and the low risk free swap curve.

The value of new individual unit trust linked retirement annuities and pension fund asset management business written by the Emerging Markets long-term business of £884 million (2010: £723 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 Wealth Management of £704 million (2010: £304 million) is excluded as this is more appropriately classified as unit trust business.

New business single premiums of £31 million, annualised recurring premiums of £14 million and APE of £17 million in respect of the life business in Kenya, Malawi, Nigeria, Swaziland and Zimbabwe have been excluded from the above tables, as no value of new business and PVNBP calculations have been performed for these businesses.

C2: Drivers of new business value for covered business (PVNBP margin)*

%

Year ended 31 December 2011	Total covered business	Long-Term Savings	Emerging Markets	Retail Europe	Wealth Management	Nordic	US Life
Margin at the end of comparative period**	**1.8**	**1.6**	**2.6**	**1.4**	**1.0**	**3.7**	**–**
Change in volume	**0.2**	**0.1**	**0.3**	**0.5**	**(0.1)**	**0.1**	**–**
Change in country and product mix	**(0.2)**	**(0.2)**	**(0.6)**	**(0.3)**	**–**	**0.4**	**–**
Change in operating assumptions	**0.2**	**0.2**	**0.4**	**(0.4)**	**0.2**	**(0.1)**	**–**
Change in economic assumptions	**0.2**	**0.2**	**0.4**	**0.3**	**0.1**	**0.1**	**–**
Change in tax/regulation	**–**	**–**	**(0.1)**	**–**	**0.1**	**–**	**–**
Exchange rate movements	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Margin at the end of the period	**2.2**	**1.9**	**3.0**	**1.5**	**1.3**	**4.2**	**–**

%

Year ended 31 December 2010	Total covered business	Long-Term Savings	Emerging Markets	Retail Europe	Wealth Management	Nordic	US Life
Margin at the end of comparative period	1.6	1.3	2.3	(1.0)	1.0	3.8	2.2
Change in volume	(0.1)	–	0.1	1.6	(0.1)	(0.1)	(0.1)
Change in country and product mix	0.1	0.2	0.4	(0.2)	(0.1)	0.6	(0.9)
Change in operating assumptions	0.1	0.2	(0.1)	0.9	0.2	(0.4)	(0.6)
Change in economic assumptions	(0.4)	(0.1)	(0.1)	0.1	–	(0.2)	(3.8)
Change in tax/regulation	–	–	–	–	–	–	–
Exchange rate movements	0.1	–	–	–	–	–	–
Margin at the end of the period	1.4	1.6	2.6	1.4	1.0	3.7	(3.2)

* The PVNBP margin changes are calculated in the business unit reporting currency.
** The PVNBP margin at the end of the comparative period has been restated to exclude the US Life margin impact.

The value of new business has increased for all business units during 2011 relative to 2010, with the PVNBP margin also displaying positive trends across all business units.

For Emerging Markets the increase in new business margin is largely influenced by external factors, in particular the change from STC to dividend withholding tax in South Africa and the more favourable economic basis, as well as favourable operating assumption changes. Strong sales growth in Mass Foundation Cluster, which has higher margins than other segments, also contributed positively. These effects were partly offset by the adverse effect of tax legislation changes reducing the profitability of the Fixed Bond product and a less favourable product mix, particularly in the Corporate Segment.

The new business margin in Retail Europe increased slightly over the period, mainly due to positive volume effects, driven by a decrease in acquisition expense overruns in Switzerland and favourable economic assumption changes.

For Wealth Management, the increase in margin is predominately due to reduced acquisition expenses and favourable assumption changes (both operating and economic).

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

C3: Adjustments applied in determining total Group MCEV earnings before tax

£m

Analysis of adjusting items	**Year ended 31 December 2011** Covered business MCEV	Non-covered business IFRS	Total Group MCEV	Year ended 31 December 2010 Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Income/(expense)						
Goodwill impairment and amortisation of non-covered business acquired intangible assets and impact of acquisition accounting	**–**	**(283)**	**(283)**	–	(20)	(20)
Economic variances	**(554)**	**(28)**	**(582)**	864	(7)	857
Other non-operating variances	**22**	**–**	**22**	17	–	17
Acquired/divested business*	**–**	**182**	**182**	–	(22)	(22)
Dividends declared to holders of perpetual preferred callable securities	**–**	**44**	**44**	–	44	44
Adjusting items relating to US Asset Management equity plans and non-controlling interests	**–**	**(3)**	**(3)**	–	6	6
Fair value gains on Group debt instruments	**–**	**22**	**22**	–	(203)	(203)
Adjusting items	**(532)**	**(66)**	**(598)**	881	(202)	679
Adjusting items from continuing operations	**(378)**	**(59)**	**(437)**	591	(196)	395
Adjusting items from discontinued operations	**(154)**	**(7)**	**(161)**	290	(6)	284
Total MCEV adjusting items	**(532)**	**(66)**	**(598)**	881	(202)	679

* This relates to the non-covered businesses in Kenya, Malawi, Nigeria, Swaziland and Zimbabwe that have been included for the first time during 2011.

C4: Other movements in IFRS net equity impacting Group MCEV

£m

	Year ended 31 December 2011 Covered business MCEV	Non-covered business IFRS	Total Group MCEV	Year ended 31 December 2010 Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Fair value gains/(losses)	**–**	**24**	**24**	–	8	8
Net investment hedge	**–**	**28**	**28**	–	(86)	(86)
Currency translation differences/exchange differences on translating foreign operations	**(693)**	**(498)**	**(1,191)**	580	448	1,028
Aggregate tax effects of items taken directly to or transferred from equity	**–**	**11**	**11**	–	14	14
Other movements*	**182**	**128**	**310**	–	(24)	(24)
Net income recognised directly into equity	**(511)**	**(307)**	**(818)**	580	360	940
Capital and dividend flows for the year**	**(257)**	**(8)**	**(265)**	(468)	322	(146)
Inclusion of other African life businesses**	**69**	**–**	**69**	–	–	–
Net purchase of treasury shares	**–**	**(17)**	**(17)**	–	(28)	(28)
Shares issued in lieu of cash dividends	**–**	**124**	**124**	–	162	162
Other shares issued	**–**	**10**	**10**	–	4	4
Acquisition of non-controlling interest in Mutual & Federal	**–**	**–**	**–**	–	(93)	(93)
Change in share based payment reserve	**–**	**50**	**50**	–	4	4
Other movements in net equity	**(699)**	**(148)**	**(847)**	112	731	843

* This relates to the reversal of the US Life MCEV on the covered business.

