ANNUAL REPORT
AND ACCOUNTS 2012

A year of delivery

INSURANCE | INVESTMENT | SAVINGS | BANKING

OLDMUTUAL

OLD MUTUAL IS AN INTERNATIONAL LONG-TERM SAVINGS, PROTECTION, BANKING AND INVESTMENT GROUP

Introduction

What we do

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MCEV

Shareholder information

Annual Report
www.oldmutual.com/reports2012

Corporate website
www.oldmutual.com

Reporting centre
www.oldmutual.com/reportingcentre

OUR **STRATEGY**

To continue to build a long-term savings, protection, banking 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**

To be our customers' most trusted partner – passionate about helping them achieve their lifetime financial goals

OUR **VALUES**

Integrity

Respect

Accountability

Pushing beyond boundaries

CHAIRMAN'S MESSAGE TO SHAREHOLDERS

We have made substantial progress during 2012 in delivering the targets that we set for ourselves and in refocusing the Group's operations

Patrick O'Sullivan
Chairman

Overview of 2012

Looking back at the last twelve months, it is pleasing to report to you that we delivered on our commitments, despite a background of continuing market volatility. Over the last three years, your Board has focused its efforts on restoring shareholder value. With the accomplishment of the disposal of our Nordic business, external and internal debt repayments and the special dividend paid to shareholders in June 2012, we have achieved those goals while delivering a total shareholder return for the year of 35% in sterling and 48% in rand. I am also pleased to note that our total profit after tax attributable to ordinary shareholders reached £1,173 million.

Further details of our progress against targets, our future strategic direction and how risk and reward have been managed to ensure alignment with shareholders' and other stakeholders' interests are contained in the following sections of this Report.

Board

We were delighted to announce the recruitment of Danuta Gray as an independent non-executive director from March 2013 and I welcome her to the Board. We were sorry to have to say goodbye at the end of February 2013 to Eva Castillo, who felt unable to continue on the Board because of the pressure of her other executive commitments. Russell Edey and Lars Otterbeck will be retiring from the Board at the AGM in May 2013 and my colleagues and I would like to express our sincere appreciation for the major contribution that they have made during their respective periods on the Board.

Final Dividend

We have been pleased to be able to announce a significantly increased recommended final dividend for the year of 5.25p per share (or its equivalent in other applicable currencies), as well as to update our policy for future dividend payments in a way that we hope will lead to continuing progress in shareholder returns. Further information about the final dividend for 2012 is contained in the Shareholder Information section of this Report.

Annual General Meeting

Our AGM will be held in London on 9 May 2013 and will be webcast as in prior years. As usual, there will be an opportunity for shareholders to submit questions to be dealt with at the meeting. Our shareholder circular relating to the AGM includes further details of these matters.

Shareholder communications

Following my letter in November 2012, we have now moved to electronic communications as the main channel for communicating with our shareholders in most of the territories where our shares are listed, and I am pleased that we will thereby be able to make a contribution to reducing our impact on the environment as well as reducing the Group's central costs. We have also this year continued to try to simplify and declutter our Report (for example by placing some supporting detail on to our website) and to move towards a more integrated style of reporting, in line with developing best practice.

Other matters

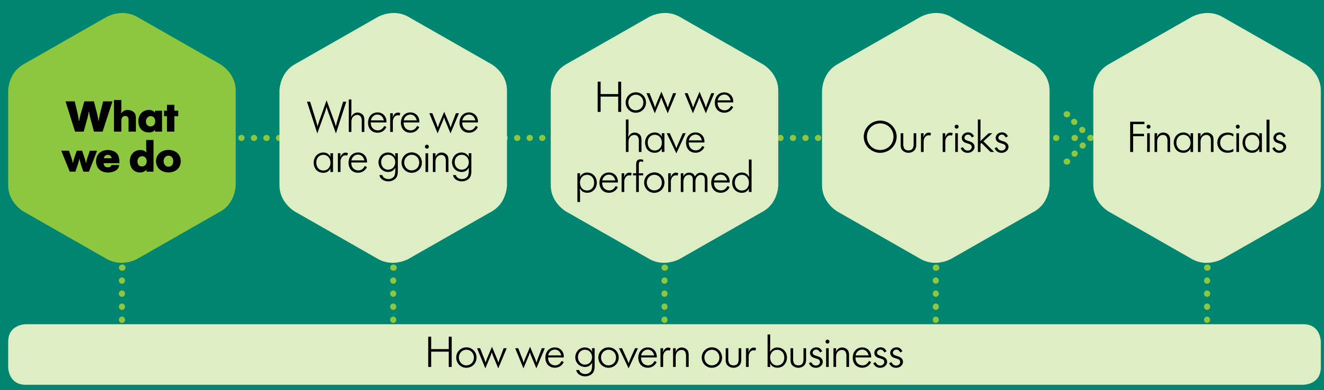
It goes without saying that our success would not happen without the hard work of the Group's employees all over the world. On behalf of the Board, I would like to pay tribute to them.

Future

At the start of 2013 the financial world seems to have turned the corner and volatility is calming down. However, in our markets we have learned that financial strength, strong cash flow and dividends are the differentiators in an uncertain world. Following the completion of our restructuring last year, management is focused on growth in our key markets. We are strongly positioned to achieve our targets and it is progress against these that will determine the next phase of our Group's development and strategy.

WHAT WE DO

In this section we describe how our business works and the environment in which we operate



Contents

OUR BUSINESS **AT A GLANCE**

This table shows a high-level summary of the Group and our principal business units

Group

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

For more information on the Group's Financial Performance see the Financial Review on pages **65-72.**

Business units

Long-Term Savings

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

For more information on our Long-Term Savings business unit see pages **30-43.**

Banking

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

For more information on our Banking business unit see pages **44-53.**

Short-Term Insurance

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

For more information on our Short-Term Insurance business unit see pages **54-57.**

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

For more information on our US Asset Management business unit see pages **58-62.**

[1] On a constant currency basis.

[2] % of total operating business unit's AOP after tax and non-controlling interests (before finance and other central costs).

[3] % of FUM in Group core operations.

[4] Excluding operating results from affiliates held for sale or disposed of and OMAM (UK), which was transferred to Old Mutual Wealth.

Adjusted operating profit (AOP) 2012

£1,614m 2011: £1,515m

Funds under management (FUM) 2012

£262.2bn 2011: £267.2bn

Number employed* 2012

54,368 2011: 55,549

Primary locations

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

US Asset Management – US and UK

Banking – southern Africa

Short-Term Insurance – southern Africa

Operational highlights

AOP per share up 9%[1] to 17.5p

Full dividend for the year was 7.0p, up 23% in cash terms

Financial Groups Directive (FGD) surplus of £2.0 billion

The 2012 financial targets, set in 2010, were successfully delivered

* Nordic employees excluded from both periods

Adjusted operating profit (AOP) 2012

£800m 2011: £793m

Funds under management (FUM) 2012

£121.8bn 2011: £108.5bn

Number employed 2012

21,789 2011: 22,851

Operational highlights

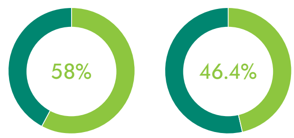
AOP was up 9%[1], with strong growth in profits in Emerging Markets

NCCF was stable at £3.2 billion, despite challenging market conditions in the UK and Europe

There was a continued shift from covered to non-covered business, with non-covered sales up 27%[1] to £14,549 million and APE sales down 2%[1] to £1,133 million

Contribution to Group

AOP[2] FUM[3]



Our brand

OLDMUTUAL

Adjusted operating profit (AOP) 2012

£828m 2011: £755m

Common equity Tier 1 ratio (Basel II.5)

11.4% 2011: 10.5%

Number employed 2012

28,767 2011: 28,494

Operational highlights

Strong headline earnings growth of 21%[1]. AOP was up 23%[1]

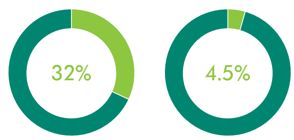
Non-interest revenues up 12%[1] and net interest income up 9%[1]

Credit loss ratio improved to 1.05% from 1.13% in 2011

Basel II.5 common equity Tier 1 ratio of 11.4%, up from 10.5% in 2011

Contribution to Group

AOP[2] FUM[3]



Our brand

NEDBANK

Adjusted operating profit (AOP) 2012

£43m 2011: £89m

Gross Written Premiums

£746m 2011: £761m

Number employed 2012

2,371 2011: 2,390

Operational highlights

Gross written premiums increased by 9%[1], with strong premium growth in iWyze

AOP was down 47%[1], due to worse claims experience and losses at iWyze

Mutual & Federal remains well capitalised, with a 64% international solvency margin

Contribution to Group

AOP[2] FUM[3]

Our brands

MUTUAL & FEDERAL iwyze valuables insurance

Adjusted operating profit (AOP) 2012

£91m 2011: £67m

Funds under management (FUM) 2012

£128.4bn 2011: £148.8bn

Number employed 2012

1,225 2011: 1,564

Operational highlights

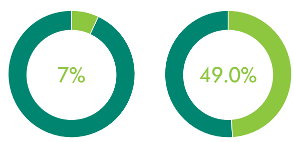
AOP was up 10%[1] to £95 million in USAM's continuing operations[4]

NCCF in continuing operations[4] was £0.9 billion

FUM in continuing operations increased by 14%[1]; with continued strong investment performance

Contribution to Group

AOP[2] FUM[3]



Our brands

ROGGE ACADIAN

BARROW, HANLEY, MEWHINNEY & STRAUSS, INC.

Our business model is simple. We harness the resources and skills we have across the Group into our long-term savings, protection, banking and investment businesses to drive value for shareholders and other stakeholders

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

For more information on the Group's Strategy see Where We Are Going on pages **18-28.**

Our customers

Creating trusted relationships with our customers is at the heart of everything we do. We aim to help them achieve their lifetime financial goals through our savings, protection and investment products.

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 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 – inflows less outflows – should be positive. This increases our overall funds under management.

What we do

Our skills and resources enable us to excel in two key areas:

Banking, savings, protection and investment products

We provide our customers with appropriate and tax-efficient investment products, and protection products offering life assurance and disability benefits. Protection business is particularly important to our emerging markets businesses: for example, we provide products to help our customers save for their own and their family's funerals – which has significant cultural importance in many of the countries we serve. Our banking services include personal and corporate lending, transactional banking and savings accounts.

Fund management

In our long-term savings, protection, banking 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. Customers' funds and their value can rise or fall with the underlying markets.

Value for our stakeholders

We earn fees on the funds we manage and on the financial products we sell. 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.

We also deliver value in its wider sense. Our international operations generate employment, investment and tax revenues around the world. The relationships we form with our customers, our employees, governments, regulators and community groups are vital to the success of our business. We are committed to operating in a responsible way, making decisions that take account of the impact on those around us.

Long-term need for our products

Our markets are characterised by resilience and stability. Despite volatility 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 retirement does not change – particularly against a backdrop of reduced government and employer capacity to provide these services.

Business model

Customers

- Retail
- Institutional

Customer numbers over 14 million

Sales ↓ Payments ↑

What we do

Banking products | Protection | Saving | Investments

↓

Funds under management

↓

Profits & cash

↓

Stakeholders

- Shareholders
- Employees
- Governments
- Bondholders
- Communities

RoE: 13%

Skills and resources

- People
- Product development
- Values
- IT & administration
- Capital allocation
- Distribution
- Risk management & governance
- Knowledge and experience

KEY PERFORMANCE INDICATORS (KPIs)

Here we describe the financial and non-financial KPIs that we use to monitor the performance of our business

For more information on how our KPIs are reflected in management's incentives, please see the descriptions of the short-term and long-term incentive arrangements described in the Remuneration Report on pages **99-116.**

Financial KPI

Return on Equity (RoE) %

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

Group Value Creation % (Long-Term Savings only)

IFRS Adjusted Operating Profit Margin (basis points)

Adjusted Operating Earnings per Share (pence)

Non-financial KPI

Customer numbers

Community Investment (£ millions)

[1] IFRS – International Financial Reporting Standards.

[2] Numbers are as reported and historical figures have not been restated.

[3] The 2012 customer numbers include OMSA Corporate members. 2011 numbers have been restated accordingly.

[4] These figures include a share of Nedbank Foundation's community investment, reflecting Old Mutual's average % ownership of Nedbank. The same approach is applied to Old Mutual's joint ventures. The 2011 amount has been restated to exclude Nordic and to include donations made by OMSA in 2011 that were not previously recorded.

Definition	Relevance	Measurement
A relative measure expressed as a percentage, calculated by dividing IFRS[1] 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 capital efficiency, demonstrating how much profit has been generated from the resources provided by our shareholders.	**Return on Equity (RoE)[2] (%)** **2012: 13.0** 2011: 14.6 2010: 14.2 2009: 9.1 2008: 11.3 2007: 13.2
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[2] (%)** **2012: 1.9** 2011: -3.9 2010: -2.5 2009: -0.7 2008: -0.4 2007: 9.9
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)[2] (%)** **2012: 2.6** 2011: 5.2 2010: 3.9 2009: 1.3 2008: 2.6 2007: 4.0
Calculated as pre-tax adjusted operating profit divided by the average funds under management for the period, expressed in basis points.	IFRS Adjusted 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 profits at a greater rate than its funds under management base.	**IFRS Adjusted Operating Profit Margin[2] (basis points)** **2012: 50.0** 2011: 46.0 2010: 42.0 2009: 38.7 2008: 33.4 2007: 55.2
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[2] (pence)** **2012: 17.5** 2011: 15.7 2010: 14.3 2009: 11.6 2008: 14.9 2007: 16.9

Definition	Relevance	Measurement
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 – LTS (millions)[3]** **2012: 8.2** 2011: 8.0
Total value of Old Mutual's Community Investment. This includes corporate donations made through our Foundations and other community investment projects. It excludes employee donations through workplace fund raising.	These donations indicate how much the Old Mutual Group invests in its continued support for the local communities it serves.	**Community Investment (£ millions)[4]** **2012**: 13.4 2011: 14.2

RESPONSIBLE BUSINESS

The successful delivery of our business strategy – and realisation of our corporate vision – are underpinned by our approach to *how* we do business

We are committed to operating responsibly, making decisions that take account of the impact on those around us. This approach must be part of everything we do – from our day-to-day operations, and dealing with our customers, to the way we invest our funds, help develop our local communities and pay our taxes.

The Group Chairman, Patrick O'Sullivan, has overall responsibility for Old Mutual operating in a responsible manner and it is the role of our Responsible Business Committee to champion and challenge our Responsible Business approach, helping embed it in all we do.

In 2012 we have continued to invest in the policies, processes and training that enable us to manage our responsibilities effectively. We also conducted an internal audit of the quality of our Responsible Business data for the first time as part of strengthening the accountability and transparency of our data.

[1] This includes a share of Nedbank's community investment, reflecting Old Mutual's average percentage ownership of Nedbank. The same approach is applied to all Old Mutual joint ventures.

[2] Our total carbon dioxide emissions are calculated using the GHG Protocol Corporate Standard methodology using the equity approach. These figures are rounded to the nearest 1,000 tCO_2e.

For more information on our Responsible Business activities and achievements please see our 2012 Responsible Business Report or visit our website at www.oldmutual.com/reports2012.

Responsible Business overview

To deliver against our responsibilities effectively we focus on five key areas. These are some highlights from 2012:

Responsible investment

- Became a signatory to the UN-backed Principles for Responsible Investment (UN PRI) as an asset owner and undertook a Group-wide review of our current Responsible Investment practices using the UN PRI reporting framework
- Committed to the development of Responsible Investment guidelines for the incorporation of environmental, social and governance criteria into investment decisions for implementation in 2013
- Continued our involvement in the implementation of the Code for Responsible Investing in South Africa (CRISA), through our participation in the CRISA Committee.

Responsible to our customers

- Introduced a new and improved process for obtaining customer feedback and identifying opportunities to prioritise improvement actions
- Appointed Committees for Customer Affairs (CCA) in two of our long-term savings businesses to ensure a high priority focus on treating customers fairly and learning from customer feedback
- Continued to provide financial education to our customers through our education programmes.

Responsible to our employees

- Awarded two of South Africa's top employer awards for our commitment to employees in Old Mutual South Africa and Mutual & Federal
- Extended ACT NOW! across the Group to promote behaviours that reflect Old Mutual Group values in practice
- Achieved our target of having two female members on the plc Board and on target to achieve 2015 target of at least three female Board members.

Responsible to our communities

- Continued to provide support tailored to the needs of local communities, focusing on financial education
- Invested £13.4 million (0.8% of pre tax AOP) in communities across the Group including giving through our five Old Mutual Foundations and the Nedbank Foundation[1]
- Developed a new set of Community Investment Principles to sharpen the focus of our community investment decisions on strategic relevance and long-term impact
- Achieved B-BBEE (Broad-Based Black Economic Empowerment) Level 2 rating for all of our South African businesses.

Responsible environmental management

- Reduced overall CO_2e emissions since 2010 by nearly 13% Group-wide from 764,000 tCO_2e in 2010 to 666,000 tCO_2e in 2012 (Scope 1 and 2 emissions)[2]
- Listed in Carbon Disclosure Leadership Index for the fourth year running, ranking 8th in the financial services sector
- Signed the Carbon Price Communiqué – an international coalition of business leaders urging governments to ensure successful transition to a climate-resilient economy.

OUR **MARKETS**

A high-level overview of the drivers in our key markets – in Africa, the UK and across the globe

Demographics

Demographic trends in our largest markets support our business. Populations are growing and, in most cases, also living longer.

For example, in the UK average life expectancy was 72 years in 1970[1], had risen to 80 years by 2010[1] and continues to rise. In sub-Saharan Africa, average life expectancy increased from 51 years in 2003[1] to 54 years in 2010[1]. South Africa was a rare exception to this pattern: average life expectancy was 52 years in 2010[1], slightly down from 53 years in 1970[1].

South Africa's population grew 10% to 51 million between 2003 and 2011[1]. Over the same period, the population in sub-Saharan Africa increased 22% to 876 million[1]. The proportion of the working age population also increased over this period. In western Europe the number of retirees continued to increase, with the over-65 population of the European Union rising from 16.3% in 2003 to 17.6% in 2011[1].

At the same time, living standards and expectations have also increased. In our more mature markets 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 and healthcare costs. 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 achieving higher GDP growth rates than developed economies. GDP per capita in both South Africa and sub-Saharan Africa more than doubled between 2003 and 2011[1], with annual GDP growth in sub-Saharan Africa above 4% in seven out of the eight years[1].

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. Our strategy is to shape our offering to fit the wider macro-marketplace.

Lower interest rates and slower growth in the European and US markets mean people will have to save more to meet their target levels of retirement income. Our capabilities in long-term savings products, particularly pensions, position us well to help them.

Government and public sector support

Ageing populations and rising health expectations 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.

Regulatory change

Financial services have faced 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.

APE sales split by region at December 2012

Emerging Markets	**46%**
UK	**25%**
Europe	**29%**

All numbers exclude Finland.

Assets under management by region at December 2012

Emerging Markets	**43%**
UK	**30%**
Europe	**27%**

Includes OMAM(UK) from Q2 2012

[1] Source: World Bank

Old Mutual in Africa[1]

South Africa

51m population[1]

Customers	**5.1 million**
M&F market position	**#2**

Kenya

42m population[1]

Market position	**Life: #9, AM: #1**
Customers	**97,000**

Malawi

15m population[1]

Market position	**Life: #1, AM: #1**
Customers	**83,000**

Namibia

2m population[1]

Market position	**Life: #1, AM: #1**
Customers	**259,000**
M&F market position	**#2**

Swaziland

1m population[1]

Market position	**Life: #2**
Customers	**23,000**
M&F market position	**#1**

Botswana

2m population[1]

M&F market position	**#4**

Zimbabwe

13m population[1]

Market position	**Life: #1, AM: #1**
Customers	**862,000**
M&F market position	**#3**

1 Source: 2011 populations per World Bank data.
Source: All other data based on Old Mutual estimates.

Impact on Old Mutual

These 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 them.

Our two most profit-generative markets are Africa and Emerging Markets, and the affluent markets of our Old Mutual Wealth business.

Our African operations

There are around 200 million households in sub-Saharan Africa. This population is increasingly urbanised[1], much like Asia in the recent past.

McKinsey has forecast that by 2020 more than half of African households will have discretionary income, rising from 85 million households to almost 130 million in 2020. This represents a considerable opportunity and we aim to attract a proportion of that income into savings. Our work on financial education and literacy in the region supports this goal.

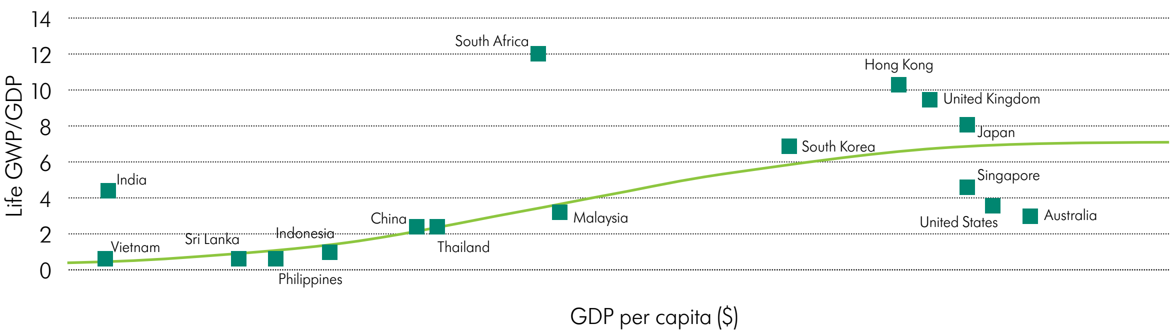
Our South African operations

The powerhouse of our African business is South Africa, where we have a long heritage and strong and trusted brands. Old Mutual South Africa is one of the largest financial service providers in South Africa, with just over 5 million individual retail and corporate customers. It provides individuals, businesses, corporates and institutions with long-term savings, protection and investment solutions. Mutual & Federal is our short-term insurer in South Africa, providing a full range of products to commercial and domestic customers. Old Mutual is also the majority shareholder in Nedbank, one of South Africa's four largest banking groups by assets.

South Africa accounts for 74% of our IFRS adjusted operating profit, before tax and after non-controlling interests and 21% of funds under management.

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 consumer markets are growing rapidly.

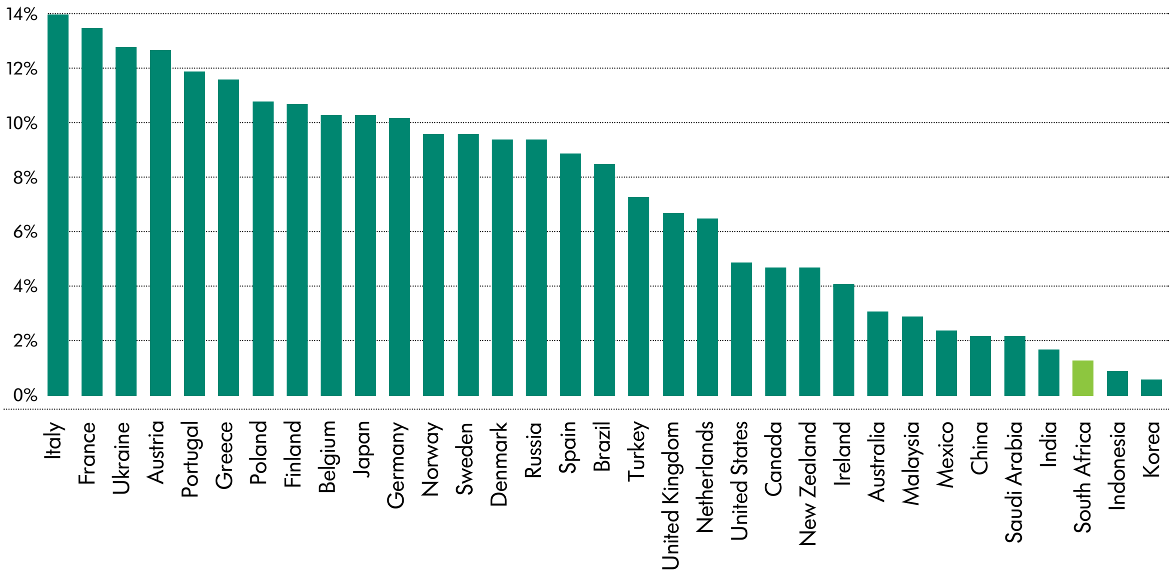
Life Insurance S-Curve



Source: Swiss Re (2010); Bernstein analysis

OUR
MARKETS continued

2010 Public Pension Spending as % of GDP (IMF)



Source: IMF; Bernstein analysis

Our South African long-term savings business has a strong market share in both the retail affluent and mass foundation cluster businesses. It also has a substantial corporate segment and is the largest asset manager in South Africa.

South Africa has a well-established banking industry, maintaining sound and traditional banking practices within a well-managed and regulated environment. Nedbank positions itself as a bank for all, providing relevant banking services to the broader population. During the year Nedbank Retail increased its client base by 12% and Business Banking added 775 new transactional banking clients; all the other clusters continued to deepen client relationships, especially with the previously disadvantaged communities. Nedbank increased its staffed outlets by 80 and added a further 476 ATMs during the year.

The country's short-term market experienced a marked softening in rates for personal lines of business and a significant level of localised catastrophe losses. To reduce the impact of rate softening on its underwriting margin at this stage of the underwriting cycle, Mutual & Federal focused on cost containment and managed growth in policy numbers, particularly through its direct channel iWyze and underwriting management agencies.

Our operations in the rest of Africa

Elsewhere in Africa, Old Mutual's long-term savings operations are based in countries with urban populations that have higher per-capita GDP – albeit at levels well below those of Europe, the US and developed Asian markets – but as yet relatively low spend on insurance. We currently have more than 1.3 million customers in these countries – and are the market leader in many cases. We believe these markets offer significant growth opportunities which we are well placed to capture. Our largest business by profits and funds under management is in Namibia, but we recently acquired a life licence in Nigeria, which has a very large population, and have long-established businesses in Zimbabwe and Kenya.

Nedbank operates across Africa through its own operations within the Southern African Development Community and its alliance with the Ecobank Group, which has a presence in more African countries than any other bank. The Ecobank-Nedbank alliance is the largest banking network in Africa, with more than 1,500 branches in 35 countries. We have created an opportunity for shareholders to participate in the Africa growth story through it's rights to acquire 20% in Ecobank Transnational Incorporated (ETI).

Mutual & Federal's operations in Africa are broadly aligned to Old Mutual's long-term savings operations. This allows both Mutual & Federal and Old Mutual to leverage each other's distribution networks and creates cost and revenue synergies. We see increasing scope for Mutual & Federal and Old Mutual Emerging Markets to work together more closely. For example, we are in the process of acquiring a property and casualty business in Nigeria which will be run alongside the newly acquired life licence.

Case Study

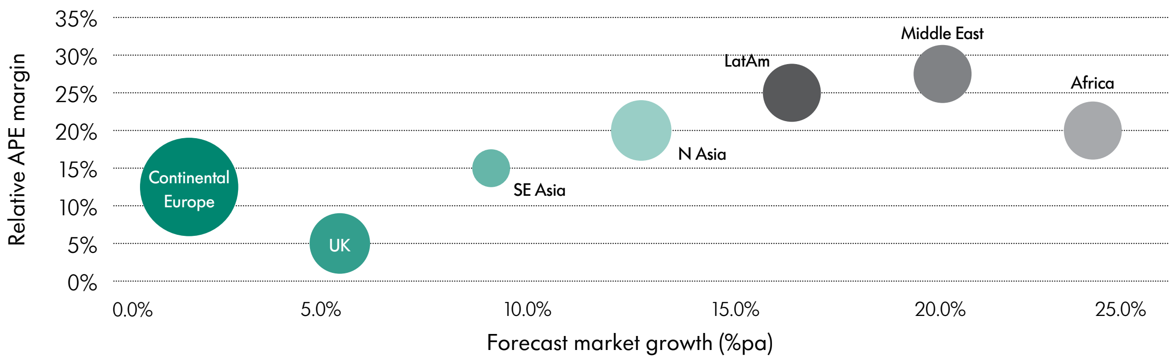
Managing your money

In South Africa, we ran more than 1,500 financial education workshops in 2012, reaching over 57,000 people. Our flagship programme 'On the Money' helps people with limited financial resources to learn and practice responsible financial behaviour in an accessible and practical format. We have successfully shared our expertise across the Group, expanding this programme into Colombia, Mexico, Kenya, Namibia, Zimbabwe, Swaziland and Nigeria in 2012.

For more information on the Group's Responsible Business activities see pages **10-11.**

UK and Europe the biggest markets, but emerging markets are attractive

Market attractiveness for cross-border providers
(bubble size represents relative market size in APE)



Source: NMG Consulting global BQM programmes and analysis of cross-border provider financial statements.

Affluent markets of Old Mutual Wealth International

Our International business serves clients in the UK, South Africa and the rest of the world who want to invest internationally. These are typically internationally mobile professionals and others seeking investment security, portability or choice.

We are usefully differentiated from competitors by the geographic diversification of our footprint and our related client base. Accessing a wide range of international markets, including emerging markets, allows us to take full advantage of shifting economic dynamics around the world. The international markets served by Old Mutual Wealth International show good potential for further growth, especially in emerging markets.

We operate through long-term relationships with financial intermediaries. Our current business is focused on the Far East, Middle East, Latin America, South Africa and Europe (including the UK). We aim to increase our capabilities and the strength of our offering in these markets. To this end, we started to roll out our new-generation, e-enabled investment platform, Wealth Interactive, and launched several new products in key markets during 2012.

The Old Mutual Wealth International business model allows us to generate strong revenue flows from the assets we manage. This results in attractive profitability and returns on equity. As demand for international investments grows, increasing competition from both cross-border and onshore providers is putting pressure on margins. Although operating in multiple regulatory environments is more complex than single-market onshore operations, we believe it will remain an attractive part of our overall business proposition: enhancing it through product innovation, technology enablement and expanded distribution is a core part of our strategy.

UK

Our UK activity is largely unit-linked investment business distributed through independent financial advisers (IFAs). We recently expanded our protection and asset management capabilities by combining the asset management activities of Skandia Investment Group and Old Mutual Asset Managers (UK).

Two decades ago the investment market for UK retail customers was predominantly served by with-profits products sold largely by IFAs. These products tended to be 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 large with-profits book. Moving on from with-profits, the market has evolved through unit-linked products – offering more transparency and investment choice – to multi-manager solutions offering a wider range of investment options from a broader choice of providers. But all these remain essentially product driven.

The past decade has seen the emergence of fund platforms focused on supporting adviser business models. These have brought better value for customers through features such as aggregated reporting, removal of upfront fund manager charges and free switching. The platform market has grown strongly and continues to do so. There are currently over 25 platforms in the UK market, with the four largest accounting for around three-quarters of total platform assets. We continue to hold a strong market position as a leading platform focused on profitable retail business. As at December 2012 our market share was 20%.[1]

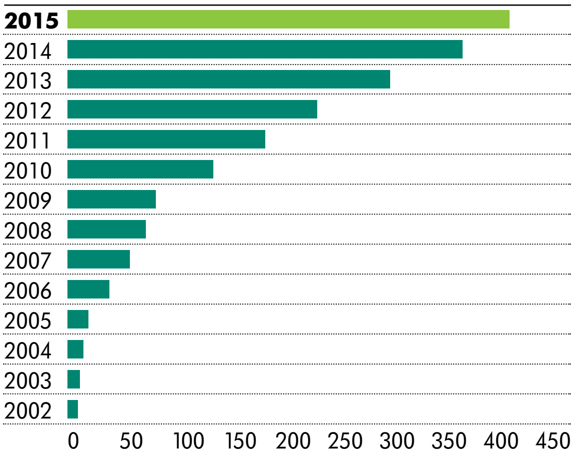
The importance of IFAs in the UK market reflects the large number of consumers who seek the help of financial planning experts. Regulation such as the Retail Distribution Review (RDR) has emphasised the need for advisers to focus on helping customers to make the right choices for their personal circumstances and financial goals. The RDR has also required advisers to clearly define their business models and make choices regarding the parameters of the advice that they offer, be it whole-of-market or based on a narrower range of products and/or providers. Our proposition is to support the variety of different business models that will exist in the future by offering IFAs and their clients appropriate tools and client-focused investment solutions through our investment platform. Launched at the end of 2012, our RDR-ready proposition already meets requirements due at the end of 2013 – so while our competitors develop and implement their compliance solutions, we can focus fully on providing capital-light investment solutions that meet customer needs.

[1] Source: Q4 2012 Fundscape Platform Report

OUR
MARKETS continued

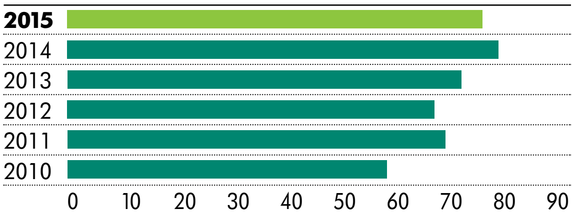
More and more IFAs are using platforms

Forecast Growth in the UK Platform Market, AUM (£bn)



Source: Sanford Bernstein 2012

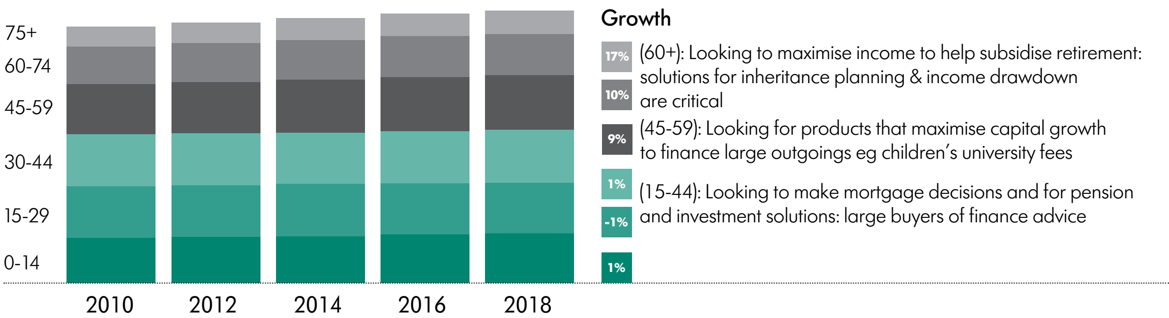
Proportion of IFA business on-platform in future %



Source: Investment Trends Survey 2012

Customer demographics create opportunities for advisers and product providers

UK population projections growth forecast (millions)[1] (2010 to 2018)



Source: [1] Navigant/Office for National Statistics, 2010 based projections

The past few years have also seen changes in other distribution channels. The bank channel continues to hold a significantly lower share of the retail investment market in the UK than elsewhere in Europe. The strains of the global financial crisis and changing regulation under the RDR have prompted a number of banks to cut or close their financial adviser arms. Meanwhile, non-advised (direct) channels are widely predicted to grow but have not yet reached material scale.

We foresee consolidation in the future, assuming the commoditisation of the business model experienced in similar markets such as Australia and the US. Some smaller players leave the market, with the remaining participants potentially capturing a disproportionate share of market growth. Our strong market share, long-standing relationships with the IFA community and competitive proposition position us well to take advantage of such industry trends as they unfold.

United States

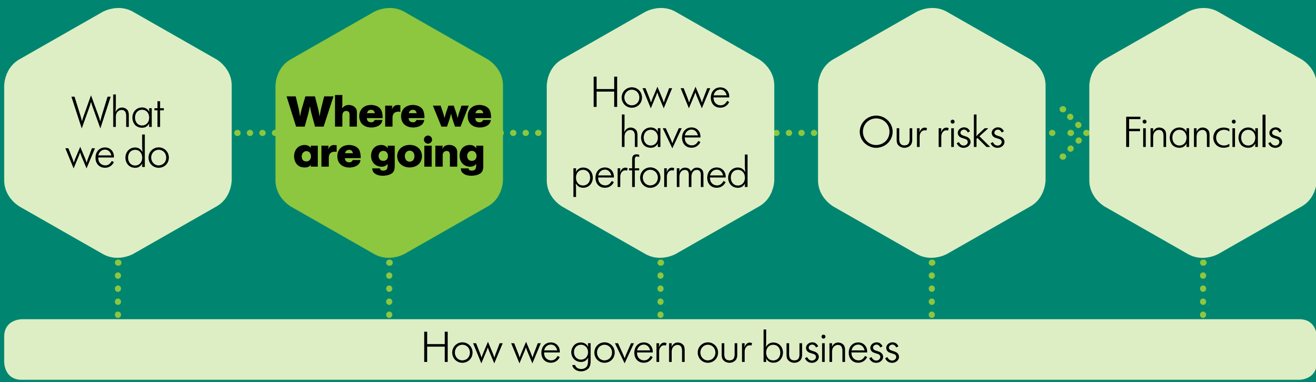
We run a US-based asset management business through nine boutique firms (affiliates). These offer a diverse range of investment strategies and products to a wide range of institutional investors around the globe. We have completed the process of focusing our affiliates on institutional clients in 2012, with the disposal or transfer of affiliates during the year. The effect of this has been to improve operating margin and the continuing business reported positive net client cash flows in the period.

Non-US clients currently account for 35% of funds under management (FUM) (31 December 2011: 33%). International equity, emerging markets, global equity and global fixed income products account for 52% of FUM (31 December 2011: 50%).

2012 saw favourable market conditions return in H2, contributing to positive market performance for the year as a whole. Investors continued to favour fixed income, emerging markets equity and alternatives products over US equities in 2012.