** Dividends are allowed for on a cash basis, consistent with IFRS. The effect of the capital transfer relating to the inclusion of the other African life businesses is separated out from the other capital and dividend flows for the period as this is not eliminated on group consolidation. The £69 million is included in the Capital and dividend flows of £(188) million included in Note B4: Analysis of covered business MCEV earnings for Emerging Markets. Any foreign exchange movement on this opening balance is allocated as a foreign exchange variance.

C5: Reconciliation of MCEV adjusted net worth to IFRS net asset value for the covered business

The table below provides a reconciliation of the MCEV adjusted net worth (ANW) to the IFRS net asset value (NAV) for the covered business.

£m

At 31 December 2011	**Total covered business**	**Long-Term Savings**	**Emerging Markets**	**Retail Europe**	**Wealth Management**	**Bermuda**	**Nordic**	**US Life**
IFRS net asset value*	**5,214**	**3,744**	**1,230**	**600**	**1,914**	**201**	**1,269**	**–**
Adjustment to include long-term business on a statutory solvency basis	**(1,905)**	**(1,108)**	**182**	**(305)**	**(985)**	**(14)**	**(783)**	**–**
Inclusion of Group equity and debt instruments held in life funds**	**365**	**365**	**365**	**–**	**–**	**–**	**–**	**–**
Goodwill	**(998)**	**(797)**	**(9)**	**(191)**	**(597)**	**–**	**(201)**	**–**
Adjusted net worth attributable to ordinary equity holders of the parent	**2,676**	**2,204**	**1,768**	**104**	**332**	**187**	**285**	**–**

£m

At 31 December 2010	Total covered business	Long-Term Savings	Emerging Markets	Retail Europe	Wealth Management	Bermuda	Nordic	US Life
IFRS net asset value*	5,794	3,845	1,216	632	1,997	432	1,243	274
Adjustment to include long-term business on a statutory solvency basis	(1,822)	(1,202)	207	(331)	(1,078)	(29)	(851)	260
Inclusion of Group equity and debt instruments held in life funds**	389	389	389	–	–	–	–	–
Goodwill	(1,010)	(804)	(8)	(198)	(598)	–	(206)	–
Adjusted net worth attributable to ordinary equity holders of the parent	3,351	2,228	1,804	103	321	403	186	534

* IFRS net asset value is after elimination of inter-company loans.
** A further £(69) million (2010: £(83) million) relates to the non-covered business.

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 shareholder funds. In South Africa, these values exclude items that are eliminated or shown separately on consolidation (such as Nedbank and inter-company loans). For some European countries the value reflected in the adjustment to include long-term business on a statutory solvency basis includes the value of the deferred acquisition cost asset, which is part of the equity.

The 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 with the exception of the Bermuda business where DAC is an admissible asset under local statutory basis.
- When projecting future profits on a statutory basis, the VIF includes the shareholders' value of unrealised capital gains. To the extent that assets in IFRS are valued at market and the market value is higher than the statutory book value, these profits have already been taken into account in the IFRS equity. For Bermuda business, VIF reflects the impact of amortizing DAC allowed under the ANW.
- For the US Life business, the reversal of the IFRS impairment for discontinued operations which is included in the IFRS net asset value, as this is not recognised on a statutory solvency basis.

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

D1: Sensitivity tests

The tables below show the sensitivity of the MCEV, value of in-force business at 31 December 2011 and the value of new business for the year ended 31 December 2011 to the following:

- **Economic assumptions 1% increase:** Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately.
- **Economic assumptions 1% decrease:** Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately.
- **Equity/property market value 10% increase:** Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged.
- **Equity/property market value 10% decrease:** Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged.
- **10bps increase of liquidity spreads:** Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately.
- **50bps contraction on corporate bond spreads.**
- **25% increase in equity/property implied volatilities:** 25% multiplicative increase in equity and property implied volatilities.
- **25% increase in swaption implied volatilities:** 25% multiplicative increase in swaption implied volatilities.
- **10% decrease in discontinuance rates:** Voluntary discontinuance rates decreasing by 10%.
- **10% decrease in maintenance expense:** Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges.
- **5% decrease in mortality/morbidity rates:** Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges.
- **5% decrease in mortality assumption:** Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges.
- **VNB 10% increase in acquisition expenses:** For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges.
- **VNB on closing economic assumptions:** Value of new business calculated on economic assumptions at the end of reporting period.
- **Minimum capital requirement:** Required capital equal to the minimum statutory requirement.
- **NHR capital diversification:** Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business.
- **99.93% confidence level NHR capital:** Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model.

For each sensitivity illustrated all other assumptions have been left unchanged except where they are directly affected by the revised conditions. Sensitivity scenarios therefore include consistent changes in cash flows directly affected by the changed assumption(s), for example future bonus participation in changed economic scenarios.

In some jurisdictions the reserving basis that underlies shareholder distributable cash flows is dynamic, and in theory some sensitivities could change not only future experience but also reserving levels. Modelling of dynamic reserves is extremely complex and the effect on value is second-order. Therefore, in performing the sensitivities, reserving bases have been kept constant for non-linked business (including non-linked reserves for linked business) whilst only varying future experience assumptions with similar considerations applying to required capital. However the sensitivities for South Africa in respect of an increase/decrease of all pre-tax investment and economic assumptions, an increase/decrease in equity and property market values and increases in equity, property and swaption implied volatilities allow for the change in the time value of financial options and guarantees that form part of the IGR.

The sensitivities for an increase/decrease in all pre-tax investment and economic assumptions (with credited rates and discount rates changing commensurately) are calculated in line with a parallel shift in risk free reference spot rates rather than risk free reference forward rates. However, the 1% reduction is limited so that it does not lead to negative risk free reference rates.

The equity and property sensitivities make allowance for rebalancing of asset portfolios.