WHERE WE ARE GOING

In this section, we describe the next stage of our strategic journey



Contents

Having committed ourselves to stretching strategic and financial targets, 2012 marked a milestone in their achievement

Julian Roberts
Group Chief Executive

Profits up 18%...
Old Mutual delivered a strong performance in 2012, driven primarily by excellent results from its businesses in emerging markets. Despite challenging macro-economic conditions throughout most of the year, we saw excellent operational performance across most businesses within the Group and good profit growth on a constant currency basis. The Group remains in a strong financial position, with reduced debt levels and a Financial Groups Directive (FGD) surplus of £2.0 billion. We made substantial returns of capital to both equity and debt holders during the year, and paid a Special Dividend of around £1 billion in June 2012. The Board is recommending a final dividend of 5.25p (or its equivalent in other applicable currencies), up 31% in cash terms. The reported results of the Group's businesses were affected by a significant depreciation of the rand against sterling, with the average rand rate declining during the period by 12%.

...against a challenging backdrop...
In South Africa, the economy grew by 2.5%, Government debt to gross domestic product (GDP) was around 40%, and the JSE grew by 23%. The impact was strong credit growth (which is now weakening) and asset growth, but a softening of rates in the general insurance industry. The ratings agencies became concerned about the South African economy, citing unrest in the mining sector and the drop in commodity prices that fed through into a depreciation of the rand. This year has started with continued asset growth and a strengthening of the rand.

In Europe, sentiment to the euro seemed to improve, but growth remained low, with Germany moving into recession and youth unemployment in parts of southern Europe growing to over 50%. Conditions in the UK were also challenging, with the economy remaining flat, although the FTSE100 Index rose by 6%. Unemployment remained lower than expected and consumers continued to save, but cut back on spending. In the US, markets remained flat until Q4, when there was a marked improvement in sentiment.

Timeline of our strategy

Set out new three-year Group Strategy

iWyze launched in Mutual & Federal

Sold US Life

Closed Old Mutual Wealth's Swiss book to new business

Sold Nordic for £2.1 billion

Paid Special Dividend of around £1 billion to shareholders

Sold Old Mutual Wealth's Finnish business

Skandia businesses merged to create Old Mutual Wealth

Announced new strategy for Old Mutual Wealth

USAM completed repositioning of its portfolio through the management buy-out of five of its affiliate firms

Acquired Oceanic's Nigerian life insurance business from Ecobank

end 2009 **end 2010** **end 2011** **end 2012**

Bought out Mutual & Federal minority shareholders

Bought out Imperial Holdings' share of Imperial Bank and integrated it in full into Nedbank

Combined Retail Europe with Old Mutual Wealth

Sold USAM's Lincluden affiliate

Sold USAM's Dwight and OMCap affiliates

Combination of OMAM(UK) and SIG to create Old Mutual Global Investors (OMGI)

Sale of Zimbabwe from Group to Old Mutual Emerging Markets as part of exercise to transfer businesses to align legal structure with how they are managed

Closed Old Mutual Wealth's Austrian and German books to new business

...following the transformation of Old Mutual...
In March 2010, Old Mutual set its strategic objectives to be achieved by the end of 2012, which would fundamentally change our Group and the way we conduct our business. These objectives were: to create a simplified and streamlined Group; to apply rigorous criteria for keeping businesses within the Group; to strengthen our balance sheet; to improve our returns and implement a strict approach to capital allocation; to focus at all times on our customers; and to deploy our human capital, expertise and technology seamlessly across geographies and business units. At that time, we also set financial targets for cost and debt reduction and return on equity (RoE) commensurate with meeting our strategic objectives.

Over the past three years, we have regularly reported our progress against these objectives. We have met or exceeded the financial targets and made substantial strides towards achieving our strategic objectives: we will continue to run our business with them in mind.

We have invested in enhancing our governance and control systems and these are working well, and we have implemented numerous initiatives to improve our service to customers. We have transferred technology and intellectual capital across the Group: for example, we rolled out the South African retail mass model in Mexico in 2012, and we will be introducing the same model to our newly acquired Nigerian business in 2013.

Old Mutual is a significantly different business from that of three years ago. It is much simpler, more streamlined and significantly de-risked: we have sold or closed a number of businesses, including selling our Nordic operations for £2.1 billion and US Life for $350 million. The criteria for keeping businesses within the Group are strict: they must be able to meet our capital and risk targets; be capable of achieving a long-term 15% RoE; add value to, or receive value from, other parts of the Group; have scope to create future sustainable growth; and create future value for shareholders. These criteria will remain. We will continue to evaluate the optimal structure for the Group and to consider all options in creating value for our shareholders and customers.

In the period since the implementation of the three-year strategy at the start of 2010 through to its completion at the end of 2012, the London line of Old Mutual shares delivered a Total Shareholder Return (TSR) of 77.3%, versus a 21.2% TSR from the FTSE100 Index. For the Johannesburg line, Old Mutual delivered a TSR of 102.1% over the three years, versus a 54.6% return from the JSE-All Share Index.

...leading to a financially strong and cash generative Group...
We have a strong balance sheet, with our indebtedness much reduced. Our track record of delivering strong and consistent underlying cash returns – in the last three years we have generated £2.25 billion in free surplus from core continuing operations – gives us the ability both to invest for growth and to maintain a secure dividend. Our gearing ratio has decreased from 20.1% in 2009 to 8.5% at the end of 2012.

...which is resilient and focused on growth...
Our focus is now on markets where we see sustained growth underpinned by structural factors. These are markets where our experience, expertise and offering give us competitive advantage, ensuring that we can provide our customers with the products they want and which will fulfil their financial needs.

...with a broad offering in the fastest growing South African demographic...
Through our Old Mutual, Nedbank and Mutual & Federal brands, we have a strong presence across the South African retail financial services sector. These businesses are working ever more closely together. For example, they have cut costs by aligning some of their key procurement activities, and they are working together on a number of customer-facing activities. We continue to seek opportunities for further collaboration.

While parts of the South African financial services sector are undoubtedly heavily penetrated, there is a significant section of the population that is currently demonstrating strong growth – the emerging black middle class. We expect this trend to continue. This section of the population, served by our Mass Foundation Cluster (MFC), represents a spectrum of South African workers, ranging from those coming into the formal economy for the first time, to public sector workers such as teachers and nurses.

We believe we have a significant competitive advantage in this section of the market through our footprint of more than 3,700 tied advisers, our network of more than 200 Old Mutual Finance branches and our holistic product offering. We offer traditional life and savings products through Old Mutual, general insurance through iWyze, banking through Nedbank Retail and loan and debt consolidation through Old Mutual Finance. This approach ensures that we are well placed to capture the best clients and advise and help the more distressed clients to manage their finances.

Old Mutual now has nearly two million MFC customers, having added a further 200,000 in 2012. In addition, our iWyze direct general insurance offering has achieved good growth since launch, selling more than 50,000 policies. Nedbank Retail has over the past few years extended its focus on entry-level and youth markets in its drive to be a bank for all and, together with the middle-market, this has resulted in Nedbank gaining 818,000 entry-level banking customers (those earning less than R100,000 per year) in the past three years.

Growth in South African retail mass markets

	2009	2012	3 year CAGR%
Mass Foundation Cluster			
APE sales (Rm)	1,454	2,443	19%
Customer numbers	1.5m	2.0m	10%
AOP (Rm)	1,236	1,621	9%
Nedbank Retail			
Entry-level banking clients[1]	2.2m	3.0m	11%
Headline earnings (Rm)	(27)	2,552	n/a
iWyze			
Number of policies	–	51k	n/a

[1] Represents clients earning less than R100,000 per year.

We continue to see growth in our Retail Affluent business, which remains the Group's largest profit generator and has recently launched a substantially enhanced wealth offering and reorganised its distribution. Over time, we expect some of our MFC customers to migrate to Retail Affluent. Our Corporate business is focusing on improving its efficiency and client offering.

...and expansion plan for sub-Saharan Africa...
Old Mutual has a substantial presence in the southern area of sub-Saharan Africa with more than 1.3 million customers outside South Africa. Rest of Africa customer numbers were up 13% on 2011, with most of the growth in Zimbabwe and Kenya. Profits rose 39% to £43 million in 2012 and funds under management (FUM) grew 19% to £2.9 billion. Our target of achieving profits in Africa equivalent to 10% of OMSA's profits by 2012 has been achieved and we are on track to increase this to 15% by 2015.

We are now looking to build our business across countries in East and West Africa that demonstrate the right levels of growth and have the right demographics. We have set aside around R5 billion of capital to fund this expansion. This is split between a strategic investment fund of R2 billion, and further capital of R3 billion, intended to be deployed over three to five years. The strategic investment fund will be used to acquire minority stakes in businesses in African markets.

We will target minority stakes for a number of reasons: where a majority stake is not immediately available; where we do not have the capacity to take a majority stake; or for strategic reasons such as securing a distribution deal. The further R3 billion will fund growth through buying majority stakes in businesses.

We will deploy this capital in line with our strict capital allocation criteria. We believe that the prospects for growth in Africa are underpinned by sustainable, structural factors: a growing population, with more workers entering the formal economy for the first time and who are keen to protect their wealth and assets; strong domestic GDP growth in a number of countries; growing political stability; and an underpenetrated financial sector for the majority of the population.

In 2000, Africa's GDP was $587 billion, in 2012 it is expected to be just under $2 trillion, and it is forecast to exceed $2.5 trillion in 2016. Fuelling this GDP growth is a growing youthful population which is becoming increasingly urbanised, has more discretionary income and is under-serviced by the insurance industry – both life insurance and general insurance. While the interest shown in Africa has grown exponentially over the past few years as companies seek investment opportunities that demonstrate real growth, Old Mutual has the advantage of having operated in Africa for 168 years. We understand the climate for business and investment, as well as the specific needs and expectations of consumers.

As in South Africa, as we expand in the rest of Africa we increasingly see opportunities for Old Mutual, Nedbank and Mutual & Federal to work together. For example, OMSA and Mutual & Federal will collaborate in each country under one head who will be responsible for driving growth across both business lines. Additionally, we have established a Group African Co-operation Forum which will identify and facilitate opportunities for increased co-operation and incremental synergy in South Africa and collaboration on the African expansion strategy.

We recently acquired the life assurance business of Oceanic Bank in Nigeria, following the acquisition of Oceanic by Ecobank. This can be seen as the template for how we expect to roll out our business model in new markets in Africa. While initially it will focus on selling credit life and group life assurance schemes, this will be supplemented by the roll-out of the full retail mass market product suite in 2013, using the expertise, knowledge, product and back office systems from our South African MFC business. We are currently building an asset management business in Nigeria to complement this business. We are also in the process of acquiring Oceanic's Nigerian general insurance business from Ecobank which will, once completed, operate under the Old Mutual brand.

In East Africa, the Old Mutual Kenya life assurance business is growing and our asset manager is the market leader. Our life business recently signed a deal with the National Jua Kali, the co-operative for informal workers in Kenya, to provide insurance services for workers who previously had no access to insurance products. It is estimated that the informal sector currently accounts for around 75% of the working population and around 34% of the country's GDP. We will initially sell burial products, but will look to expand this product range in time, with consumers able to pay for their insurance via mobile phones. We want to build scale in the Kenyan life business and are looking at options in other East African countries.

We are also exploring the possibility of entering markets in the South Africa Development Community where we are not currently present, but which meet the criteria we apply to new markets.

Nedbank currently has a banking presence in five southern African countries where it offers retail and wholesale banking, and deposit-taking. The focus is on economically profitable markets where Nedbank's rest of Africa division has a competitive advantage. Nedbank has a deep strategic alliance with Ecobank, providing clients of both institutions access to the largest banking network in Africa, with more than 2,000 staffed outlets in 36 countries. Nedbank has subscription rights arising from the three-year term loan facility made to Ecobank Transnational Incorporated (ETI), Ecobank's holding company, which, together with a top-up investment by way of the anti-dilutionary provisions of the agreement, may result in Nedbank acquiring a 20% equity stake in ETI, some time between November 2013 and November 2014.

We believe that, as we grow in South Africa and wider Africa, we have an obligation to help the communities where we operate. A significant part of this will be through raising funds to create the infrastructure that Africa and its people need. We are already active in this field. Through our Infrastructure, Development and Environmental Assets fund we have partnered with the South African Government in a number of infrastructure projects, including: renewable energy projects using wind, solar and hydroelectric technology; toll roads; and the Department of Trade and Industry and Department of Education buildings. Following an approach by the Public Investment Corporation of South Africa, we established the Schools and Education Investment Impact Fund and have so far allocated more than £35 million to educational projects. Our Housing Impact Fund raised more than £650 million to build up to 120,000 low-cost houses in South Africa, for South Africans earning less than R1,500 a month. These projects will make a real, visible difference to the lives of the communities where we operate.

...combined with a modern, low-risk developed markets offering...

We announced our three-year plan for Old Mutual Wealth towards the end of 2012. The combination of our UK, International and European businesses into one business, supported by the asset management capability of the newly merged Old Mutual Global Investors (OMGI), will allow us to develop further our own investment products, which in turn should enable us to capture a greater share of the value chain.

We believe we can unlock value by focusing on our core growth markets, namely the UK and the International cross-border markets, while managing the Old Mutual Wealth Europe business and UK heritage book for value. The manage-for-value strategy involves operating a closed book model for our retail portfolios in Switzerland, Austria and Germany, and the pre-Retail Distribution Review (RDR) pension products in the UK with an emphasis on persistency, cost efficiency and capital management to maximise cash generation. In Italy, France and Poland we will focus on developing profitability in our operations. We will also seek to grow our cross-border sales internationally through our International business based in the Isle of Man. We will continue to explore ways to reduce our cost base.

We are targeting IFRS AOP pre-tax profits of more than £300 million p.a. by 2015 from the Old Mutual Wealth business. We are aiming to do this while meeting the RoE criterion of between 12% and 15%, by growing our asset management and other product revenues, developing our distribution reach and capability, and achieving operational efficiencies.

While we already operate one of the UK's leading platforms, with £22 billion of FUM, we believe that in the post-RDR world more and more retail financial services business will be conducted via platforms. It is forecast that the amount of assets held on UK platforms will grow substantially from the current level of £250 billion and that Independent Financial Advisers (IFAs) will continue to write most of their business via platforms. The UK population is growing, most rapidly in the upper age groups who are looking to maximise income to support their retirement; and those approaching retirement looking for products that will maximise their capital position at retirement. Our growth focus will be on innovation and distribution. We will develop investment management and risk solutions tailored to our customers' needs. We will also look to secure and grow distribution in our international cross-border markets. IFAs will remain our core route to market and we will continue to provide them with tools and investment solutions that will allow them to serve their clients.

...and the improvement in US Asset Management continues...

We continue to focus on driving growth, increasing margins and improving investment performance in our US Asset Management business and we are beginning to see real progress. During the period, we completed our programme of focusing on long-term, institutionally-driven, active asset management by disposing of seven out of 17 affiliates. We saw a significant improvement in net client cash flow (NCCF) for 2012, with net flows from continuing operations of £0.9 billion compared with an outflow of £3.0 billion in 2011. This was the first positive annual NCCF recorded by US Asset Management since 2007.

We continue to explore a partial IPO of the US Asset Management business and, as we have previously stated, the timing of this will be determined by our progress against our goals of growth, improved margins and investment performance, as well as by the conditions of the equity markets.

...all driven by our customers

We understand that our success is governed ultimately by our ability to give our customers the products, outcomes and service levels that they expect from us. We have spent the past three years ensuring that the Group's primary focus is on our customers and that this ethos is embedded in our culture. We have introduced new customer service metrics and added cultural parameters as part of our management's remuneration targets. While the progress against these metrics has been encouraging, we are clear that we must continue to innovate, in both product offering and customer service.

Outlook

Our businesses have performed very well in 2012. While the economic environment remains uncertain, we now have a significantly restructured and de-risked business which is focused on the markets where we want to be and where we see long-term, structural growth. We are clear on our priorities and confident that we will continue to deliver sustainable value for our customers and shareholders.

GROUP
EXECUTIVE COMMITTEE

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The Group Executive Committee comprises the Group Chief Executive, Julian Roberts, the Group Finance Director, Philip Broadley, and six other members of senior executive management of the Group.

1 Julian Roberts (55) B.A., F.C.A., M.C.T.
Group Chief Executive since September 2008. Also a member of the Nomination Committee and a non-executive director of Nedbank Group Limited, Nedbank Limited and Old Mutual Life Assurance Company (South Africa) Limited

Julian Roberts joined Old Mutual in 2000 as Group Finance Director, moving on to become CEO of Skandia following its purchase by Old Mutual in 2006. Before 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.

2 Philip Broadley (52) M.A., F.C.A.
Group Finance Director since November 2008. Also a member of the Board Risk Committee and a non-executive director of Old Mutual (US) Holdings Inc., the parent company of US Asset Management

Philip Broadley was Group Finance Director of Prudential plc from 2000 to 2008, having previously been 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 UK Takeover Panel and of the Oxford University Audit and Scrutiny Committee.

3 Peter Bain (54) B.A., J.D.
President and Chief Executive Officer, US Asset Management

Peter Bain is President and Chief Executive Officer of US Asset Management, the US-based international 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 there, 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.

4 Mike Brown (46) 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.

5 Ian Gladman (48) B.A.
Group Strategy Director

Ian Gladman has been Group Strategy Director since 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 at JP Morgan.

6 Paul Hanratty (51) 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 (OMSA) since September 2009. He has been with OMSA since 1984. He is a fellow of the Institute of Actuaries and has held a number of roles at Old Mutual, including 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.

7 Sue Kean (50) 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).

8 Don Schneider (55) B.A., M.A.
Group Human Resources Director

Don Schneider has been Group HR Director since May 2009. He was previously Senior Vice President and Head of Human Resources for the Global Wealth Management Division of Merrill Lynch. 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.

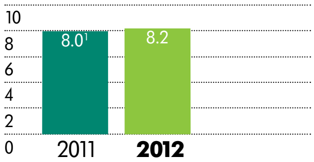
SUMMARY OF OUR STRATEGY
PAST AND FUTURE

Our five strategic priorities	Progress since 2010
1. Develop the customer proposition and experience	■ Improved customer insight and segmentation to better serve customer needs ■ Rationalised, improved and expanded the product range in our Emerging Markets businesses and improved the customer experience ■ Expanded distribution capabilities in India, China, Latin America, Kenya and Nigeria ■ Improved the platform functionality and product offerings of the UK and International Wealth businesses ■ Improved Nedbank customer experience and security through the use of proprietary digital technology
2. Deliver high performance in all business units	■ Achieved 3-year Group RoE and cost-saving targets ■ Continued strong growth in Nedbank pre-tax profits and net new primary customers in the Retail business ■ Achieved substantial increase in pre-tax AOP in OMSA, particularly strong growth in non-covered sales, and attractive growth in life assurance sales and funds under management ■ Achieved strong uplift in USAM margin and achieved positive NCCF ■ Implemented Basel III and prepared ourselves well for Solvency 2 implementation
3. Share skills and experience across the Group	■ Joint voice and data IT outsourcing between OMSA, Mutual & Federal and Nedbank ■ Rolled out the South African mass market offering into Mexico and commenced roll-out in Swaziland, and used South African back-office to support product launches in Colombia and Mexico ■ Grew iWYZE through collaboration between OMSA and Mutual & Federal ■ Combined Old Mutual Asset Managers UK and Skandia Investment Group to create Old Mutual Global Investors
4. Build a culture of excellence	■ Embedded a set of desired ACT NOW! leadership behaviours and aligned the remuneration of the senior leadership ■ Ran the annual culture survey across the Group for the second year, applying year-on-year shifts to measure progress and to inform next steps ■ Continued to develop current and next generation of leaders and gender and race diversity of senior teams ■ Nedbank and OMSA achieved Level 2 BBBEE transformation status for the third consecutive year and Mutual & Federal for the first year
5. Simplify our structure to unlock value	■ Simplified the Group through the sale of our US Life, Nordic and Finnish businesses ■ Paid a Special Dividend of circa £1bn from Nordic sale proceeds ■ Disposed of non-core US Asset Management affiliates for increased focus on our high performers ■ Closed our sub-scale retail operations in Switzerland, Germany and Austria to new business ■ Significantly reduced the risk within the Bermuda-based business through an effective hedging programme

2012 trend

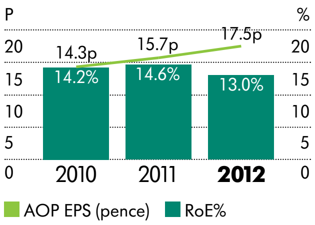
Priorities for 2013 – 2015

LTS customer numbers (millions)



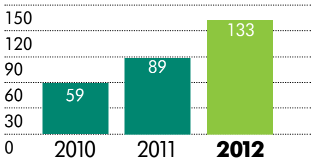
- Continue to improve the customer proposition to capture growth in key segments
- Expand distribution in key markets and segments, including through direct channels and joint ventures
- Align our delivery to fulfil on the four elements of our customer promise: to be most accessible; to provide best financial education and advice; to offer solutions most certain to deliver on customer promises; and to be most supportive of the communities we serve

Adjusted Operating Profit (AOP) Earnings Per Share (EPS) and RoE performance[2]



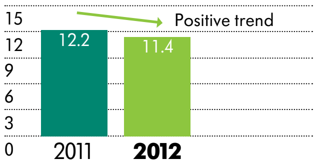
- In South Africa, capture growth in the Mass Foundation and Retail Affluent segments
- Grow Nedbank by: growing Retail; increasing non-interest revenue; optimising the balance sheet mix; expanding into the rest of Africa
- Grow existing businesses in Africa, expanding from Kenyan hub into East Africa and in West Africa through Oceanic acquisitions in Nigeria, as well as through leveraging Ecobank's pan-African banking footprint
- Continue to selectively invest and grow in Latin America and Asia
- Build a modern, vertically integrated wealth and asset management business in the UK and International with a focus on cost reduction, expanding the product proposition and increasing share of AUM
- Build a successful asset management capability to complement our Wealth offerings
- Continue to improve USAM performance – develop investment capabilities of core affiliates and complement with centre-led distribution and selective acquisitions
- Continue to deliver cost savings across the Group

Cost savings (£m)
Run-rate achieved[2]



- Increase collaboration among OMSA, Nedbank and M&F, to drive growth both in South Africa and the rest of Africa
- Increase collaboration among asset management businesses to boost our asset management capability and offering

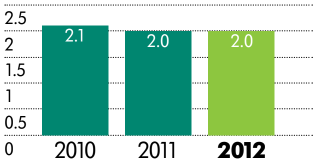
Cultural entropy (%)



The weighted average of Cultural Entropy scores across the Group businesses. This is a measure from the Culture Survey: the lower the score, the healthier the culture, scores below 19% indicating a well-functioning organisation.

- Continue to embed ACT NOW! leadership behaviours across the Group and to use the annual Culture survey to track progress
- Implement improved performance management processes across the Group to foster performance excellence and employee development
- Build a strong leadership capability and succession, with emphasis on developing the leadership pipeline for key growth markets

Financial Groups Directive (FGD) surplus (£bn)



- Further simplification of the Group by disposing of non-core and sub-scale businesses, where appropriate
- Execute the Manage-for-value strategy in Continental Europe
- Continue to work towards a partial IPO of USAM, and execute when conditions are favourable
- Further de-risking of the Group – particularly at Old Mutual Bermuda

For more information on how delivering on our strategy is reflected in management's incentives, please see the descriptions of the long-term incentive arrangements described in the Remuneration Report on pages **99-116.**

1 Restated to include Emerging Markets corporate customers.
2 Numbers restated for discontinued operations.

OUR STRATEGY
GOING FORWARD – 2013-2015

In early 2010, in the depths of the global financial crisis, we set out a clear strategy for returning our Group to a position of strength that would enable us to take advantage of the attractive growth opportunities available to us

Over the past three years, we have delivered on our strategy, not only achieving all the financial targets we set ourselves, but also reshaping, de-risking and refocusing the Group.

In the previous section on page 24 we have summarised our progress since 2010, and below elaborate on key achievements. In particular we have:

- Achieved our 3-year RoE and cost-saving targets, while delivering strong business unit performance improvements and attractive growth, particularly in Nedbank, OMSA and USAM
- Simplified the Group by completing the sales of our US Life, Nordic and Finnish businesses
- Disposed of non-core US asset management affiliates to better focus on our high-performing affiliates
- Closed our sub-scale retail operations in Switzerland, Germany and Austria to new business
- Repaid over £1.5bn of debt and optimised the Group's balance sheet and capital structure, and generated a strong FGD capital surplus
- Prepared our insurance businesses for Solvency II implementation, while Nedbank's pro forma Basel III common equity Tier 1 capital ratio is well above regulatory requirements and within Nedbank's new Basel III target range
- Reduced the risk within Old Mutual Bermuda by facilitating the redemption of assets carrying the Universal Guarantee Option and effectively managing a hedging programme that succeeded in protecting the Group*
- Increased collaboration across the businesses to deliver both cost and revenue synergies. For example, in South Africa we partnered across OMSA, Mutual & Federal and Nedbank to outsource a substantial portion of our voice- and data-related IT requirements, while OMSA and Mutual & Federal continued to collaborate to grow iWyze, our direct general insurance offering. We rolled out our South African mass market offering into Mexico, commenced the roll-out into Swaziland and used our South African back-office to support product launches in Colombia and Mexico
- In the UK, combined Old Mutual Asset Managers UK and Skandia Investment Group to create Old Mutual Global Investors to drive our UK asset management strategy
- Made organisational changes to drive improved performance; for example, we established a management hub in Johannesburg from which to manage all life, savings and protection businesses in Emerging Markets, and we established the Group African Co-operation Forum, to identify and facilitate opportunities for increased co-operation and incremental synergy in South Africa, and for increased collaboration to expand in the rest of Africa
- Improved our customer value propositions, particularly with respect to product range and access, by rationalising, improving and expanding our product range in our Emerging Markets business, as well as expanding our distribution capabilities in India, China, Latin America, Kenya and Nigeria. Our UK and International Wealth businesses improved their platform functionality and product offering, and Nedbank improved customer experience and security through the use of proprietary digital technology
- Sustained our efforts across the Group through leading our people with a shared vision and enduring values, by embedding a common Group-wide culture of desired behaviours and by aligning remuneration and rewards of the senior leadership group to drive delivery. In South Africa, Nedbank and OMSA continued to be leaders in empowerment and transformation, achieving Level 2 BBBEE status for the third consecutive year and Mutual & Federal achieving the same level for the first time in 2012, with Nedbank rated the most transformed out of the top 50 listed companies on the JSE

Going Forward

This consistent execution of our previous three-year strategy has delivered a strong balance sheet, a solid capital base and a much reduced risk profile, which puts us in a position to access the attractive growth options presented by our diverse portfolio of cash-generative and capital-light businesses. We will aim to unlock further value within our core businesses and to fund future organic growth opportunities, whilst supporting an increased and sustainable dividend for our shareholders.

Going forward we will focus our strategy in areas where we believe we have strong market positions and well-developed competencies and in those markets that present the most promising growth prospects consistent with our desired risk characteristics*. We will concentrate our efforts in the following four key areas of value:

*For more information on risk and capital management see pages **74-80.**

1. We will continue to build our strong South African franchises by sustaining and expanding our leading market positions

Through our Mass Foundation Cluster business, we are the leader in the mass market segment in South Africa, serving a customer base of nearly two million customers, which gives us over a 30% market share amongst our traditional competitors, and around a 20% share of the mass foundation market as a whole. Since 2009, we have gained half a million net new customers in this growing segment (300,000 of these since 2010) and anticipate continued strong customer growth over the next three years. We are committed to meeting the needs of this market and are actively improving and expanding our product and distribution proposition to do so.

We are also expanding our service and product proposition for the Retail Affluent segment to better serve the needs of the growing number of South Africans who are migrating into higher income bands. At the same time, we will seek to reduce the costs of managing our heritage books and rationalise our corporate business administration platforms and fund options, where appropriate.

In Nedbank, we will continue to drive strong growth in South Africa by focusing on three of our four key drivers: growing non-interest revenue; growing the Retail business through client-centred strategies and effective risk management; and tilting the portfolio towards economic profit-enhancing products and services.

Mutual & Federal has taken considerable steps to transform its business, with significant improvements in customer service, client proposition and technology. We expect it to benefit in the future from improved pricing and underwriting conditions, continued business transformation and, in the medium term, growing contributions from niche capabilities and from the iWyze direct offering.

In line with the shift from traditional life to new-style savings products, we will continue to build our asset management offering and capabilities in the region, with a particular focus on improving the equity investment performance in OMIG(SA).

We remain firmly committed to supporting the South African Government's long-term National Development Plan, which we believe not only supports social development in South Africa, but is essential also for the long-term sustainability of our business.

2. We will expand our footprint to access attractive economic growth in the rest of Africa and other chosen emerging markets

Old Mutual has long-standing and leading market positions in a number of African countries outside South Africa, having been present in some countries for over a hundred years. We will continue to build on the growth achieved in 2012 in these African businesses, with the aim that they will generate the equivalent of 15% of Old Mutual South Africa's pre-tax AOP by the end of 2015. This will be achieved through continued strong organic growth, working with our alliance partners such as Ecobank and through selective and appropriately sized acquisitions. In addition, we have established an African Strategic Investment Fund to make minority investments that will lead to distribution and collaboration opportunities in new markets. In total, Old Mutual Emerging Markets has set aside around R5 billion for investment in the rest of Africa in the next three to five years.

Over the same period, as their fourth key growth driver, Nedbank plans to increase its exposure to the rest of Africa through organic growth, selective acquisitions in the Southern African Development Community (SADC) and East Africa regions, and in Central and West Africa through its intention to exercise the option and top-up rights to acquire a 20% stake in its alliance partner Ecobank between November 2013 and November 2014. Nedbank has a deep strategic alliance with Ecobank, providing clients of both institutions with access to the largest banking network in Africa, with more than 2,000 staffed outlets in 36 countries.

To best leverage our collective strength, growth in Africa will be pursued through the collaborative efforts of Nedbank, Old Mutual Emerging Markets, Mutual & Federal and our alliance partner Ecobank.

We will continue to explore our options for growth in other promising emerging markets, including through our existing operations in Latin America, where growth rates remain highly attractive. In India and China, we will maintain our presence through our joint ventures, which afford us low-risk and cost-effective access to attractive growth markets.

3. We will grow our Old Mutual Wealth business, targeting an IFRS pre-tax profit of £300 million by 2015

Over the past year, we have brought together our wealth management businesses under a single entity, with one management team, one governance structure and a unified strategy to create a modern, vertically integrated asset management and investment solutions business.

We have recently outlined the key elements of the strategy for our Old Mutual Wealth business around the key themes of 'Unify, Simplify and Grow'. The first two elements will enable us to reduce our cost base and create scale opportunities for growth. We will focus on our core markets of the UK, cross-border international and selective European countries, whilst managing for value our closed books in Continental Europe, as well as in the UK.

We aim to generate incremental revenue and profits by capturing more of the value chain around our Wealth proposition, for example through expanding our range of risk solutions and an increased asset management capability to capture funds on the platform. We also plan to build our distribution capabilities to achieve digital connectivity with our customers and their advisers, as well as develop offerings tailored to the growing area of restricted advice.

4. We will continue to improve and grow our US Asset Management capability with a view to a partial IPO of the business, when conditions are favourable

In 2012, we significantly improved the performance of the US business, most notably improving AOP, NCCF and operating margin through a number of initiatives, including the divestment of non-core and underperforming affiliates. We will continue to grow through our core affiliates, who deliver institutionally-focused, active investment management strategies across a diversified range of asset classes. We will support our affiliates through centre-led global distribution, which will drive incremental fund flows, by providing seed funding capital and, where appropriate, with complementary acquisitions.

Longer term we continue to believe that the future of the US business is best served through an IPO. The timing will be determined by progress against our goals of growth margins and investment performance, as well as by conditions of equity markets.

Case study

Incorporating ESG issues into investment and ownership decisions

In 2012, Old Mutual became a signatory to the UN-backed Principles for Responsible Investment (UN PRI) as an asset owner. These principles provide a recognised framework for the incorporation of environmental, social and governance (ESG) issues into investment and ownership decision-making practices. We will be working with the UN PRI and others to further strengthens our approach to ESG incorporation and to formalise our responsible investment practices across the Group.

For more information on the Group's Responsible Business activities see pages **10-11.**

5. Across the Group

During 2013-2015, we will continue to evaluate opportunities to simplify the Group to enhance shareholder value through the disposal of sub-scale and/or non-core businesses where appropriate.

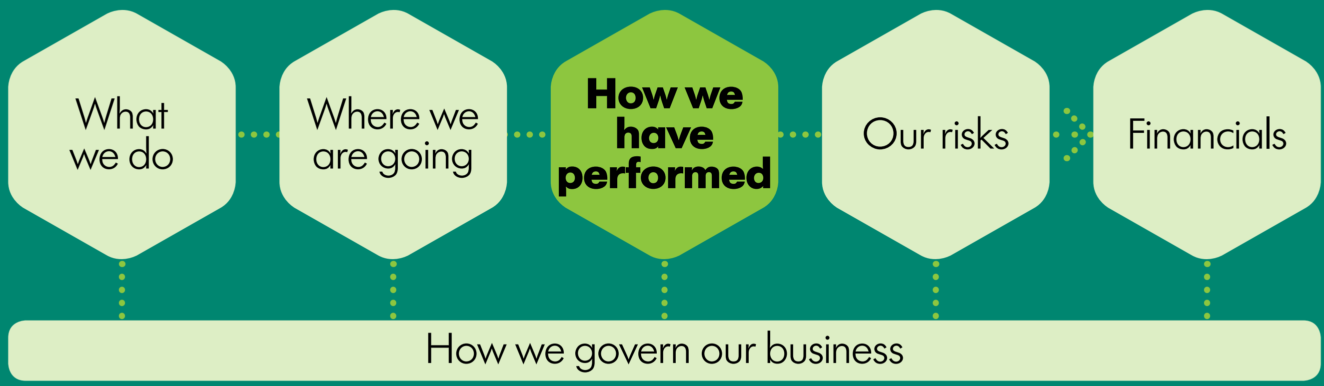
We will continue to embed our responsible approach to business everywhere in the Group, behaving ethically and being a good citizen in the communities that we serve.

Across the Group, we will continue to put the customer at the centre of everything we do, consistent with our vision 'To become our customers' most trusted partner – passionate about helping them achieve their lifetime financial goals'.

We are confident that by putting our customers first and by pursuing our four key growth opportunities of building our strong South African franchise, expanding our footprint in the rest of Africa and other selected emerging markets, growing a successful Old Mutual Wealth business and improving our Asset Management business in the US, we will create significant value for shareholders, and at the same time contribute towards the positive futures of all whom we serve – our customers, our staff, our communities and our shareholders.

HOW WE HAVE PERFORMED

We set out in this section a review of our financial performance during 2012 and the outlook for our businesses



Contents

LONG-TERM SAVINGS

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

Through life assurance, pensions and investment products LTS provides customers with:

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.

Key financial highlights

Adjusted operating profit (pre-tax)

£800m

2011: £793m

Funds under management

£121.8bn

2011: £108.5bn

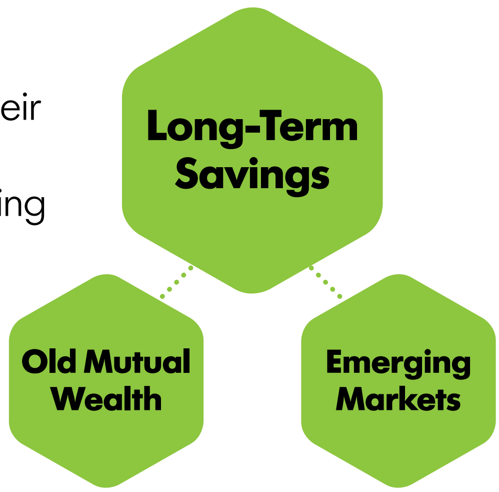
Number of employees

21,789

2011: 22,851

OLDMUTUAL

We operate in two main business units, serving their own distinct territories. Emerging Markets serves South Africa, sub-Saharan Africa and new emerging markets. Old Mutual Wealth offers saving and investment solutions to affluent clients in Europe and selected international markets.



Operational oversight

Under the direction of Paul Hanratty and his Executive Committee the LTS businesses have focused on the tangible changes needed to achieve the Group's vision of becoming 'our customers' most trusted partner – passionate about helping them achieve their lifetime financial goals'. Delivering these changes required actions in four key areas:

- Customer services and administration
- Strategic marketing and brand
- Information technology
- Product and proposition.

Customer services and administration

Rose Keanly now has responsibility for customer service and administration for all the LTS businesses. Progress has been made against the following objectives:

- Improve customers' service experience throughout their relationships with LTS through shared training, insight and IT improvements:
  Progress to date includes aligning the activities of the Customer Services and Operational departments with those of other LTS departments, and contributing significantly to the Group-wide focus on customer centricity. Going forward we plan further representation at Group leadership forums and deeper engagement in creating compelling and workable customer and intermediary value propositions throughout the business.
- Drive down unit costs:
  For 2012 the focus was on training the businesses in 'LEAN' process methodology and how to drive efficiencies by identifying the essential and high-value elements of processes. 'LEAN' experts are now established in all core servicing territories and are monitoring and developing our operational effectiveness and streamlining without compromising the customer experience.
- Reduce operational risks:
  In 2012 we focused on the Treating Customers Fairly regulatory initiative, introducing business unit Committees for Customer Affairs to ensure that products and services are consistently serving our clients' best interests. We have already introduced new feedback mechanisms to capture the drivers of satisfaction and dissatisfaction so we can prioritise improvements and refine operational procedures.
- Enable faster entry into new markets, and launch of new products into existing markets, by maximising re-use:
  We have built the 'business in a box' concept, defining the essentials that Old Mutual can take to a new territory while integrating with the local culture. We have already begun expansion into new African countries, integrating new IT capabilities with our current suite to offer a more bespoke offering.
- Leverage our South African capability and other areas of expertise more actively across the whole of LTS:
  In 2012 we undertook work to evaluate the viability of a new product based on a South African concept and tailored for the UK market; plans are now underway to progress this initiative. We are also planning to deploy South African administration to support our Latin American operations.