VNB sensitivities assume that the scenario arises immediately after point of sale of the contract. Therefore no allowance is made for the ability to re-price any contracts in the sensitivity scenarios, apart from the mortality sensitivities for the South African business where allowance is made for changes in the pricing basis for products with reviewable premiums.

Sensitivity tests: MCEV

£m

At 31 December 2011	Total covered business	Long-Term Savings	Emerging Markets	Retail Europe	Wealth Management	Bermuda	Nordic
Central assumptions	7,212	5,713	3,167	588	1,958	66	1,433
Effect on MCEV of:							
Economic assumption 1% increase	7,103	5,579	3,109	566	1,904	117	1,407
Economic assumption 1% decrease	7,315	5,836	3,209	603	2,024	18	1,461
Equity/property market value 10% increase	7,585	5,948	3,285	597	2,066	118	1,519
Equity/property market value 10% decrease	6,869	5,509	3,054	579	1,876	14	1,346
10bps increase of liquidity spreads	7,221	5,722	3,176	588	1,958	66	1,433
50bps contraction on corporate bond spreads	7,232	5,728	3,182	588	1,958	71	1,433
25% increase in equity/property implied volatilities	7,124	5,691	3,146	588	1,957	–	1,433
25% increase in swaption implied volatilities	7,198	5,701	3,157	586	1,958	64	1,433
10% decrease in discontinuance rates	7,405	5,884	3,224	605	2,055	48	1,473
10% decrease in maintenance expense	7,471	5,919	3,305	609	2,005	77	1,475
5% decrease in mortality/ morbidity rates	7,333	5,833	3,270	592	1,971	66	1,434
5% decrease in mortality assumption	7,190	5,693	3,147	588	1,958	66	1,431
Minimum capital requirement	7,267	5,766	3,217	589	1,960	68	1,433
NHR capital diversification	7,282	5,759	3,192	598	1,969	70	1,453
99.93% confidence level NHR capital	7,155	5,660	3,140	581	1,939	62	1,433

Sensitivity tests: Value of in-force business

£m

At 31 December 2011	Total covered business	Long-Term Savings	Emerging Markets	Retail Europe	Wealth Management	Bermuda	Nordic
Central assumptions	4,536	3,509	1,399	484	1,626	(121)	1,148
Effect on value of in-force business of:							
Economic assumption 1% increase	4,384	3,392	1,338	464	1,590	(129)	1,121
Economic assumption 1% decrease	4,673	3,611	1,443	498	1,670	(114)	1,176
Equity/property market value 10% increase	4,790	3,674	1,475	493	1,706	(118)	1,234
Equity/property market value 10% decrease	4,283	3,346	1,327	475	1,544	(124)	1,061
10bps increase of liquidity spreads	4,545	3,519	1,409	484	1,626	(121)	1,147
50bps contraction on corporate bond spreads	4,540	3,509	1,399	484	1,626	(116)	1,147
25% increase in equity/property implied volatilities	4,513	3,488	1,379	484	1,625	(122)	1,147
25% increase in swaption implied volatilities	4,521	3,497	1,388	483	1,626	(123)	1,147
10% decrease in discontinuance rates	4,749	3,680	1,455	501	1,724	(119)	1,188
10% decrease in maintenance expense	4,795	3,715	1,537	505	1,673	(110)	1,190
5% decrease in mortality/ morbidity rates	4,657	3,629	1,502	488	1,639	(121)	1,149
5% decrease in mortality assumption	4,514	3,490	1,380	484	1,626	(121)	1,145
Minimum capital requirement	4,590	3,562	1,449	485	1,628	(119)	1,147
NHR capital diversification	4,606	3,555	1,424	494	1,637	(117)	1,168
99.93% confidence level NHR capital	4,478	3,456	1,372	477	1,607	(125)	1,147

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2011 continued

Sensitivity tests: Value of new business

£m

At 31 December 2011	Total covered business	Long-Term Savings	Emerging Markets	Retail Europe	Wealth Management	Nordic
Central assumptions	**233**	**177**	**99**	**8**	**70**	**56**
Effect value of new business of:						
Economic assumption 1% increase	**215**	**160**	**92**	**5**	**63**	**55**
Economic assumption 1% decrease	**250**	**192**	**105**	**10**	**77**	**58**
Equity/property market value 10% increase	**244**	**183**	**99**	**8**	**76**	**61**
Equity/property market value 10% decrease	**223**	**172**	**99**	**8**	**65**	**51**
10bps increase of liquidity spreads	**234**	**178**	**100**	**8**	**70**	**56**
50bps contraction on corporate bond spreads	**233**	**177**	**99**	**8**	**70**	**56**
25% increase in equity/property implied volatilities	**232**	**176**	**99**	**8**	**69**	**56**
25% increase in swaption implied volatilities	**233**	**177**	**99**	**8**	**70**	**56**
10% decrease in discontinuance rates	**280**	**214**	**125**	**9**	**80**	**66**
10% decrease in maintenance expense	**255**	**196**	**111**	**10**	**75**	**59**
5% decrease in mortality/morbidity rates	**247**	**191**	**114**	**7**	**70**	**56**
5% decrease in mortality assumption	**233**	**177**	**99**	**8**	**70**	**56**
VNB 10% increase in acquisition expenses	**214**	**159**	**88**	**6**	**65**	**55**
VNB on closing economic assumptions	**251**	**195**	**107**	**9**	**79**	**56**
Minimum capital requirement	**238**	**182**	**104**	**8**	**70**	**56**
NHR capital diversification	**239**	**181**	**101**	**9**	**71**	**58**
99.93% confidence level NHR capital	**227**	**171**	**97**	**8**	**66**	**56**

Sensitivity tests: Total covered business at 31 December 2010

£m

At 31 December 2010	MCEV	Value of in-force business	Value of new business
Central assumptions	7,515	4,164	172
Effect on Total covered business of:			
Economic assumption 1% increase	7,259	3,847	180
Economic assumption 1% decrease	7,761	4,468	156
Equity/property market value 10% increase	7,567	4,216	176
Equity/property market value 10% decrease	7,886	4,441	180
10bps increase of liquidity spreads	7,147	3,895	165
50bps contraction on corporate bond spreads	7,815	4,444	172
25% increase in equity/property implied volatilities	7,396	4,138	172
25% increase in swaption implied volatilities	7,423	4,072	147
10% decrease in discontinuance rates	7,747	4,415	211
10% decrease in maintenance expense	7,777	4,426	192
5% decrease in mortality/morbidity rates	7,654	4,304	185
5% decrease in mortality assumption	7,464	4,114	171
VNB 10% increase in acquisition expenses	n/a	n/a	154
VNB on closing economic assumptions	n/a	n/a	189
Minimum capital requirement	7,578	4,227	176
NHR capital diversification	7,565	4,215	175
99.93% confidence level NHR capital	7,437	4,087	166