Strategic marketing and brand

Carlton Hood leads our centralised strategic marketing team. The team is responsible for co-ordinating five initiatives across LTS, which together made up the core of our customer strategy in 2012:

- Further development of our LTS business strategy based on customers and core competencies
- Defining and implementing elements that create a customer-focused culture – such as the creation of feedback surveys in core business territories, customer experience principles, training, communications and codifying customer-focused leadership behaviours
- Agreement and plan for implementation and roll-out of a single Old Mutual brand, customer value propositions and segmentation, customer and intermediary research, as well as brand governance
- Creating and developing a digital strategy, including infrastructure and capability for our e-commerce proposition across LTS, as well as the appointment of digital strategy heads in core territories
- Defining and creating an in-house Customer Relationship Management (CRM) system, with the infrastructure and capability to leverage our CRM capability across LTS. We have already rolled it out to the wider southern hemisphere business unit.

Information technology

Led by Richard Boynett, the information technology team developed ways to offer customers, intermediaries and employees a more efficient and effective digital experience. Services are now more responsive, cost-effective, and well governed without sacrificing the speed-to-market and innovation needed in our local markets. The team's priorities were:

- Driving common infrastructure and resource sharing across all LTS territories
- Delivering an improved customer and intermediary experience
- Developing innovation and idea sharing between core territories
- Further leveraging South Africa as our IT hub, sharing expertise and systems across LTS to enable rapid market entry and development of online capabilities.

Over the medium term the team will focus on equipping local business unit IT departments to integrate the central work completed to date and carry it forward into 'business as usual'.

Product and proposition

The product and proposition team made substantial progress in:

- Supporting the Old Mutual Wealth product expansion and improvement announced in November 2012
- Sharing customer and intermediary research and insight such as Customer Value Propositions (which matches the most appropriate product and service solutions for our target customers), marketing and product collaboration, business unit governance and global regulatory knowledge
- Leading the product risk management function to ensure rigorous pricing and asset liability management, improved economic capital efficiency in product design, and better leverage of our global balance sheet to local advantage.

For 2013, our businesses and streamlined central resources will manage a period of significant change – particularly in the European Old Mutual Wealth businesses, but also in Old Mutual Emerging Markets as it executes its African growth strategy and further improves operational efficiency in South Africa.

£m

Long-Term Savings[1]	2012 Reported	2011 Constant currency	% change	2011 Reported	% change
AOP (IFRS basis, pre-tax)	**800**	733	9%	793	1%
NCCF (£bn)	**3.2**	3.2	–	3.2	–
FUM (£bn)	**121.8**	104.1	17%	108.5	12%
Life assurance sales (APE)	**1,133**	1,152	(2)%	1,207	(6)%
PVNBP	**8,665**	8,767	(1)%	9,113	(5)%
Non-covered sales[2,3]	**14,549**	11,450	27%	12,248	19%
Value of new business	**197**	167	18%	177	11%
APE margin	**18%**			15%	
PVNBP margin	**2.3%**			1.9%	
Operating MCEV earnings (covered business, post-tax)	**336**			552	(39)%
Adjusted MCEV (covered business)	**5,740**			5,713	–
Return on embedded value[4]	**5.9%**			9.3%	
(VNB + experience variance)/MCEV (covered business)[4]	**2.6%**			5.1%	

£m

Emerging Markets	2012 Reported	2011 Constant currency	% change	2011 Reported	% change
AOP (IFRS basis, pre-tax)	**605**	510	19%	570	6%
NCCF (£bn)	**1.2**	0.4	200%	0.4	200%
FUM (£bn)	**52.6**	45.5	16%	49.9	5%
Life assurance sales (APE)[5]	**523**	469	12%	524	–
PVNBP[5,6]	**3,331**	2,949	13%	3,295	1%
Non-covered sales[2]	**8,937**	6,761	32%	7,559	18%
Value of new business[5,6]	**135**	89	52%	99	36%
APE margin[6]	**27%**			20%	
PVNBP margin[6]	**4.1%**			3.0%	
Operating MCEV earnings (covered business, post-tax)	**328**			349	(6)%
Adjusted MCEV (covered business)[6]	**3,296**			3,167	4%
Return on embedded value[4,6,7]	**10.7%**			11.9%	
(VNB + experience variance)/MCEV (covered business)[4,6,7]	**3.5%**			6.8%	

£m

Old Mutual Wealth	2012 Reported	2011 Constant currency	% change	2011 Reported	% change
AOP (IFRS basis, pre-tax)	**195**	223	(13)%	223	(13)%
NCCF (£bn)	**2.0**	2.8	(29)%	2.8	(29)%
FUM (£bn)	**69.2**	58.6	18%	58.6	18%
Life assurance sales (APE)	**610**	683	(11)%	683	(11)%
PVNBP	**5,334**	5,818	(8)%	5,818	(8)%
Non-covered sales[2,3]	**5,612**	4,689	20%	4,689	20%
Value of new business	**62**	78	(21)%	78	(21)%
APE margin	**10%**			11%	
PVNBP margin	**1.2%**			1.3%	
Operating MCEV earnings (covered business, post-tax)	**8**			203	(96)%
Adjusted MCEV (covered business)	**2,444**			2,546	–
Return on embedded value[4]	**0.3%**			7.8%	
(VNB + experience variance)/MCEV (covered business)[4]	**1.7%**			4.0%	

1 The comparative period has been restated to reflect Nordic as discontinued.
2 Includes unit trust, mutual fund and other sales.
3 OMAM(UK) was transferred to Old Mutual Wealth from USAM at the beginning of Q2 2012. £270 million of OMAM(UK) non-covered sales from Q1 2012 and £1,096 million from 2011 are therefore excluded from non-covered sales.
4 RoEV and (VNB + experience variance)/MCEV (covered business) were calculated in local currency, except for LTS where they were calculated on a reporting currency basis.
5 Premiums in respect of MFC Credit Life sales have been included in APE sales, PVNBP and VNB for the first time in 2012.
6 PVNBP, value of new business APE margin and PVNBP margin for Emerging Markets represent South Africa and Namibia only, they exclude Zimbabwe, Kenya, Malawi and Swaziland.
7 The return on embedded value and (VNB + experience variance)/MCEV metrics for the comparative period have not been restated to include Zimbabwe, Kenya, Malawi and Swaziland in the opening MCEV.

On a reported basis the Emerging Markets business accounts for 76% of LTS IFRS AOP earnings, 43% of LTS FUM and 45% of LTS APE sales.

The following analysis is presented on a constant currency basis.

IFRS AOP results

Overall LTS AOP increased 9% to £800 million.

Emerging Markets AOP (pre-tax) increased by 19% to £605 million, with strong growth in profits in South Africa and Rest of Africa.

- Strong profits in the South African retail businesses were due to good investment returns on policyholder funds and positive mortality and disability experience. Successful maintenance expense management has resulted in positive assumption changes. There was reduced new business strain, given improved product mix and pricing and a release of some contingency reserves in respect of a legacy structured product. The 130 bps reduction in the benchmark 10 year government bond yield increased the value placed on certain policyholder liabilities. The impact in H2 2012 was less than the impact in H1 2012, as a result of management actions, including the implementation of some partial hedging. The pre-tax net effect for 2012 was a charge of R374 million. Persistency for 2012 was in line with the revised assumptions set in December 2011
- Corporate business profits in South Africa returned to normalised levels after the strengthening of the Investment Guarantee Reserve in 2011
- Rest of Africa profits improved mainly within Namibia and Zimbabwe due to favourable experience variances, assumption changes and foreign exchange gains
- OMIG(SA) profits increased, with improved management and performance fees, notwithstanding the exceptional private equity gain in 2011
- This was partly offset by increased central and administration expenses, due to higher share-based payment and incentive provisions, increased investment in technology and new business development.

Old Mutual Wealth AOP was £195 million after a net £15 million restructuring charge during the year. The prior year's AOP of £223 million included £32 million of policyholder tax smoothing. OMAM(UK) AOP was £2 million in 2011 meaning that the pro-forma comparable total Old Mutual Wealth AOP was £225 million, including policyholder tax smoothing. The UK Platform generated a profit in 2012. In Q3 2012 we completed the sale of the Finnish business, which generated £12 million of post-tax profits in 2012 and £12 million for the whole of 2011.

Operating conditions have been difficult: world equity markets have remained volatile and economic conditions in Europe have continued to be challenging, with much uncertainty over the euro during the year. This uncertainty continues to play a role in investor decisions, dampening demand for risk-based investments and driving a continued preference for more defensive asset allocations. Sales margins improved in H2 2012 as clients started to return to equities.

The unification of SIG and OMAM(UK) has given us improved operational scale and renewed commercial focus. At the year-end the combined business reported an operating margin of 14% excluding transition costs (or 5% including these costs). The post-merger operating margin on a run-rate basis was 18%, excluding transition costs.

Net client cash flow and gross inflows

Overall LTS NCCF was flat at £3.2 billion, with increased NCCF in Emerging Markets offset by reduced inflows to Old Mutual Wealth.

Gross inflows for Emerging Markets grew 25% to £11.7 billion, with our sales mix continuing to highlight the growing shift in South Africa from traditional life products to modern investment products including unit trusts and mutual funds.

Emerging Markets NCCF improved by £0.8 billion to £1.2 billion, driven mainly by large deals secured by the OMIG(SA) boutiques and the Latin American businesses, strong sales in Old Mutual Unit Trusts (OMUT) and Rest of Africa, and improved single premium sales in Corporate. An expected outflow of £1.0 billion low-margin equity assets from the South African Public Investment Corporation (PIC) took place in July 2012 (2011: £0.2 billion outflow from PIC). Only a small amount of assets managed for the PIC in traditional asset classes remain. Excluding the PIC outflows, NCCF improved by £1.6 billion versus 2011 and OMIG(SA) would have reflected positive NCCF of £0.3 billion in 2012.

Gross inflows in Old Mutual Wealth were £11.6 billion (2011: £11.0 billion), led by UK Platform and Old Mutual Global Investment (OMGI) inflows. OMAM(UK) was transferred to Old Mutual Wealth at the beginning of Q2 2012. Including the gross sales of OMAM(UK) for the whole of 2012 and 2011, gross sales were down 2% to £11.9 billion (2011: £12.1 billion).

Old Mutual Wealth NCCF decreased to £2.0 billion from £2.8 billion in 2011, given lower sales volumes, the closure of the Austrian, German and Swiss books to new business and modest change in redemptions and transfers from the UK Platform in the run-up to RDR. We continued to see strong inflows reflecting the momentum in our proposition as we attract new customers and further enhance features and functionality. This is particularly encouraging as it comes despite a backdrop of challenging markets, where advisers have remained focused on ensuring readiness for the RDR. UK Platform NCCF was £2.2 billion (2011: £3.3 billion). Net outflows from the UK Heritage business reduced by 23%.

Funds under management

Overall LTS FUM rose 17% to £121.8 billion, due to higher equity markets and strong net client cash inflows. Emerging Markets FUM increased by 16% to £52.6 billion. Old Mutual Wealth FUM increased by 18% to £69.2 billion. The sale of the Finnish business reduced FUM by £1.1 billion.

UK Platform FUM increased to £22.6 billion (2011: £18.8 billion), further cementing Old Mutual Wealth's position as one of the largest participants in this retail market.

OMGI delivered solid investment performance, with 80% of OMGI funds above median over three years (AUM weighted) and 33% of funds in the top decile. Six of its 40 investment professionals were named in the CityWire Global Top 1000 Fund Managers for 2012.

LONG-TERM SAVINGS continued

Life sales summary

Overall LTS APE sales decreased by 2% to £1,133 million.

In Emerging Markets, life APE sales increased by 12% to £523 million, with continued momentum in MFC and a good performance in Corporate.

South African regular premium sales increased by 15%, with MFC sales up by 21% as a result of a larger sales force, which grew by 12%, and the inclusion of Old Mutual Finance Credit Life sales of £14 million for the first time boosting risk sales.

MFC now serves just under two million customers, with an additional 200,000 signed up in 2012 and we placed an MFC agent in each of the Old Mutual Finance branches. South African single premium sales increased by 3%: Corporate sales growth of 30%, due mainly to large annuity deals, was partially offset by lower Retail Affluent revenue due to reduced fixed bond, living annuity and guaranteed annuity sales. Had we converted Retail Affluent non-life sales to an APE basis, total Retail Affluent sales would have increased by 11%.

In the Rest of Africa, total APE sales increased by 15% – due mainly to strong underlying growth in Zimbabwe and Malawi, with the latter benefiting from the introduction of mandatory occupational pension schemes.

Old Mutual Wealth single premium sales on the UK Platform were down 4%, although inflows improved in Q4. Platform sales accounted for £229 million of the total £279 million total UK life sales on an APE basis.

APE sales on the UK Heritage book reduced by £19 million to £50 million, reflecting the managed reduction in product range in the lead-up to RDR.

In the cross-border International market, APE sales decreased by 13% to £181 million, impacted by difficult market conditions in H1 as well as regulatory changes. Sales picked up in H2 as markets improved, with Q4 seeing the year's strongest quarterly sales and an improvement of 24% on the same period in 2011.

Covered APE sales in Old Mutual Wealth Europe increased by 12% to £124 million in the open book. Sales in Italy were up 32% as a result of new distribution arrangements and ongoing improvements in sales volumes from key strategic partners. Modest sales levels in France and Poland reflected the still challenging sales environment across Europe.

In Old Mutual Wealth's European heritage markets, reduced APE sales followed the closure of the German, Austrian and Swiss books, as we reposition our business in these markets to manage them for value.

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

Overall LTS non-covered sales were up 27% to £14,549 million.

In Emerging Markets, non-covered sales increased by 32% to £8,937 million. Unit trust and mutual fund sales increased by 42% with higher OMUT, acsis and Galaxy sales on the back of high equity market growth in South Africa. The Colombian Unit Trust business achieved strong sales in money market and cross-border products. Other non-life sales grew by 22% – boosted by significant, albeit lower-margin, inflows into OMIGSA's Dibanisa and Liability-Driven Investment boutiques.

Sales in Asia improved by 24% leading to market share gains, following increased single premium sales through the bank channel in our Chinese joint venture, Old Mutual-Guodian, and strong support from the Kotak Bank channel in India. Sales in Asia will be reclassified as life sales from Q1 2013.

Old Mutual Wealth non-covered sales increased by 20% to £5,612 million, primarily due to the inclusion of the non-covered sales from OMAM(UK) for the first time in 2012. Including OMAM(UK) sales in both 2011 and 2012, non-covered sales increased by 2% to £5,882 million. OMGI sales increased by 37% to £3,040 million as a number of funds attracted increased inflows – notably the Spectrum fund range. *Spectrum* now has £1.6 billion of FUM. OMGI European retail sales were also strong, with gross inflows of around £670 million. UK Heritage sales into Institutional products increased during the year, benefiting from new partnerships established in 2012. On the UK Platform, non-covered sales fell 26% to £2,067 million as investor confidence was weakened by volatile markets and IFAs focused on preparation for RDR.

Margins and value of new business

Across LTS as a whole, new business APE margin increased to 18% from 15% and present value of new business premiums (PVNBP) margin improved to 2.3% (2011: 1.9%).

In Emerging Markets, VNB improved strongly by 52% to £135 million, with a significant increase in the APE margin from 20% to 27%. VNB was boosted by improved product mix in Corporate, due to a greater proportion of higher-margin with-profit annuity sales, improved risk product sales including the recording of Old Mutual Finance Credit Life sales in MFC for the first time, improved mix of business in Retail Affluent and a favourable change in economic assumptions.

The value of new business in Old Mutual Wealth reduced by £16 million to £62 million. H1 2012 was challenging, with reduced sales volumes; but VNB strengthened in H2, boosted by improved sales performance and a more profitable product mix, particularly in the International business, coupled with lower acquisition expenses.

In Old Mutual Wealth, lower sales and a less profitable business mix in H1 reduced the APE margin to 10% (2011: 11%) and PVNBP margin to 1.2%. (2011: 1.3%).

Operating MCEV earnings

Overall LTS operating MCEV earnings decreased by 39% to £336 million, with Old Mutual Wealth impacted by restructuring costs following strategic changes announced in November 2012.

In Emerging Markets, operating MCEV earnings (post-tax) increased by 5% to £328 million, but was down 6% on a reported basis. The main contributors to this were the improved VNB and positive operating assumption changes and positive experience for mortality and disability. This was partially offset by lower persistency experience variances, following the final releases of short-term termination provisions and closer alignment of persistency experience to assumptions at the end of 2011, increased development costs and tax experience losses. Total MCEV earnings (post-tax) increased by 38% to £583 million – benefiting from positive investment variances in 2012's strong equity and bond markets, and economic assumption changes resulting from lower swap yields. There were some offsetting negative impacts from changes to capital gains tax and the introduction of dividend withholding tax.

Old Mutual Wealth reported an operating MCEV earnings (post-tax) of £8 million (2011: £203 million), reflecting £89 million of restructuring costs, following strategic changes in the UK business and the implementation of the 'manage for value' strategy in the European businesses. Future cost saving benefits expected to emerge from restructuring initiatives are not yet reflected in MCEV, consistent with the Finance Forum principles that govern MCEV methodology. Negative experience variances, relating to development cost overruns, and lower rebate profits, following positive assumption changes in the UK and International businesses at the end of 2011, reduced MCEV operating profit further. Total MCEV earnings were £127 million (2011: £160 million), mainly due to positive investment returns driven by growth in the UK equity market.

Value creation

One of our key performance metrics for LTS covered business is Group Value Creation. This measures the contribution to return on embedded value from management actions of writing profitable new business and managing expenses, persistency, risk and other experience compared to what had been assumed. Excluding the impact of our managing for value strategy, this metric reduced to 3.0% from 5.6% in LTS. Value creation on a reported basis was 2.6% (2011: 5.1%).

One-off restructuring costs and project spend in Old Mutual Wealth and Emerging Markets reduced the Group Value Creation by 1.4%, these initiatives will improve Group Value Creation going forward. The VNB contribution has remained strong, despite lower sales volumes in Old Mutual Wealth in H1 2012. The Old Mutual Wealth International business saw strong VNB in Q4 2012 and we expect to improve the contribution from cross-border product sales in the future.

Management actions

Emerging Markets

When we completed our acquisition of Oceanic Life in Nigeria in February 2013, our experienced integration team had already been in place for some time. Old Mutual Nigeria will be the hub for our expansion in West Africa, and we are looking at further options both in Nigeria and Ghana to gain scale in the region. In East Africa, we are making progress with our plans to expand further in Kenya and other selected markets.

In November 2012, we officially launched the Retail Mass business in Mexico under the Old Mutual brand. In the same month we announced the acquisition of a majority stake in Aiva Business Platforms, a Uruguay-based strategic distribution business with over $800 million of assets under management, further increasing our distribution reach in other emerging markets. The acquisition was completed in January 2013. In China, Old Mutual-Guodian strengthened its distribution capabilities through an agreement with MinSheng Bank.

The Group's Zimbabwean business was transferred to Old Mutual South Africa (OMSA) on 1 July 2012 for an initial consideration of R1.1 billion and a deferred consideration of R0.5 billion potentially available in 2015, subject to valuation. We have also agreed the terms of the transfer of the Colombian and Mexican businesses to OMSA, subject to regulatory approval. The new organisational structure will reflect the operational management of the businesses, and we are in the process of transferring several other emerging market subsidiaries to align their legal structure with their operational management.

Following the restructure of the OMIGSA boutiques in 2012, all impacted boutiques are fully operational in the new structure.

In South Africa the majority of our advisers required to sit the FAIS regulatory exams have now passed, significantly mitigating the risk to our sales and retention. We will continue to support our advisers to pass the exams as part of business as usual going forward, which will put us in a strong position to capture the growing opportunity we see in the mass market.

Old Mutual Wealth

In Q3 2012 we announced the combination of the Skandia businesses (Skandia UK, Skandia International, OMGI and the Skandia European businesses outside the Nordic region) into a single business called Old Mutual Wealth. The operational changes are designed to combine asset management capability with UK Platform strength and cross-border expertise to grow a leading provider of wealth management solutions in the UK and internationally. The combination has resulted in significant cost efficiencies, predominantly from central functions as we reduce duplication across the business.

As part of the reorganisation we combined SIG, our multi-manager, with OMAM(UK) to create OMGI, a profitable asset management capability that can support the growth and transformation of Old Mutual Wealth. The newly combined asset manager has achieved run-rate expense savings and improved operating margins.

We also decided to move to a 'managing for value' strategy in Europe, which will focus management attention on maintaining the existing books and managing them for profitability and cash generation, rather than pursuing pan-European growth. As part of this strategy we closed the Austrian and German books to new business. The Swiss book was closed to new business in 2011. We also initiated a cost reduction programme in France to bring the business to profitability in the near term. For growth in Europe we will focus on expanding our cross-border (International) sales, and improving the profitability of the Italian, French and Polish domestic businesses.

The RDR came into effect on 1 January 2013. Our focus in 2012 was to ensure that we were compliant and 'open for business' on schedule. In Q4 2012 we launched our new flexible adviser charging structure and introduced a new unbundled charging structure for clients on both our onshore and International platforms. We also implemented the full set of RDR regulations on our systems. While the implementation of RDR has resulted in significant development costs, we believe the post-RDR landscape will create new opportunities for us.

New UK products launched during the year included the *Generation* fund range, an innovative retirement solution, and a revitalised, gender-neutral protection offering. Launches in our cross-border International markets included a new portfolio bond and a structured product in South Africa and a universal life, high death benefit product for selected other markets. These products successfully boosted sales performance through H2 2012. We also began the roll-out of *Wealth Interactive*, our new-generation, e-enabled international investment platform.

LONG-TERM SAVINGS continued

Outlook

Emerging Markets

Our focus in 2013 will be on strong, profitable sales growth and new growth opportunities that use the strength and core competencies of the wider Group. In particular, we see good prospects to grow our businesses in sub-Saharan Africa – where we believe the recent economic growth is a sustainable, long-term trend. We will explore means for organic and inorganic growth in this region – leveraging our established business bases in South Africa, Namibia, Kenya and Zimbabwe, whose expertise will enable us to design and export relevant products and low-cost IT infrastructure into new markets.

Economic growth for the whole of sub-Saharan Africa is expected to average around 5% in real terms. This growth in consumer and urban wealth is supported by substantial long-term demographic trends and provides good prospects for our business. Despite a moderately improved global outlook, real GDP growth in South Africa is expected to be below 3%. The ANC Conference in December 2012 accepted a number of pragmatic policy decisions and the National Development Plan as the backbone of future government economic policy, paving the way for growth-enhancing policy reforms.

Despite Moody's downgrade of South Africa's sovereign rating and the resulting downgrade of Old Mutual Life Assurance Company South Africa's (OMLAC(SA)) Global Insurance Financial Strength rating from A1 (negative) to A3 (negative), OMLAC(SA) remains one of South Africa's highest-rated institutions. We continue to explore ways of managing our balance sheet structure to provide long-term capital flexibility.

The Group's general insurance businesses in the Rest of Africa will be managed as part of the operations of Old Mutual Emerging Markets in the countries in which they are situated. We will continue to reflect both Long-Term Savings and the general insurance businesses in our Rest of Africa KPIs and targets going forward.

Old Mutual Wealth

Our priority in 2013 is to embed the strategic decisions taken in 2012 and continue the implementation of all aspects of our Simplify, Unify and Grow plan.

We believe the UK market for retail financial services will continue to develop as advisers fully implement new business models. In the short term, UK conditions will inevitably be challenging as advisers and customers adapt to the post-RDR world notwithstanding that the UK equity market conditions have been positive for the first two months of the year. We expect it to be characterised by a combination of whole-of-market (independent) advice and more parameterised (restricted) advice. We see opportunities to service both these models and will support both. Our new focused fund range, due for launch later in the year, will be a key solution for advisers in the post-RDR world. We have reorganised our UK sales force to match the market's future shape and needs.

Changing regulation is also a strong theme in International markets, with Singapore's Financial Advisory Industry Review and similar initiatives emerging in other markets. We launched new products and new distribution relationships with a number of major banks and stockbrokers in South Africa, UK, Hong Kong and the Middle East in 2012. We have a strong pipeline of similar deals we are pursuing, all of which will strengthen our distribution footprint and improve access to mass affluent and high-networth customers in local markets. We believe this will support positive sales momentum in 2013. We also look forward to further strengthening our long-standing relationship with Aiva, the Latin American distribution business recently acquired by Old Mutual Emerging Markets.

We expect to incur further non-recurring restructuring costs in 2013 to execute the strategy. Several programmes to improve efficiency are already underway: for example, we are assessing ways to cut the cost of technology and administration on our heritage books to reflect the reducing policy count inherent in a closed-book model.

We are confident that OMGI is well placed to meet investors' needs in 2013, following our work to strengthen its marketing, product and sales functions, as well as its excellent investment performance in 2012. We have seen some redemptions from OMGI following the sale of the Group's Nordic business and we expect these to continue in 2013.

Following the change of strategy for our European business, we expect to see a continued slowdown in sales across Germany, Austria and Switzerland. Poland and France both had reduced sales, in challenging market conditions. Italy continued to perform well finishing 2012 strongly, with early indications suggesting this will continue into 2013.

Emerging Markets data tables (South African rand)

Adjusted operating profit

			Rm
	2012	2011	% change
Retail Affluent	**2,725**	2,377	15%
Mass Foundation Cluster	**1,621**	1,529	6%
Corporate	**1,127**	693	63%
Rest of Africa	**561**	404	39%
Latin America & Asia	**218**	225	(3)%
LTIR	**1,613**	1,308	23%
Life and Savings	**7,865**	6,536	20%
OMIG(SA)[1]	**933**	723	29%
Central expenses and administration	**(924)**	(618)	(50)%
Total Emerging Markets	**7,874**	6,641	19%

[1] From 2012, Old Mutual Unit Trusts is reported as part of Retail Affluent only and no longer also as part of OMIG(SA), together with a subsequent elimination within central expenses. Prior year comparatives have been restated accordingly.

Gross sales

	2012	2011	% change
			Rm
Retail Affluent	**49,677**	42,139	18%
Mass Foundation Cluster	**6,796**	5,889	15%
Corporate	**15,152**	12,619	20%
OMIG(SA)	**34,820**	30,729	13%
Total South Africa	**106,445**	91,376	16%
Rest of Africa	**10,804**	8,952	21%
Latin America & Asia	**34,792**	21,550	61%
Total Emerging Markets	**152,041**	121,878	25%

APE sales

	Single premium APE			Gross regular premiums			Total APE		Rm
By cluster:	2012	2011	% change	2012	2011	% change	2012	2011	% change
South Africa									
Mass Foundation Cluster	**2**	3	(33)%	**2,441**	2,017	21%	**2,443**	2,020	21%
Retail Affluent	**956**	1,064	(10)%	**1,529**	1,442	6%	**2,485**	2,506	(1)%
Corporate	**652**	503	30%	**486**	427	14%	**1,138**	930	22%
Total South Africa	**1,610**	1,570	3%	**4,456**	3,886	15%	**6,066**	5,456	11%
Rest of Africa	**133**	123	8%	**480**	408	18%	**613**	531	15%
Latin America & Asia[1]	**24**	22	9%	**105**	89	18%	**129**	111	16%
Total Emerging Markets	**1,767**	1,715	3%	**5,041**	4,383	15%	**6,808**	6,098	12%

[1] Latin America & Asia represents Mexico only.

	Single premium APE			Gross regular premiums			Total APE		Rm
By product:	2012	2011	% change	2012	2011	% change	2012	2011	% change
Emerging Markets									
Savings	**1,234**	1,388	(11)%	**2,525**	2,196	15%	**3,759**	3,584	5%
Protection	**–**	–	–	**2,516**	2,187	15%	**2,516**	2,187	15%
Annuity	**533**	327	63%	**–**	–	–	**533**	327	63%
Total Emerging Markets	**1,767**	1,715	3%	**5,041**	4,383	15%	**6,808**	6,098	12%

Non-covered sales

	Unit trust/mutual fund sales			Other non-covered sales			Total non-covered sales		Rm
	2012	2011	% change	2012	2011	% change	2012	2011	% change
South Africa	**26,422**	20,934	26%	**46,851**	39,709	18%	**73,273**	60,643	21%
Rest of Africa	**5,457**	4,778	14%	**3,286**	1,464	124%	**8,743**	6,242	40%
Latin America & Asia	**32,161**	19,401	66%	**2,098**	1,691	24%	**34,259**	21,092	62%
Total Emerging Markets	**64,040**	45,113	42%	**52,235**	42,864	22%	**116,275**	87,977	32%

LONG-TERM SAVINGS continued

Old Mutual Finance

	2012	2011	% change
			Rm
Lending book (gross)	**6,431**	5,699	13%
Sales	**5,482**	5,261	4%
NPAT/average lending book[1]	**3.8%**	3.4%	
Loan approval rate	**34.2%**	33.6%	
Impairments: average lending book	**13.3%**	12.9%	
Branches	**201**	172	17%
Staff	**1,821**	1,421	28%

1 Net profit after tax (NPAT)/average lending book is stated after capital charges.

2012 sales reflected our conservative approach to lending, following evidence of increased client debt levels. Impairment provisions rose 0.4%, following a change in the maturity profile of the loan book.

Old Mutual Wealth data tables (sterling)

Adjusted operating profit

	2012	2011	% change
			£m
Core markets			
UK Platform	**2**	(4)	n/m
International	**68**	79	(14)%
OMGI[1]	**3**	9	(67)%
Total core markets	**73**	84	(13)%
Manage for Value markets			
UK Heritage	**92**	100	(8)%
Old Mutual Wealth Europe – open book[2]	**(4)**	3	n/m
Old Mutual Wealth Europe – closed book[3]	**34**	38	(11)%
Total Manage for Value	**122**	141	(13)%
Total Old Mutual Wealth	**195**	225	(13)%

1 OMGI includes OMAM(UK) AOP of £2 million in 2011.
2 Includes business written in France, Italy and Poland.
3 Includes business written in Germany, Austria and Switzerland.

Gross sales and funds under management

	1-Jan-12	Gross sales	Redemptions	Net flows	Market and other movements	31-Dec-12
						£bn
Core markets						
UK Platform	18.8	4.1	(1.9)	2.2	1.6	22.6
International[1]	14.3	1.7	(1.5)	0.2	(0.4)	14.1
OMGI	12.1	4.8	(4.5)	0.3	1.4	13.8
Total core	**45.2**	**10.6**	**(7.9)**	**2.7**	**2.6**	**50.5**
Manage for Value markets						
UK Heritage	14.3	1.3	(2.5)	(1.2)	1.0	14.1
Old Mutual Wealth Europe – open book	5.2	1.2	(0.8)	0.4	0.5	6.1
Old Mutual Wealth Europe – closed book	4.3	0.6	(0.4)	0.2	–	4.5
Total Manage for Value	**23.8**	**3.1**	**(3.7)**	**(0.6)**	**1.5**	**24.7**
Elimination of intra-Group assets	(6.4)	(1.8)	1.7	(0.1)	0.5	(6.0)
Total Old Mutual Wealth	**62.6[3]**	**11.9[2]**	**(9.9)**	**2.0**	**4.6**	**69.2**

1 International FUM 'market and other movements' includes an outflow of £1.1 billion of assets following the sale of Finland.
2 Gross sales included £0.3 billion of Q1 2012 sales in respect of OMAM(UK).
3 Opening FUM includes OMAM(UK) FUM of £4.0 billion.

APE sales

	Gross single premiums			Gross regular premiums			Total APE (£m)		
	2012	2011	% change	**2012**	2011	% change	**2012**	2011	% change
Core markets									
UK market									
Pensions	**1,610**	1,649	(2)%	**32**	38	(16)%	**193**	203	(5)%
Bonds	**363**	407	(11)%	**–**	–	–	**36**	40	(10)%
Total UK Platform	**1,973**	2,056	(4)%	**32**	38	(16)%	**229**	243	(6)%
International									
Unit-linked	**168**	209	(20)%	**13**	26	(50)%	**30**	47	(36)%
Bonds	**1,245**	1,350	(8)%	**27**	26	4%	**151**	161	(6)%
Total International	**1,413**	1,559	(9)%	**40**	52	(23)%	**181**	208	(13)%
Total core	**3,386**	3,615	(6)%	**72**	90	(20)%	**410**	451	(9)%
Manage for Value markets									
UK Heritage	**166**	255	(35)%	**33**	43	(23)%	**50**	69	(27)%
Old Mutual Wealth Europe – open book	**1,053**	863	22%	**19**	25	(24)%	**124**	111	12%
Old Mutual Wealth Europe – closed book	**27**	42	(36)%	**23**	48	(52)%	**26**	52	(50)%
Total Manage for Value	**1,246**	1,160	7%	**75**	116	(35)%	**200**	232	(14)%
Total Old Mutual Wealth	**4,632**	4,766	(3)%	**147**	207	(29)%	**610**	683	(11)%

Non-covered sales[1]

Rm	**2012**	2011	% change
Core markets			
UK market			
Mutual funds	**1,144**	1,652	(31)%
ISA	**923**	1,159	(20)%
Total UK Platform	**2,067**	2,811	(26)%
OMGI[2]	**3,040**	2,221	37%
Total core	**5,107**	5,032	1%
Manage for Value markets			
UK Heritage	**736**	704	5%
Old Mutual Wealth Europe – open book	**30**	29	3%
Old Mutual Wealth Europe – closed book	**9**	20	(55)%
Total Manage for Value	**775**	753	3%
Total Old Mutual Wealth	**5,882**	5,785	2%

1 Non-covered sales included unit trust, mutual fund and other non-covered sales.
2 To allow comparison on a like for like basis, OMGI's non-covered sales includes sales of £1,403 million from OMAM(UK) in 2012, including £270 million of sales in Q1 2012, and £1,096 million in 2011.

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.

Key financial highlights

Adjusted operating profit (pre-tax)

£605m

2011: £570m

Funds under management

£52.6bn

2011: £49.9bn

Return on Equity (RoE) (%)

2012	**24**
2011	24

NCCF (£bn)

2012	**1.2**
2011	0.4

Non-covered sales (£m)

2012	**8,937**
2011	7,559

APE sales (£m)

2012	**523**
2011	524

MCEV (covered business) (£m)

2012	**3,296**
2011	3,167

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

2012	**3.5**
2011	6.8

In South Africa 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 and have a comprehensive understanding of multiple distribution channels. We are leveraging this business – by sharing product experience, people and professional skills, systems and processes, and distribution knowledge – into our businesses in other high-growth economies in Africa, Latin America and Asia. In Latin America we operate in Mexico and Colombia, where we offer customers direct asset management and fund selection for portfolio building and open architecture products. In sub-Saharan Africa we operate across a broad range of countries including Namibia, Zimbabwe, Nigeria, Malawi, Kenya and Swaziland. In Asia we operate joint ventures with Kotak Mahindra Bank in India and Guodian Capital Holdings in China.

Emerging Markets includes Old Mutual Investment Group (SA) OMIG(SA), a multi-boutique investment house. Its independent, performance-driven boutiques offer a comprehensive spread of investment styles, including specialist equity, infrastructure, socially responsible investing, active asset allocation, fixed income and value. Old Mutual Specialised Finance (OMSFIN) is a proprietary investment business and alternatives investment manager operating alongside OMIG(SA)'s independent investment boutiques.

Strategy

Emerging Markets has a well established strategy focused on:

- Reducing the costs in the Retail Affluent legacy books and rationalising our Corporate administration platforms and fund options
- Fully integrating our South African Wealth Management proposition
- Continuing growth in the Mass Foundation Cluster
- Accelerating growth in African operations, mostly through acquisitions that add significant scale or through distribution partners (directly or through the Africa Strategic Investment Fund)
- Continuing investment in Mexico's mass market business and growth of the retail affluent business in Mexico.

Case study

Doing well by doing good through responsible investing

The Futuregrowth Agri-Fund in South Africa (a joint venture with UFF Agri Asset Management) provides long-term returns and a tangible social and development benefit through supporting the land reform process in South Africa. In 2012, the Fund's efforts to run its investments responsibly were rewarded when farm workers did not participate in the strikes that erupted in South Africa's Western Cape Province. The Fund's investment process means that workers are already paid a fair wage and a portion of invested capital is spent on education and healthcare programmes to empower workers and create independent emerging farmers. The nature of the farming done in the Fund's investments tends to be labour intensive, and job creation through developing additional land remains a long-term aim of the Fund.

For more information on the Group's Responsible Business activities see pages **10-11**

Our strategy in action:

1. Improve the customer proposition and experience

Significant progress towards Treating customers fairly (TCF) implementation in 2014.
Heavy investment in a CRM capability to drive deeper understanding of our customers.
New product launches included an enhanced *Greenlight* disability product suite and the *SmartMax* education savings product.
Grew customer numbers 12% in Africa and 3% in South Africa and improved our customer experience, as evidenced by Net promoter score (NPS) feedback.

2. Deliver high performance

Excellent financial results in a challenging economic climate, with strong growth in sales and net client cash flow.
High growth in our Mass Foundation Cluster business, cementing our leadership position in this market segment.
Continued investment in growing both the life and non-life parts of this business.

3. Share skills and experience across the Group

Launched the Retail Mass business in Mexico under the Old Mutual brand, strengthening the emerging markets franchise in Latin America by leveraging our South African capabilities in this market segment.

4. Build a culture of excellence

Old Mutual came second in the large company category of the annual Deloitte Best Company To Work For Survey.
Named as best large employer in South Africa in the Corporate Research Foundation Institute's annual Best Employers Certification Index for 2012/13.