E1: Disposal of Nordic businesses

On 15 December 2011, the Company announced that it had entered into an agreement to sell the assets and liabilities of its Nordic business unit to Skandia Liv for the sum of SEK 22.5 billion (£2.1 billion). This transaction is still subject to shareholder approval. As a result, the MCEV earnings of the Nordic business have been included as discontinued within the MCEV results, including restating the prior year. Nordic life business does however continue to contribute to the covered business MCEV at 31 December 2011.

The tables below indicate the estimated impact to the Adjusted Group MCEV at 31 December 2011 as a result of the disposal of the Nordic businesses.

Estimated Adjusted Group MCEV uplift from proposed disposal of Nordic £m

	Covered business	Other business	Total
Headline purchase price	–	2,100	2,100
Advisor fees and costs	–	(20)	(20)
Nordic sale proceeds	–	2,080	2,080
Removal of Nordic MCEV*	(1,433)	(329)	(1,762)
Adjusted Group MCEV uplift	(1,433)	1,751	318
Adjusted Group MCEV uplift per share (pence)**	(25.8)	31.5	5.7

* This includes the covered and non-covered business
** This excludes the impact of the share consolidation

On 3 February 2012 the Company announced that it:

- Intends to return approximately £1 billion of net proceeds from the disposal to ordinary shareholders by means of a Special Dividend (equivalent to 18 pence per ordinary share);
- Intends to carry out a share consolidation on a 7 for 8 consolidation basis (designed to keep the share price broadly unchanged).

Estimated Adjusted Group MCEV post disposal of Nordic £m

	Covered business	Other business	Total
Adjusted Group MCEV per share at 31 December 2011	129.7	64.4	194.1
Net sales proceeds*	(25.8)	31.5	5.7
Special dividend	–	(18.0)	(18.0)
Share consolidation	14.8	11.2	26.0
Adjusted Group MCEV per share at 31 December 2011 post disposal of Nordic	118.7	89.1	207.8

* Net of the removal of the Nordic MCEV

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 existing ordinary shares of 10p each is GB0007389926, but a new ISIN number (GB00B77J0862) has been provisionally assigned to the new ordinary shares of 11³⁄₇p each that will result from the proposed 7 for 8 share consolidation, which is expected to take effect following the close of business on 20 April 2012.

The high and low closing prices of the Company's shares on the two main markets on which they were listed during 2011 and 2010 were as follows:

		2011		2010
	High	**Low**	High	Low
London Stock Exchange	**144.8p**	**98.1p**	145.2p	97.3p
JSE	**R17.25**	**R12.34**	R15.84	R11.64

At 31 December 2011, the geographical analysis and shareholder profile of the Company's share register were as follows:

Register	Total shares	% of whole	Number of holders
UK	2,583,706,968	44.54	10,779
South Africa	2,894,397,695	49.89	29,930[1]
Zimbabwe	63,072,862	1.09	30,285[1]
Namibia	15,155,449	0.26	546[1]
Malawi	5,273,415	0.09	4,632[1]
Treasury shares (UK)[2]	239,434,888	4.13	1
Total	**5,801,041,277**	**100**	**76,173**

Source: Computershare Investor Services

Size of holding	Total shares	% of whole	Number of holders
1-1,000	22,802,674	0.39	64,960
1,001-10,000	25,466,344	0.44	9,575
10,001-100,000	31,612,753	0.55	1,057
100,001-250,000	28,574,885	0.49	179
250,001+	5,453,149,733	94.00	401
Treasury shares (UK)[2]	239,434,888	4.13	1
Total	**5,801,041,277**	**100**	**76,173**

Source: Computershare Investor Services

Notes
1. The registered shareholdings on the South African branch register included PLC Nominees (Pty) Limited, which held a total of 2,505,056,756 shares, including 363,254,227 shares held for the Company's sponsored nominee, Old Mutual (South Africa) Nominees (Pty) Limited, for the benefit of 425,129 underlying beneficial owners. The registered shareholdings on the Zimbabwe branch register included Old Mutual Zimbabwe Nominees (Pvt) Limited, which held a total of 783,827 shares as nominee for 3,496 underlying beneficial owners. The registered shareholdings on the Namibian section of the principal register included Old Mutual (Namibia) Nominees (Pty) Limited, which held a total of 7,585,456 shares as nominee for 6,980 underlying beneficial owners. The registered shareholdings on the Malawi branch register included Old Mutual (Blantyre) Nominees Limited, which held a total of 64,134 shares as nominee for 137 underlying beneficial owners.
2. The shares held in treasury were all cancelled on 13 January 2012 and the total number of issued shares was reduced by a corresponding amount.

Registrars

The Company's share register is administered by Computershare Investor Services in conjunction with local representatives in various jurisdictions. The following are the contact details:

UK

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol
BS99 6ZZ
Tel: +44 (0)870 707 1212
Website: *www.investorcentre.co.uk/contactus*

South Africa

Computershare Investor Services Pty Ltd
70 Marshall Street
Johannesburg 2001
(PO Box 61051, Marshalltown) 2107
Tel: 0861 100 940
+27 (0)11 870 8211
Email: *omsa@computershare.co.za*

Malawi

National Bank of Malawi
Financial Management Services Department
Cnr Victoria Avenue/Henderson Street
Blantyre
(PO Box 1438, Blantyre, Malawi)
Tel: +265 182 3483/0900
Email: *nbminvestment@natbankmw.com*

Namibia

Transfer Secretaries (Pty) Limited
4 Robert Mugabe Street
Windhoek
(PO Box 2401, Windhoek)
Tel: +264 (0)61 227647
Fax: +264 (0)61 248531
Email: *ts@nsx.com.na*

Zimbabwe

Corpserve Share Transfer Secretaries
2nd Floor, ZB Centre
Cnr First Street/Kwame Nkrumah Avenue
Harare
(PO Box 2208, Harare, Zimbabwe)
Tel: +263 (0)4 751559/61
Fax: +263 (0)4 752629
Email: *enquiries@corpserve.co.zw*

Computershare share dealing services

Share dealing service in South Africa and Namibia: 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 1.0%, subject to a minimum charge of £30. In addition, stamp duty, currently 0.5%, is payable on purchases. There is no need to open an account in order to deal. Real-time dealing is available during market hours. Orders may also be placed outside market hours. Up to 90-day limit orders are available for sales. To access the service, log on to *www.computershare.com/dealing/uk*.