5. Grow our penetration of and presence in selected Emerging Markets

Acquired Oceanic Life in Nigeria and progressed well in integrating it with Old Mutual Nigeria.
In Latin America, successfully concluded the acquisition of a majority stake in Aiva Business Platforms to further strengthen our presence and distribution capability in Latin America.
Established a strategic investment fund to accelerate growth in new African markets, alongside relevant strategic partners.

6. Operate as the most trusted partner in the communities in which we serve

Achieved Level 2 BBBEE status for the third year in a row and reached agreement with Zimbabwean government on indigenisation, benefiting staff, client and staff pensioners, a Youth Fund and other strategic partners.
Launched a series of Socially Responsible Investment funds and adopted the UN Principles for Responsible Investment. Gave over 250,000 people financial education and money management training in South Africa.

7. Simplifying structure

Consolidated seven South African wealth management businesses into one integrated business.
Simplified OMIG(SA)'s boutique structure.
Agreed the terms of the transfer of the Group's Zimbabwean, Colombian and Mexican businesses to OMSA, subject to regulatory approval. The new organisational structure will reflect the operational management of the businesses.

Going forward:

1. Improve the customer proposition and experience

Launch a new integrated South African Wealth Management proposition.
Implement revised customer value propositions to our existing (and new) customers, enabled by our CRM capability and investment in an integrated customer service and intermediary sales enablement strategy.

2. Deliver high performance

Continue to focus on delivery of financial targets and diversification of earnings across emerging markets by accelerating growth in Africa.
In South Africa, drive synergies and extract efficiencies across business units towards strong, more profitable market positions. Continue to invest in improving OMIGSA equity investment performance.

3. Share skills and experience across the Group

Continue to leverage our capabilities in tied distribution, capital intensive/guaranteed products and low-cost administration across emerging markets.
In Africa specifically, continue to roll out our Business in a Box model towards better standardisation and unit cost efficiencies. Explore opportunities to take advantage of synergies with other businesses in the Group such as M&F.

4. Build a culture of excellence

Continued focus on attracting, retaining and deploying specific talent pools to strengthen the South African base and drive growth in emerging markets, with particular focus on Africa.

5. Grow our penetration of and presence in selected Emerging Markets

Continue to grow scale and expand in East and West Africa while selectively entering other attractive South African Development Community (SADC) countries, and set aside capital of R5 billion for this purpose.

6. Operate as the most trusted partner in the communities in which we serve

Continue to drive achievement of our targets and commitments to South African stakeholders.
Continue to invest significantly in job creation, skills development and basic education, specifically in maths and science, in conjunction with various partners and schools.
Embed and implement a sustainability strategy across our business.

7. Simplifying structure

Consolidate Mutual & Federal (M&F) Africa into Old Mutual Africa.
Continue identifying opportunities to simplify the business and execute this strategy.
Progress the transfer of various other emerging markets subsidiaries to align their legal structure with their operational management.

LONG-TERM SAVINGS continued

Old Mutual Wealth

Across all markets, our core capabilities include strong distribution relationships, product and solution design, and service quality.

Key financial highlights

Adjusted operating profit (pre-tax)

£195m
2011: £223m

Funds under management

£69.2bn
2011: £58.6bn

Return on Equity (RoE) (%)

2012	**13**
2011	16

NCCF (£bn)

2012	**2.0**
2011	2.8

Non-covered sales (£m)

2012	**5,612**
2011	4,689

APE sales (£m)

2012	**610**
2011	683

MCEV (covered business) (£m)

2012	**2,444**
2011	2,546

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

2012	**1.7**
2011	4.0

Our focus is on delivering strong investment performance through our own investment management capabilities and customer-focused investment solutions that deliver positive outcomes for customers through open architecture propositions. Clients can access our solutions through unit-linked life insurance, pensions, unit trusts and cross-border product wrappers.

During 2012 we announced the formation of the new, unified Old Mutual Wealth business, which brings together our:

- UK Life business
- UK Retail Advice Platform business
- Continental European businesses predominantly based in Germany, Austria, Poland, France, Italy and Switzerland
- Cross-border International business
- Two asset management businesses: Skandia Investment Group (SIG), a multi-manager and investment packaging business, and Old Mutual Asset Managers UK (OMAM(UK)), a directly-invested equity, bond and alternatives business.

Combining the above into one unified business, supported by a strong and profitable asset management capability, will allow us to further develop our own wealth solutions – in turn enabling us to capture a greater share of the value chain. The combined business has one management team, one governance structure, one vision and one strategy. Unifying the businesses has also supported our strategy by reducing the cost base.

Strategy

Last year marked the beginning of our next phase of growth. Paul Feeney was appointed CEO in August 2012, and in November 2012 we announced our strategy and targets for the next three years. The strategy will create a modern, vertically integrated wealth management and asset management business delivering capital-efficient, customer-focused investment and risk solutions through our market-leading platforms. Over the next three years we will unify the business, simplify it to focus on key markets, and grow in these markets.

Unify

Unifying the business enables us to reduce our cost base and create scale opportunities. We announced in the second half of 2012 that we are reducing our UK headcount by around 200, predominantly in central support areas. This programme is now materially complete and, together with further opportunities to rationalise infrastructure, will contribute towards a strong improvement in our UK Platform's operating margin. The unification of SIG and OMAM(UK) has given us improved operational scale and renewed commercial focus.

Simplify

Our strategy involves simplifying not only our structure but also our strategic agenda. We believe we can unlock value by focusing on our core UK and cross-border International growth markets, while moving to a 'manage for value' strategy in Continental Europe.

Our strategy in action:

1. Improve the customer proposition and experience

Launched RDR-compliant proposition for UK.
Launched new-generation e-enabled international platform *Wealth Interactive*.
Revitalised our UK protection suite.
Launched new-generation funds for the at- and in-retirement market.

2. Deliver high performance in all markets

Delivered return on capital and cost saving targets set in 2010.
Announced 'manage for value' strategy in Continental Europe and began implementation.
Merged SIG and OMAM(UK) – now running at 14% operating margin.

3. Share skills and experience across the Group

Collaborated with Old Mutual South Africa to implement customer service metrics and net promoter score programme in Operations.

4. Build a culture of excellence

UK and International businesses received several awards for excellence including 'Best platform' and 'Best international life group'. UK business awarded five stars in Investments and Life and Pension categories at Financial Adviser Service Awards – as well as awards for 'Best wrap/platform' and 'Best online provider'. Old Mutual Wealth Europe won customer service awards in Austria (for the 10th year running) and France.

5. Simplify our structure

Unified UK, International, Continental Europe and Asset Management businesses into one business with clear focus and reduced cost base. Concluded sale of Finnish branch.

Going forward:

1. Improve the customer proposition and experience

Launch *Select* fund range for the post-RDR advice market.
Develop asset management capability.
Roll-out *Wealth Interactive*.
Improve digital connectivity with clients.
Maintain product and service innovation.

2. Deliver high performance in all markets

Manage efficiency and persistency in Europe to improve profitability and generate cash.
Deliver profit, RoE and operating margin targets.
Return surplus capital to shareholders.

3. Share skills and experience across the Group

Continue learning from other parts of the business as unification of the business is embedded.
Collaborate closely with Emerging Markets on our digital strategy.

4. Build a culture of excellence

Continue to improve service delivery through (among others) LEAN, our Casanovas customer service initiative, and net promoter score programmes.
Retain and develop talent in the asset management business.

5. Simplify our structure

Focus on core markets (UK and International cross-border), and on managing for value in Europe.

This manage for value strategy involves moving to a closed book model for our retail portfolio in Switzerland, Austria and Germany, with an emphasis on persistency and cost management to maximise cash generation. We still see growth prospects in Italy and Poland, where we will focus on developing profitability while balancing the associated capital demands. We will also seek further growth in our European cross-border International sales.

Grow

Our growth will be driven by innovation and further development of our distribution capability.

Innovation

Developing investment management and risk solutions built around customer needs will remain a key focus for us over the next three years. Significant initiatives already delivered in 2012 include our new *Generation* investment range: an at- and in-retirement proposition providing defined levels of income with elements of capital preservation and protection against inflation. We have also revitalised our insurance protection suite, with streamlined application and underwriting processes and first mover advantage on gender neutral pricing.

We have completed development of *Select* – a range of high quality funds for the UK post-RDR market, managed by leading investment managers – for launch in 2013. *Select* delivers not only our own investment range but also on those of selected partners, enabling financial advisers to build client investment portfolios with funds from the best managers at competitive prices.

New products and offerings launched in our International markets included a portfolio bond and structured product for the South African market, a portfolio builder tool for advisers and a universal life high death benefit product for selected markets. We have also begun the roll-out of *Wealth Interactive*, our new-generation, e-enabled international investment platform.

Old Mutual Global Investors (OMGI), already has a strong offering in UK fixed income, UK and European equities and multi-manager (risk targeted, diversified growth and income generation) asset classes. Our focus over the next three years is to develop further fit-for-market capabilities in these and other asset classes in line with investor needs.

Distribution

Our growth strategy also includes securing and growing distribution in the UK and our international markets for our cross-border propositions.

Our core route to market is through financial advisers. We will continue to provide them with tools and investment solutions that allow them to serve their clients. We will seek to partner closely with them, and to establish new relationships that allow us to broaden our distribution reach. We also look forward to further developing our long standing relationship with Aiva, the Latin American distribution network recently acquired by Old Mutual Emerging Markets.

We are complementing our adviser offering with further development of our digital connection with clients, so that they can interact with us in whichever manner they prefer.

BANKING

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

Key financial highlights

Adjusted operating profit (pre-tax and pre-NCI)

£828m

2011: £755m

Total Assets

£49.4bn

2011: £51.4bn

Number of employees

28,767

2011: 28,494

Return on Equity (excl. goodwill) (%)

2012	**16.4**
2011	15.3

Net Interest Income (£m)

2012	**1,513**
2011	1,549

Non-interest revenue (£m)

2012	**1,332**
2011	1,324

Net interest margin (%)

2012	**3.53**
2011	3.48

Credit loss ratio (%)

2012	**1.05**
2011	1.13

Common equity Tier 1 ratio (Basel II.5) (%)

2012	**11.4**
2011	10.5

Overview

Nedbank is listed on the Johannesburg and Namibian Stock Exchanges, with a market capitalisation of £6.9 billion at the end of 2012. Old Mutual has a majority shareholding and owned 52% of Nedbank at 31 December 2012.

Focused on southern Africa and positioned as a bank for all, we provide 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.

Our vision is to build Africa's most admired bank – admired by staff, clients, shareholders, regulators and communities. Our key strategic areas for growth include repositioning Nedbank Retail, growing non-interest revenue and implementing the portfolio tilt strategy, which has been designed to focus on business activities that generate higher Economic Profit. In the rest of Africa we recently deepened our strategic alliance with Ecobank and secured rights to acquire up to 20% of Ecobank Transnational within two years as part of a financing package for Ecobank's transformational banking acquisition in Nigeria.

We are integrating economic, environmental, social and cultural sustainability across our businesses. As Africa's first carbon-neutral financial services organisation we are widely recognised for sustainability leadership. We are known as South Africa's 'green bank' and continue to play a leading role in environmental issues by maintaining carbon neutrality, promoting water stewardship and being a signatory to the CEO Water Mandate Caring for Climate Programme of the United Nations Global Compact.

Headquartered in Sandton, Johannesburg, we have large operational centres in Durban and Cape Town, a regional branch network throughout South Africa and facilities in other southern African countries including Namibia and Zimbabwe. These facilities are operated through eight affiliated banks and subsidiaries, and through branches and representative offices in global financial centres that meet the international banking requirements of our South African multinational clients.

Strategy

The Nedbank Group strategy is outward-looking, focused on growing the franchise and delivering its objectives of repositioning Nedbank Retail, growing non-interest revenue (NIR), implementing the portfolio tilt strategy and expanding into the rest of Africa.

Our strategy in action:

1. Improve the customer proposition and experience

Gave clients access to the widest African geographic banking network and most compelling value proposition through our own network in SADC/East Africa and partnerships across the continent and key trade corridors.
Repositioned Nedbank Retail by focusing on client-centred banking experiences and using digital innovation.
Delivered new brand, positioning Nedbank as a 'bank for all', aspirational and accessible.

2. Deliver high performance

Strong primary client gains.
Strong growth in NII, NIR and AOP during 2012.
Strong capital management.

3. Share skills and experience across the Group

Playing a key role in the Group Co-operation Forum, established in 2012 to identify and track collaboration between Old Mutual Group businesses.

4. Build a culture of excellence

Continued to build on our strong empowerment credentials (Level 2) – unlocking the benefits resulting from this and working with our BEE partners.

5. Maintain high involvement in the community and environment

Established leadership position in South African corporate responsibility and sustainability – reflected in membership of industry leading bodies and widespread recognition.

Going forward:

1. Improve the customer proposition and experience

Continue to grow our business in SADC/East Africa and to focus on maximising opportunities with Ecobank in West and Central Africa.
Execute business-specific initiatives aimed at delivering a choice of distinctive client-centred banking experiences across clients' channels of choice.
Build on our existing differentiated brand strategy and client value propositions to accelerate quality client gains and usage of innovative products and channels.

2. Deliver high performance

Continue a variety of initiatives currently underway to facilitate and optimise client-centricity.
Pursue initiatives promoting greater innovation, IT-enabled business process re-engineering and integrated channels to continue growing NIR efficiently.

3. Share skills and experience across the Group

Continue regular and frequent interactions to discover new opportunities, including exploring:

- Corporate Finance M&A opportunities and referrals
- Potential transactions with OMIG(SA) boutiques
- Treasury deposits within Group
- Transactions in response to Solvency II and Basel III regulatory requirements.

Identify potential synergies from working with Emerging Markets and M&F in the Rest of Africa.
Track and report collaboration initiatives through the Group Co-operation Forum.

4. Build a culture of excellence

Continue investing in the training and development of all our people to achieve an all-inclusive culture.

5. Maintain high involvement in the community and environment

Pursue Nedbank Fairshare 2030. We developed this high level framework to launch a co-ordinated approach throughout Nedbank, creating a more sustainable society for future generations. Its goals align with those of the National Development Plan (NDP) 2030.

Business profile		
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.	Comprises: ■ Investment Banking ■ Global Markets ■ Treasury ■ Client Coverage.
Nedbank Corporate	Provides full-service corporate banking to large corporates with an annual turnover over R400 million, including commercial, industrial and property finance solutions. Includes operations servicing both retail and corporate market segments in Lesotho, Malawi, Namibia, Swaziland and Zimbabwe through Nedbank Africa.	Comprises: ■ Corporate Banking ■ Property Finance ■ Transactional Banking ■ Corporate Shared Services.
Nedbank Business Banking	Provides commercial banking solutions for small- to medium-sized businesses (annual turnover R7.5 million to 400 million), with a holistic offering for the business, business owners/households and employees.	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, HR, finance and risk functions.
Nedbank Retail	Serves the financial needs of individuals and small businesses (annual turnover up to R7.5 million), providing transactional, card, lending and investment products and services. This cluster also services merchants and large corporates in respect of card-acquiring services.	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	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.	Comprises: ■ Wealth Management, including private banking and fiduciary services locally and internationally, as well as stockbroking and financial planning ■ Asset Management, including 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-networth clients and stockbroking businesses ■ Insurance, including short-term insurance.

Highlights

	2012	2011	% change
			Rm
AOP (IFRS basis, pre-tax)	**10,773**	8,791	23%
AOP (IFRS basis, pre-tax) (£m)	**828**	755	10%
Headline earnings[1]	**7,510**	6,184	21%
Net interest income[1]	**19,680**	18,034	9%
Non-interest revenue[1]	**17,324**	15,412	12%
Net interest margin[1]	**3.53%**	3.48%[2]	
Credit loss ratio[1]	**1.05%**	1.13%	
Cost to income ratio[1]	**55.5%**	56.6%	
Return on Equity[1]	**14.8%**	13.6%	
Return on Equity (excluding goodwill)[1]	**16.4%**	15.3%	
Basel II.5 common equity Tier 1 ratio[1,3]	**11.4%**	10.5%	

1 As reported by Nedbank in its report to shareholders for year ended 31 December 2012.
2 Restated from 3.46% to exclude clients' indebtedness for acceptances from interest-earning banking assets to align with the rest of the industry.
3 2011 is presented on pro-forma Basel II.5 basis.

Banking and economic environment

South Africa's GDP is expected to have grown at around 2.5% in 2012 after expanding 3.1% in 2011. Concerns around the operating environment and infrastructure constraints, the widening current account deficit, rising national debt, higher inflation, high levels of unemployment and declining trends in competitiveness with wage settlements outpacing productivity were included in the rationale by international rating agencies Moody's, Standard & Poor's and Fitch Ratings for the downgrade of South Africa's sovereign-debt rating, which in turn placed pressure on the rand. Domestic bond yields have, however, remained stable.

Households remained the primary driver of private sector credit demand, with the unexpected 50 basis points (bps) reduction in interest rates in July 2012 providing some relief for highly indebted consumers against rising electricity, food and fuel costs. Growth rates in unsecured lending are slowing as expected.

Corporate credit demand improved towards the end of the year as the recovery in public sector infrastructure spending supported industries producing capital goods and other inputs for local projects, although corporates on the whole remained cautious, constrained by a weak eurozone and a relatively sluggish domestic economic environment.

Review of results

Nedbank made excellent progress in delivering on its strategic focus areas, producing a strong set of results for the year ended 31 December 2012. The results reflect an improvement in all key performance indicators and headline earnings growth in all business clusters.

Headline earnings grew 21.4% to R7,510 million (2011: R6,184 million), driven by good revenue growth, an improving credit loss ratio (CLR) and responsible expense management while investing for growth.

Diluted headline earnings per share increased 19.0% to 1,595 cents (2011: 1,340 cents) and diluted earnings per share increased 18.4% to 1,588 cents (2011: 1,341 cents). In line with the earnings guidance range provided in Nedbank's trading statement released on 20 February 2013, Nedbank recorded headline earnings per share and basic earnings per share of 1,646 and 1,638 cents per share respectively.

Nedbank generated economic profit (EP) of R1,511 million, up 63.5% (2011: R924 million). The RoE excluding goodwill, increased to 16.4% (2011: 15.3%) and RoE increased to 14.8% (2011: 13.6%), with the return on assets (RoA) increasing to 1.13% (2011: 0.99%).

Nedbank is well capitalised, with its Basel II.5 common equity Tier 1 ratio at 11.4% (2011: pro-forma Basel II.5 ratio 10.5%). With the introduction of Basel III on 1 January 2013, the pro forma Basel III common equity Tier 1 ratio at 31 December 2012 is a robust 11.6%. Funding and liquidity levels remained sound. Surplus liquidity buffers were maintained at a level of around R24 billion and the average long-term funding ratio increased to 26.0% (2011: 25.0%) in Q4 2012.

The net asset value per share continued to increase, growing 9.7% to 11,798 cents at 31 December 2012 (2011: 10,753 cents).

Delivering sustainability to all our stakeholders

Nedbank has developed a strategic framework that will enable delivery of its vision of building Africa's most admired bank by all its stakeholders and assist in creating a vibrant and flourishing South Africa through appropriate alignment of its activities with the National Development Plan (NDP). This is underpinned by a firm belief that its long-term success is inextricably linked to its ability to fulfil its social purpose.