Telephone share dealing: The commission for deals on the London Stock Exchange through Computershare's telephone share-dealing service is 1%, plus £35. In addition, stamp duty, currently 0.5%, is payable on purchases. The service is available from 8.00 a.m. to 4.30 p.m. Monday to Friday, excluding bank holidays, on UK telephone number 0870 703 0084. Detailed terms and conditions are available on request.

For sales under both the internet and telephone share dealing services above, shareholders should have their Shareholder Reference Number (SRN) ready. The SRN appears on share certificates and dividend cheques or tax statements. Payment by cheque will be required for purchases. For general enquiries about the dealing services, shareholders can call 0870 873 5836 (a UK number).

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 originally invested. To the extent that this statement is a financial promotion for the share dealing service provided by Computershare Investor Services PLC, it has been approved by Computershare Investor Services PLC for the purpose of section 21(2)(b) of the Financial Services and Markets Act 2000 only. Computershare Investor Services PLC is authorised and regulated by the Financial Services Authority. Where this has been received in a country where the provision of such a service would be contrary to local laws or regulations, this should be treated as information only.

SHAREHOLDER INFORMATION

Electronic communication 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 'Investor Relations', then 'Shareholder Centre', then click on 'Electronic Communication' and 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. However, the Company has indicated that it plans to move later in 2012 towards using electronic communications as the default means of communication with shareholders, in line with the provisions of the UK Companies Act 2006 and as permitted by its Articles of Association. Further information about the arrangements for this, including details of how you can elect to continue to receive printed shareholder communications, will be provided when this change-over is initiated.

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.

Strate

All transactions in the Company's shares on the JSE are required to be settled electronically through Strate, and share certificates are no longer good for delivery in respect of such transactions. Shareholders who have any enquiries about the effect of Strate on their holdings in the Company should contact Computershare Investor Services in Johannesburg on 0861 100 940 or +27 (0)11 870 8211.

Checking your holding online

An online service is situated at the Investor Centre option within the website address *www.computershare.com* which gives shareholders access to their account to confirm registered details, to give or amend dividend mandate instructions, and to obtain a current shareholding balance. There are also a number of downloadable forms from this site such as change of address, dividend mandate and stock transfer forms as well as an extensive list of frequently asked questions and the facility to contact Computershare Investor Services by email.

Final Dividend for the year ended 31 December 2011 and timetable for the Special Dividend and share consolidation

The Directors of the Company are recommending a final dividend for the year ended 31 December 2011 of 3.5p per existing ordinary share of 10 pence (an 'Ordinary Share'), which will be paid, subject to being approved by shareholders at the Company's 2012 Annual General Meeting, on 7 June 2012 (the 'Final Dividend'). The Final Dividend would equate to 4.0p per new ordinary share of 11$\frac{3}{7}$ pence (a 'New Ordinary Share') if the proposed 7 for 8 share consolidation (the 'Share Consolidation') is approved by shareholders at the Company's General Meeting on 14 March 2012. The Share Consolidation was announced by the Company on 3 February 2012 and is also conditional on approval by shareholders of the sale of the Group's Nordic business (the 'Disposal'), the Disposal being completed and the related Special Dividend (defined below) becoming unconditional.

The special dividend of 18p (or its equivalent in other applicable currencies) per Ordinary Share (the 'Special Dividend'), which was announced on 3 February 2012, will also be paid on 7 June 2012, subject to approval by shareholders of the Disposal and the Share Consolidation at the General Meeting and the Disposal being completed.

Shareholders on the South African, Zimbabwe and Malawi branch registers and the Namibian section of the principal register will be paid the local currency cash equivalents of the Final Dividend and the Special Dividend under dividend access trust or similar arrangements established in each country. Shareholders who hold their shares through Euroclear Sweden AB, the Swedish nominee, will be paid the cash equivalent of both dividends in Swedish Kronor. Local currency cash equivalents of the dividends for all five territories will be determined by the Company using exchange rates prevailing at the close of business on 3 April 2012 and will be announced by the Company on 4 April 2012.

Share certificates for shareholders on the South African register may not be dematerialised or rematerialised between 4 April 2012 and 20 April 2012, both dates inclusive, and transfers between the registers may not take place during that period.

A scrip dividend alternative is not being made available in relation to the Final Dividend, in view of the complexities involved in the Share Consolidation, nor in relation to the Special Dividend. The Directors of the Company will consider later in 2012 whether to reinstate a scrip dividend alternative for the interim dividend for the current year.

The full timetable for the Final Dividend and the Special Dividend is set out below.

General Meeting relating to the Disposal, related Special Dividend and Share Consolidation	14 March 2012
Anticipated completion date for the Disposal and, subject to the Disposal being completed, the date the Special Dividend becomes unconditional	21 March 2012
Currency conversion date	Closing rates on 3 April 2012
Exchange rates announced	4 April 2012
Trading suspended between registers	Opening of business on 4 April 2012
Last day to trade existing Ordinary Shares cum dividend (for the Special Dividend and the Final Dividend) for Ordinary Shareholders on the branch registers in South Africa, Malawi and Zimbabwe and on the Namibian section of the principal register. No further dealings in existing Ordinary Shares on these registers	13 April 2012
Admission of New Ordinary Shares to the branch registers in South Africa, Malawi and Zimbabwe and on the Namibian section of the principal register, and commencement of dealings in such New Ordinary Shares ex-Special Dividend and Final Dividend (in each case, on a to be issued basis)	Opening of business on 16 April 2012
Last day to trade cum dividend for the Final Dividend for Ordinary Shareholders on the UK register	17 April 2012
Ex-dividend date for the Final Dividend for Ordinary Shareholders on the UK register	18 April 2012
Last day to trade cum dividend for the Special Dividend and pre-consolidation for Ordinary Shareholders on the UK register	20 April 2012
Record Date for entitlement of holders of existing Ordinary Shares to Final Dividend, Special Dividend and Share Consolidation (all registers). No further dealings in existing Ordinary Shares on the UK register	Close of business on 20 April 2012
Consolidation is effected	The period commencing immediately after close of business on 20 April 2012 and ending on opening of business on 23 April 2012
New Ordinary Shares admitted to the Official List and the LSE and commencement of dealings in New Ordinary Shares, ex-dividend for the Special Dividend	Opening of business on 23 April 2012
New Ordinary Shares enabled in CREST and CREST accounts credited with New Ordinary Shares	23 April 2012
New Ordinary Shares credited to the accounts of dematerialised South African shareholders at their CSDP or broker and other African exchanges	23 April 2012
Trading between registers recommences	Opening of business on 23 April 2012
Annual General Meeting	10 May 2012
Payment of Special Dividend and Final Dividend	7 June 2012

For further details of the Special Dividend and Share Consolidation referred to above, please read the shareholder circular dated 3 February 2012 (the 'Shareholder Circular'), which was sent to shareholders during February 2012. This also contains information about how fractional entitlements resulting from the Share Consolidation are being dealt with. The consolidation ratio resulting from the Share Consolidation for the purposes of dealings on the JSE is 0.875. The Shareholder Circular is also available on the Company's website at *www.oldmutual.com/event*.

Financial Calendar for the rest of 2012

The Company's financial calendar for the rest of 2012 is as follows:

Annual General Meeting and First Quarter Interim Management Statement	10 May 2012
Interim results	8 August 2012
Third Quarter Interim Management Statement	7 November 2012
Interim dividend payment date	30 November 2012
Final results for 2012	March 2013

GLOSSARY

We have written this glossary to help readers understand certain words and jargon used in our industry. In line with our aim of writing this report in plain English, the definitions are not precise or technical: they should not be used as the basis for making investment or other decisions.

A technical glossary of the financial terms can be found on our website at **www.oldmutual.com**

Actuary
Someone who uses mathematics (in particular, probability) to provide solutions to insurance-related problems, for example calculating the level of reserves that an insurance company should hold to meet its obligations. Actuarial techniques are used to design new insurance products and to assess the profitability of new and existing business.

Adjusted net worth (ANW)
Represents the market value of the shareholders' net assets held in respect of the insurance business and forms part of the embedded value of a life company.

Affiliate
An investment firm specialising in offering specific services to a select number of individuals (term is interchangeable with boutique).

Annual premium equivalent (APE)
A standardised measure of the volume of new life insurance business written. It is calculated as the sum of (annualised) new recurring premiums and 10% of the new single premiums written in an annual reporting period. It gives a broadly comparable measure across companies to allow for differences between regular and single premium business.

Annuity
A regular payment from an insurance company made for an agreed period of time (usually up to the death of the recipient) in return for either a cash lump sum or a series of premiums which the policyholder has paid to the insurance company 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, when the actuary calculates the level of reserves required he/she will make assumptions about the future outcome of events. These could include average life expectancy and policy surrender rates. These assumptions are then applied to the data compiled on life insurance business written to project expected outcomes.

Bancassurance
An arrangement whereby banks and building societies sell life, pension and savings products on behalf of other financial providers.

Boutique
A small investment firm specialising in offering specific services to a select number of individuals (term interchangeable with affiliate).

Capital adequacy requirement (CAR)
The level of capital required by Old Mutual Life Assurance Company (South Africa) Limited to support its insurance business. It is mostly driven by the amount of capital required to absorb investment risk, i.e. a fall in the value of investments of the business and generally exceeds the level of capital required by the South African regulator (called the Statutory Capital Adequacy Requirement).

Carbon Disclosure Project
The Carbon Disclosure Project (CDP) is an independent not-for-profit organisation holding the largest database of primary corporate climate change information in the world. Thousands of organisations from across the world's major economies measure and disclose their greenhouse gas emissions, water use and climate-change strategies through CDP. Corporations are rated and the information helps investors, corporations and regulators to make more informed decisions.

Certainty equivalent method
This is a technique used to calculate embedded value which involves risk-adjusting future earnings rather than allowing for risk separately using an appropriate risk discount rate. The earnings from the assets in the business are calculated, before tax and investment management expenses. All cash flows are discounted using risk free reference rates, which are gross of tax and investment management expenses.

Correlation
Correlation is a statistical measurement of the relationship between two variables. Possible correlations range from +1 to -1. A zero correlation indicates that there is no relationship between the variables. A correlation of -1 indicates a perfect negative correlation, meaning that as one variable goes up, the other goes down. A correlation of +1 indicates a perfect positive correlation, meaning that both variables move in the same direction together.

Covered business
A concept defined in the Market Consistent Embedded Value (MCEV) principles and guidelines. It refers to long-term business, which includes traditional life insurance, long-term healthcare and accident insurances, savings, pensions and annuities.

Deferred acquisition costs (DAC)
A method of accounting whereby the acquisition costs on insurance business with an extended contractual period are recognised over the life of the contracts rather than up front at the time of sale. An example of this would be sales commission to an insurance broker. The costs are aggregated and capitalised on the balance sheet as an asset and amortised through the accounts 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.

Deferred fee income
A method of accounting whereby fee income is recognised over the term of the contract with customers, rather than up front at the time of sale. The fees are aggregated and recorded on the balance sheet as a liability and amortised through the accounts over the term of the contract.

Earnings per share (EPS)
Earnings per Share (EPS) is calculated as post-tax adjusted operating profit divided by the adjusted weighted average number of shares (WANS) held by our investors. EPS is an indicator of our profitability that measures how much we earn for each share held.

Economic capital
Market value of assets minus fair value of liabilities. Used in practice as a risk-adjusted capital measure; specifically, the amount of capital required to meet an explicit solvency constraint.

Embedded value (EV)
Life insurance contracts are usually long term and may involve complex payment flows. This means it is difficult to measure the value of a life insurance business or how much income it is likely to generate over time. EV is a way of indicating what the underlying business is worth, based on the total of the net assets already invested in the business and the profits expected to emerge in the future.

Experience variance
In calculating embedded value of life business, it is necessary to make assumptions about items such as lapses or surrenders, mortality experience, etc. In any period the actual result for these items will differ from the assumed experience; this is known as the experience variance.

Financial Groups Directive (FGD)
A financial regime applying to EU-based companies whose activities span both the banking and investment sectors and the insurance sector. It lays down requirements for the Company's capital position and is intended to improve the stability of the financial system, thereby protecting customers.

FGD surplus
This represents the amount of capital in the Company which is surplus to the statutory solvency requirement for insurance groups as laid down by the Financial Groups Directive.

Financial Services Authority (FSA)
The regulator of financial services in the United Kingdom.

Financial Services Board (FSB)
The regulator of financial services in South Africa.

Funds under management (FUM)
The total value at market prices of funds managed by a company on behalf of shareholders and customers.

General insurance/property and casualty insurance (Short-term Insurance)
Non-life insurance mainly concerned with protecting the policyholder from loss or damage caused by specific risks. Examples include motor, contents and buildings insurance. Property insurance covers loss or damage through, for example, fire or theft. Casualty insurance covers losses arising from accidents that cause injury to other people or damage to their property.

In-force
An insurance policy is said to be in-force from its start date until the date it is terminated.

Independent financial adviser (IFA)
In the UK an IFA is a person or organisation authorised to give advice on financial matters and to sell the products of all financial services providers. IFAs are regulated by the Financial Services Authority.

Insurance
A contract taken out with an insurer to give financial protection against loss from a perceived risk. The person taking out the insurance is called the insured. Payments for the policy are called premiums.

International financial reporting standards (IFRS)
Accounting regulations that all publicly listed companies in the EU are required to use. They are designed to ensure companies prepare their accounts in a similar way so that there is a common basis for comparison.

Key risk indicator (KRI)
A metric that is indicative of the trend of risk exposures for a particular risk or group of risks.

Lapses/withdrawals/surrenders
The voluntary termination of a policy by a policyholder before the maturity date.

Life insurance
An insurance contract which promises the payment of an agreed sum of money upon the death of the insured within a specified period of time. Also known as life assurance.

Liquidity headroom
Unencumbered available free cash and committed facilities available to Old Mutual plc.

Liquidity premium
A liquidity premium can be viewed as compensation for the lower liquidity of corporate bonds compared to government debt and for the risk that the market value of bonds will fall prior to maturity due to increasing credit spreads.

Long-term business
A term used by the Group to describe its life, health and pensions business and includes both insured and non-insured business. The term is broadly used throughout the industry, for example it is a UK regulatory expression broadly equivalent to life insurance and pensions.

Long-term investment return (LTIR)
The long-term return that Old Mutual assumes can realistically be earned on its investible shareholder assets when calculating Adjusted Operating Profit. Long-term investment return rates are reviewed annually and reflect the returns expected on the chosen asset classes.

Loss data
Data regarding direct losses experienced by the organisation as a result of events caused by a failure of people, process, systems and/or external events.

Management action plan
An action or actions developed by management that are usually triggered by one or more of the following:

- Risk exposure greater than risk appetite
- Control breakdowns or weaknesses
- Key risk indicator threshold breaches
- Loss events
- Audit findings

Market consistent embedded value (MCEV)
A standard of reporting for life insurance companies that we have chosen to use. It provides a common set of principles and guidelines for use in calculating embedded value. MCEV attempts to measure the value of business in-force based on a set of best estimate assumptions, allowing for the impact of uncertainty in future investment returns. It is designed to provide an accurate reflection of the performance of long-term savings business and a method of comparing companies on a consistent basis.

Maturity
The date that an insurance policy or other financial contract finishes or 'matures' and the benefit becomes payable.

Minority interests
These are the proportion of the Group's earnings on balance sheet net assets that are not owned by the Group's ordinary equity shareholders, for example preference shareholders of the Group or the independent shareholders of Nedbank.

Mutual fund/unit trust
Fund of shares, bonds and other assets held by a manager for the benefit of investors who buy units in the fund, effectively pooling their money with that of other investors. It enables investors to achieve a more diversified portfolio than they might have done by making an individual investment.

Net client cash flow (NCCF)
The difference between money received from customers (eg premiums, deposits and investments) and money given back to customers (eg claims, surrenders, maturities) during the period.

Net risk (also known as 'Residual Risk')
A net risk is defined as the result of an assessment of the potential impact and likelihood of a risk, after taking account of the design adequacy and operating effectiveness of the controls put in place to manage the risk.

Non-profit policy
Insurance cover guaranteeing certain benefits, but where the policyholder bears no investment risk and does not gain or lose if returns differ from expectations. Pure risk business such as annuities and health insurance is normally written on a non-profit basis.

Open-architecture
Where a company offers investment products from a range of other companies in addition to its own products. This gives customers a wider choice of funds to invest in and access to a larger pool of money management professionals.

Operational risk scenarios
Foreseeable, hypothetical events relating to failure of people, processes, systems and/or external events that potentially could have a significant impact on an organisation's risk profile or capital.

Pension
A regular payment received by an individual during their retirement until their death. A pension is usually bought through the payment of regular contributions during the individual's working lifetime. It may be a legal insurance contract but is not always the case.

Platform
Online services used by intermediaries and consumers to view and administer their investment portfolios. Platforms provide facilities for buying and selling investments (including, in the UK, Individual Savings Accounts (ISAs), Self-Invested Personal Pensions (SIPPs) and life insurance) and for viewing an individual's entire portfolio to assess asset allocation and risk exposure.

Premium
The payment a policyholder makes in return for insurance cover. A single-premium contract involves a single lump sum payment made at the start of the contract. Under a regular-premium contract the policyholder agrees at the start to make regular payments throughout the term of the contract.

Probability distribution
A mathematical description of a range of possible values for a certain variable, identifying the likelihood of each possible value occurring.

Real world economic assumptions
The expected return is based on a projection from beginning of period to end of period for investment return. This requires assumptions regarding the investment returns expected to be achieved over the period. The investment return assumptions (for this purpose only) are based on the 'real world' returns in excess of the risk free reference rate. The use of real world investment assumptions gives a more realistic basis for the expected return calculation and allows for returns commensurate with the risk underlying each asset class. Any under or over performance of actual investment returns over the real world economic assumption will be reported through economic variance. These have no bearing on the calculated MCEV other than the calculation of the expected existing business contribution in the analysis of MCEV earnings.

GLOSSARY

Return on equity (RoE)
A measure calculated by dividing profit after tax by the average amount of equity in the business. Equity indicates how much capital provided or belonging to shareholders is tied up in the business.

Reverse stress testing
Reverse stress-tests are stress tests (see definition of 'stress and scenario testing' below) that require a firm to assess scenarios and circumstances that would render its business model unviable, thereby identifying potential business vulnerabilities. Reverse stress-testing starts from an outcome of business failure and identifies circumstances where this might occur.

Risk
The threat of an event that will limit the organisation's ability to achieve its business objectives. Risk is often expressed in terms of a combination of the consequences of an event or a change in circumstances and the associated likelihood of occurrence.

Risk adjusted performance measures
A metric that measures returns based on the quantum of risk taken to generate those returns. We use it to assess the attractiveness of different business units in allocating our capital.

Risk appetite
The level of risk an organisation is willing to take in the pursuit of profit.

Risk assessment
This is a forward-looking and subjective process whereby risks are identified and exposure to risk is assessed or measured in the context of the business objectives. There are typically two aspects to the assessment of risk, one being the likelihood of risk occurring and the second being the impact of the risk.

Risk-based capital
Risk-based capital is the minimum amount of capital that an organisation needs to support its overall business operations. Risk-based capital is used to set capital requirements considering the nature, scale and complexity of the organisation.

Risk categorisation
A process for classifying risks possessing common qualities or quantities. Risk categorisation is used to collate information in a concise profile.

Risk exposure
Means the capital required to meet the business's current exposure to risk.

Risk free reference rate
The rate at which actual assets held earn income and the rate at which earnings are discounted in the MCEV calculation.

Risk identification
The qualitative determination of risks that are material, i.e. those that potentially can impact the organisation's achievement of its financial and/or strategic objectives.

Risk management framework
A set of components that provide the foundations and organisational arrangements for designing, implementing, monitoring, reviewing and continually improving risk management processes throughout the organisation.

Risk policies
Policies that set out the minimum, mandatory requirements that businesses must follow to mitigate key Group risks.

Risk profile
The entire portfolio of risks organised by risk category that are found within a particular organisation.

Scenario
A predicted sequence of events.

Scenario analysis
Scenario analysis is a process of analysing possible future events by considering possible outcomes or scenarios.

Solvency II
Solvency II is a fundamental review of the capital adequacy regime for the European insurance industry. It aims to establish a revised set of EU-wide capital requirements and risk management standards that will replace the current solvency requirements.

Solvency Capital Requirement (SCR)
The SCR is the capital required to ensure that the (re)insurance company will be able to meet its obligations over the next 12 months with a probability of at least 99.5%.

Standard formula
A non-entity-specific risk-based mathematical formula used by insurers to calculate their Solvency Capital Requirement under Solvency II, if the company is not using an internal model.

Statistical distribution
An arrangement of values of a variable showing their observed or theoretical frequency of occurrence, eg frequency distribution – a distribution of observed frequencies of occurrence of the values of a variable.

Stress and scenario testing
Stress and scenario tests test the firm's resilience in the face of adverse conditions. For example, to test adverse market conditions, a set of economic stresses are defined, such as a rise in interest rates or drop in markets, and the firm must then calculate if it has sufficient capital to withstand these stresses.

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. Otherwise known as reserves.

Underwriting profit (general insurance)
A generally accepted non-life insurance term, also referred to as underwriting result, representing earned premiums minus the cost of claims and operating expenses. It indicates whether premiums cover claims and expenses or not.

Unit-linked policy
A type of long-term savings plan where premiums are used to buy units in an investment fund, such as a unit trust, and the benefits will be linked to the value of the underlying units rather than being fixed or guaranteed at the start of the plan.

Value of in-force business (VIF)
Part of the embedded value of a life insurance company. It represents the discounted value of the profits expected to arise from the in-force business. VIF is calculated using a set of actuarial, economic and operational assumptions.

Value of new business (VNB)
The discounted value of the future profits expected to arise from all new business sold during a reporting period. VNB is calculated by using actuarial assumptions.

With-profit
A type of investment policy in which extra amounts (bonuses) may be added to the sum assured to reflect profits earned during the course of the contract. Regular bonuses are usually added each year and, once declared, are usually guaranteed. A final or 'terminal' bonus may be added when the policy becomes payable.

Wrap platform
An investment platform which enables investment funds, pensions, direct equity holdings and some life insurance contracts to be held in the same administrative account rather than as separate holdings.

NOTES

Forward-looking statements

This Report contains certain forward-looking statements with respect to Old Mutual plc's and its subsidiaries' plans and expectations relating to their financial condition, performance and results. By their nature, forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond Old Mutual plc's control, including, among other things, UK domestic and general economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing and impact of other uncertainties or of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and regulations in territories where Old Mutual plc or its subsidiaries operate.

As a result, Old Mutual plc's or its subsidiaries' actual future financial condition, performance and results may differ materially from the plans and expectations set forth in such forward-looking statements. Old Mutual plc undertakes no obligation to update any forward-looking statements contained in this Report or any other forward-looking statements that it may make.

Acknowledgements

Designed and produced by MerchantCantos
www.merchantcantos.com
Printed by The Colourhouse

This report is printed on Amadeus 100 Silk and Amadeus 75 Matt, produced from 100% and 75% recycled de-inked post-consumer waste respectively. They are ECF meaning no chemical bleaching has been used in their manufacture, and FSC assured so that the fibre is sourced from renewable and responsibly managed forests with a traceable chain of custody throughout the process.

This Report is printed by an FSC, ISO 14001, and carbon neutral certified printer using vegetable oil based inks. All processes in the production of this Report are on one site.

Old Mutual plc
Registered in England and Wales No. 3591559 and as an external company in each of South Africa (No. 1999/004855/10), Malawi (No. 5282), Namibia (No. F/3591559) and Zimbabwe (No. E1/99)

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