Nedbank is committed to delivering sustainable value to all its stakeholders as demonstrated by the following highlights for 2012:

- For staff – creating over 450 new permanent jobs in South Africa, investing R352 million in the development of staff and supporting more than 1,300 managers through its personal mastery and team effectiveness programme known as 'Leading for Deep Green' and 8,500 staff through its Batho Pele diversity programme. This focus on values-based behaviour has led to higher levels of staff morale and an ongoing positive shift in corporate culture, now measuring at world-class levels.

- For clients – paying out R144 billion in new loans up 24.1% on 2011; launching various market-leading innovations such as the *Nedbank App Suite™*, *MyFinancialLife™*, *Small Business Friday™* in association with the National Small Business Chamber, cash management solutions and longer-term deposit products; providing great-value banking and saving clients R163 million through the use of bundled products; increasing its footprint by 80 net new staffed outlets and 476 net new ATMs; and achieving multi-year highs in client satisfaction as measured by Net Promoter Scores across Nedbank. As a result, more clients chose to bank with Nedbank, resulting in a net gain of 655,000 new retail clients in the year, including 377,000 entry-level banking clients, 165,000 middle-market clients, 1,113 high-networth clients, 775 and 27 new business banking and corporate primary-banked clients, respectively. Nedbank was recognised by Euromoney as the best bank in South Africa in 2012.
- For shareholders – delivering R1,511 million EP, generating a 34.3% total shareholder return and a total dividend increase of 24.3%, as well as maintaining excellence in transparency and reporting as acknowledged by numerous reporting awards. We have created an opportunity for shareholders to participate in the Africa growth story through its rights to acquire 20% in Ecobank Transnational Incorporated (ETI).
- For regulators – increasing capital levels further and being well positioned for the implementation of Basel III on 1 January 2013 and the Solvency Assessment and Management regime on 1 January 2015, making cash taxation contributions of R6.2 billion relating to direct, indirect and other taxation and supporting the National Treasury in our actions and commitments to responsible banking practices. Nedbank's credit rating was upgraded by Fitch in July 2012, while the five largest South African banks were downgraded in January 2013 following the downgrade of the South African sovereign-risk rating.
- For communities – making banking more accessible and affordable for the entry-level market and rural communities; identifying numerous non-urban areas for footprint expansion; increasing staffed outlets and ATMs by over 48% and 74% respectively since the beginning of 2009. To date Nedbank has donated more than R200 million to charities through its innovative card affinity programmes, and in 2012 we contributed R116 million to socio-economic development. Nedbank achieved Department of Trade and Industry (DTI) code level 2 for the fourth consecutive year and was ranked first overall among the top 50 JSE-listed companies in the Financial Mail/Empowerdex Top Empowered Companies survey. Furthermore 75.5% of its procurement was sourced locally. Nedbank's leadership role in environmental sustainability was demonstrated by initiatives such as funding a large percentage of South Africa's renewable energy programme and the introduction of Nedbank's Green Savings Bond, the value of which has increased to R866 million since its launch. Nedbank maintained its carbon-neutral status and received the Financial Times 2012 Sustainable Bank of the Year for Africa and the Middle East award as well as African Business Environmental Sustainability in Africa 2012 award.

Cluster performance

Nedbank's business clusters generated an increased RoE of 17.9% (2011: 17.1%) and headline earnings growth of 16.3%, with all line clusters delivering good performances.

	Headline earnings (Rm)			RoE (%)	
	2012	**2011[1]**	**% change**	**2012**	2011[1]
Nedbank Capital	**1,428**	1,228	16.3%	**25.4%**	22.6%
Nedbank Corporate[2]	**1,817**	1,571	15.7%	**22.5%**	24.5%
Nedbank Business Banking	**944**	866	9.0%	**21.5%**	21.3%
Nedbank Retail	**2,552**	2,091	22.0%	**12.1%**	10.8%
Nedbank Wealth	**716**	654	9.5%	**29.6%**	27.7%
Operating units	**7,457**	6,410	16.3%	**17.9%**	17.1%
Centre[2]	**53**	(226)			
Total	**7,510**	6,184	21.4%	**14.8%**	13.6%

1 Restated for enhancements to capital allocation methodologies implemented in 2012.
2 2011 restated for transfer of the Rest of Africa Division from Nedbank Corporate to the centre.

Strong earnings growth of 16.3% and the 25.4% RoE in Nedbank Capital were driven by good asset growth and pipeline conversion in investment banking, together with strong performance from global markets that resulted in materially increased structuring and trading income. The cluster's CLR improved, although remaining above its through-the-cycle range.

Nedbank Corporate performed well, producing good earnings growth of 15.7% and an RoE of 22.5%, underpinned by increased cash and electronic banking volumes, a strong delivery from the listed-property investment portfolio and favourable deposit growth. This performance was achieved within a well-managed impairment and expense environment across the businesses.

Nedbank Business Banking achieved headline earnings growth of 9.0% to R944 million through maintaining quality client relationships and outstanding risk management practices, as reflected in the CLR of 0.34% (2011: 0.53%). Good underlying momentum was noted in asset payouts, deposits and new client gains, notwithstanding the protracted challenges facing the small- and medium-enterprise (SME) sector in South Africa, which resulted in EP for the year of R368 million and a sustained high RoE of 21.5%.

Nedbank Retail's momentum is reflected in the 22.0% headline earnings growth and RoE improvement to 12.1%, narrowing the gap in relation to the cost of equity. This is testimony to the excellent progress strategically and financially in repositioning the cluster. The embedding of sound risk practices is reflected in the CLR of 2.01% (2011: 1.98%) remaining within the through-the-cycle range, while continuing to reduce defaulted loans and strengthen balance sheet impairments. Investment in distribution and distinctive client value propositions is yielding strong client gains and related transactional, deposit and lending volumes.

Nedbank Wealth continued to record sound earnings growth of 9.5% and an excellent RoE of 29.6%, supported by solid performance in the asset management and insurance businesses. These results were achieved despite pressure on impairments, a considerable deterioration in the short-term insurance claims environment in H2 2012 and the R31.5 million (post-tax) rebranding costs relating to the launch of its new single high-networth offering, Nedbank Private Wealth.

The centre produced a small profit in 2012 from a loss of R226 million in 2011, largely as a result of the R200 million portfolio impairment provision recognised at Nedbank Group level in the prior year. The Rest of Africa division, now included in the centre, delivered a strong increase in headline earnings of 35.2%.

Financial performance

Net interest income

Net interest income increased 9.1% to R19,680 million (2011: R18,034 million) and average interest-earning banking assets grew 7.5% (2011 growth: 5.1%).

The net interest margin (NIM) increased to 3.53% from the restated 3.48% level achieved in 2011. The margin expansion reflects the ongoing benefits of risk-adjusted pricing of new advances and portfolio-tilt-driven changes in the asset and deposit mix, partially offset by:

- The negative endowment effect of lower average interest rates in 2012
- The cost of lengthening Nedbank's funding profile
- The cost of carrying higher levels of lower-yielding liquid assets as Nedbank prepared for the implementation of Basel III liquidity coverage ratios.

Impairments

Lower levels of impairments at R5,199 million (2011: R5,331 million) were reported. The CLR improved to 1.05% for the year (2011: 1.13%), remaining above Nedbank's through-the-cycle range of 60 to 100 basis points.

Credit loss ratio analysis

(%)	**2012**	H2 2012	H1 2012	2011
Specific impairments	**0.91%**	0.84%	1.00%	1.01%
Portfolio impairments	**0.14%**	0.16%	0.11%	0.12%
Total credit loss ratio	**1.05%**	1.00%	1.11%	1.13%

Given the levels of overall consumer indebtedness, credit risk management remained a strong area of focus. The reduction in specific impairments to 0.91% (2011: 1.01%) was driven by a 17.0% decrease in defaulted advances to R19,273 million (2011: R23,210 million), while further strengthening the portfolio impairments charge to 0.14% (2011: 0.12%) mainly on the performing personal loans, Motor Finance Corporation and home loans books.

The increased level of portfolio impairments was mainly as a result of further model conservatism and book growth in personal loans as well as the lengthening of the emergence period in the Motor Finance Corporation book. Nedbank retained the R200 million central portfolio provision set aside last year for unknown events that may have already occurred but which will only be evident in the future. The total impairment coverage ratio increased to 56.4% (2011: 49.5%), largely due to asset mix changes in Nedbank's banking book.

Nedbank's collections processes, enhanced by additional collections staff and more effective collections processes, generated a 35.1% increase in bad debt recoveries amounting to R866 million (2011: R641 million).

Credit loss ratio

(%)	**2012**	H2 2012	H1 2012	2011	Through-the-cycle target ranges
Nedbank Capital	**1.06%**	0.72%	1.41%	1.23%	0.10 – 0.55
Nedbank Corporate	**0.24%**	0.18%	0.30%	0.29%	0.20 – 0.35
Nedbank Business Banking	**0.34%**	0.28%	0.41%	0.53%	0.55 – 0.75
Nedbank Retail	**2.01%**	2.02%	2.00%	1.98%	1.50 – 2.20
Nedbank Wealth	**0.61%**	0.76%	0.46%	0.25%	0.20 – 0.40
Total	**1.05%**	1.00%	1.11%	1.13%	0.60 – 1.00

CLRs in the wholesale clusters improved in H2 2012. Nedbank Retail's CLR was maintained within its through-the-cycle range and at levels similar to those in H1 2012, reflecting the effect of asset mix changes as unsecured lending attracts higher levels of impairments than secured lending. Nedbank Wealth's CLR deteriorated mainly due to the impact of a subdued property market.

Non-interest revenue

The continued investment in the Nedbank franchise contributed to strong NIR growth of 12.4% to R17,324 million (2011: R15,412 million), lifting the ratio of NIR to expenses to 84.4% (2011: 81.5%), close to Nedbank's medium-to-long-term target of > 85.0%. Nedbank has delivered compound growth in NIR, excluding fair-value adjustments, of 11.0% over a four-year period.

Commission and fee income increased by R1.5 billion, rising by 13.7% to R12,538 million (2011: R11,031 million) on the back of increased activity in the transactional banking, card, personal loans, investment banking and advisory activities of Nedbank.

Insurance income grew strongly, increasing 24.9% to R1,695 million (2011: R1,357 million) from good insurance sales and underwriting performance, notwithstanding the poor weather conditions and fire-related claims in H2 2012.

Favourable market conditions and good performance in the trading business, notably in fixed-income, delivered excellent trading income growth of 22.0% to R2,644 million (2011: R2,168 million). Realisations and dividends received in Nedbank Corporate property and Nedbank Capital investment portfolios generated R211 million (2011: R323 million) in private equity income.

Negative fair-value adjustments of R265 million (2011: R60 million loss) were recognised mainly as a result of basis risk on centrally hedged positions, accounting mismatches in hedged portfolios, including fixed-rate retail deposits and personal loans, and credit spread unwind on certain of Nedbank's Tier 2 debt.

Following the scheduled termination of the contract with Swisscard that previously housed the Tando card processing operations, NIR was negatively impacted as no further revenue was generated in 2012 (2011: R214 million).

Expenses

Nedbank's strong cost management culture remains a key differentiator and contributed to a lower level of expense growth for 2012 in line with guidance.

- Expenses increased 8.5% to R20,528 million (2011: R18,919 million), consisting of 4.1% for business-as-usual activities, 2.1% for investing in growth initiatives and 2.3% for variable compensation.

Growth in expenses was primarily from:

- Staff-related expenses increasing 11.2% and comprising:
  - remuneration and other staff cost growth of 8.5%, following inflation-related annual increases averaging 6.5% and 0.9% headcount growth
  - short-term incentive costs increasing 18.7% driven by 21.4% headline earnings and 63.5% EP growth
  - long-term incentive costs increasing by 71.4% as 2011 contained a higher reversal of costs when corporate performance targets were not met and related incentive awards lapsed.
- Volume-driven costs, such as fees and computer processing costs, continuing to grow in support of revenue-generating business activities.
- Investing for growth initiatives, including footprint roll-out, headcount growth in frontline and collections staff, new innovative offerings and enhancements in product and system functionality.

The efficiency ratio improved to 55.5% (2011: 56.6%), absorbing the negative impact of the interest rate cut in July on endowment and consequently NII growth.

Since 2007 Nedbank's five-year compound NIR growth of 10.6% exceeded the related compound expense growth of 8.8%.

Taxation

The tax charge increased 30.9% to R2,871 million (2011: R2,194 million), with the effective tax rate increasing to 26.8% (2011: 25.2%). The increase resulted mainly from lower levels of dividend income received and an increase in capital gains tax (CGT) rate from 14.0% to 18.65%.

Statement of financial position

Capital

Nedbank's capital ratios strengthened during the year, positioning the organisation favourably for the adoption of Basel III, which was successfully implemented on 1 January 2013. All capital adequacy ratios remained well above the Basel II.5 minimum regulatory capital requirements and Nedbank's new Basel III internal target ranges. Nedbank's strong capital position enabled the redemption of a further R1.8 billion Tier 2 subordinated debt during 2012 in line with our capital management planning and positioning for Basel III.

In August 2012 Nedbank obtained approval from the South African Reserve Bank (SARB) to manage the Motor Finance Corporation book on its Advanced Internal Ratings-based Credit Approach. The resultant reduction in risk-weighted assets, along with good earnings growth, contributed to further strengthening of the Basel II.5 common equity Tier 1 ratio to 11.4%.

Nedbank reset its internal targets in line with the new South African Basel III regulations based on the increased minimum regulatory requirements for common equity Tier 1 in 2019, and Tier 1 and total ratios in 2015.

The new internal targets include a conservative management buffer and allowance for potential Pillar 2B bank-specific add-ons while taking cognisance of anticipated Basel III capital levels in other jurisdictions, the view of rating agencies and Nedbank's Internal Capital Adequacy Assessment Process. The Basel III regulatory minimums include minimum regulatory requirements for common equity Tier 1 in 2019, Tier 1 and total ratios in 2015 as well as a conservative Pillar 2B add-on, but exclude any counter-cyclical capital buffer requirements.

	2012 ratio (Pro-forma Basel III)	**2012 ratio (Basel II.5)**	2011 ratio (Basel II.5)	Internal target range (Basel III)	(%) Regulatory minimum (Basel III)
Common equity Tier 1 ratio	11.6%	11.4%	10.5%	10.5%-12.5%	9.00%
Tier 1 ratio	13.1%	12.9%	12.0%	11.5%-13.0%	11.25%
Total capital ratio	15.1%	14.9%	14.6%	14.0%-15.0%	13.50%

(Ratios calculated include unappropriated profits.)

Nedbank's ratios are anticipated to continue improving in 2013, driven by projected earnings growth and the portfolio tilt strategy.

Capital allocation to businesses

As reported during Nedbank's 2012 interim results, economic capital allocated to the business clusters was revised from 10.0% to 11.0% to align the businesses with the higher operating capital levels held by Nedbank under Basel III and the allocation of capital impaired against certain intangible assets, previously held at the centre. The upward revision of capital allocated to the clusters resulted in a dilution of the clusters' RoE performance, given higher capital levels. Headline earnings and RoE numbers for the business clusters for 2011 were restated on a like-for-like basis. These enhancements had no impact on Nedbank's overall headline earnings, capital levels and RoE.

Funding and liquidity

Nedbank remains well funded with a strong liquidity position and a lengthened funding profile, with the fourth-quarter average long-term funding ratio increasing further to 26.0% (2011: 25.0%).

In addition to launching a number of competitive and innovative savings and investment products for the retail market, the following funding strategies were implemented during the year:

- Issuing of R3.2 billion of senior unsecured debt with a tenure ranging from three to seven years
- Issuing of R1.8 billion through the Greenhouse securitisation programme with tenure of up to five years
- Maintaining a significant surplus liquidity buffer in excess of R24.0 billion
- Improving Nedbank's sources of quick liquidity to R107.5 billion (2011: R103.6 billion).

In May the SARB announced that banks would be able to include cash reserves in the calculation of the liquidity coverage ratio (LCR), and the SARB would make available a committed liquidity facility (CLF) of up to 40% of the LCR requirements. Taking into account Nedbank's cash reserves, the liquid assets held for regulatory purposes, the surplus liquidity buffer and the notional ability to access the CLF, Nedbank would be compliant with the Basel III LCR on a pro-forma basis at 31 December 2012.

This was further supported by amendments to the LCR by the Basel Committee on Banking Supervision (BCBS) on 6 January 2013, which are likely to be adopted by the South African regulator. These amendments are positive in that they:

- Allow for a longer lead time to implement the LCR, starting from 60% (previously 100%) in January 2015 and increasing to 100% in January 2019
- Result in a broader definition of qualifying high-quality liquid assets (HQLA)
- Reduce HQLA requirements given refinements to various cash outflow assumptions in the LCR formula.

The revisions to the LCR will be beneficial for banks, with associated cost savings and more time to implement the LCR.

Having finalised the LCR, the BCBS is now expected to focus on the net stable funding ratio (NSFR). The impact of NSFR compliance by South Africa and most banking industries worldwide would be punitive if implemented as currently set out in the draft requirements, significantly impacting both global and domestic economic growth and job creation. Structural constraints within South African financial markets will add further challenges to domestic compliance with the NSFR. The SARB and National Treasury, in conjunction with the financial services industry, are engaging proactively during the observation period prior to implementation in order to address any unintended consequences for South Africa. It is anticipated, based on extensive global discussion and the experiences gained from the LCR implementation process, that a fundamental revision and a pragmatic approach will be applied to the NSFR well in advance of its proposed implementation in 2018.

Loans and advances

Loans and advances grew 5.6% to R527 billion (2011: R499 billion), with strong growth in trading advances of 49.2%. Excluding trading advances, banking advances growth of 3.8% was largely underpinned by advances growth in Nedbank Capital and Nedbank Retail.

Loans and advances by cluster at year-end are as follows:

			Rm
	2012	2011	% change (annualised)
Banking activity	**52,732**	48,558	8.6%
Trading activity	**29,762**	19,952	49.2%
Nedbank Capital	**82,494**	68,510	20.4%
Nedbank Corporate	**162,730**	157,271	3.5%
Nedbank Business Banking	**60,115**	58,856	2.1%
Nedbank Retail	**190,647**	183,748	3.7%
Nedbank Wealth	**19,864**	19,624	1.2%
Other	**11,316**	11,014	2.7%
Total	**527,166**	499,023	5.6%

Nedbank Capital's banking advances growth was driven by the successful conversion of its robust investment banking pipeline and increased trading advances as the interbank funding desk experienced significantly better market conditions than in the year before. Nedbank Corporate recorded favourable growth in term loans and commercial mortgages of 8.4% and 5.3% respectively, while reducing the levels of lower-yielding overnight loans. Continuing pressure in the SME environment saw Nedbank Business Banking's clients defer expansion plans, deleverage further and transact less, which – together with judicious risk management – kept advances growth to 2.1%. Retail's advances growth came from strong gains in cards of 16.1% (2011: 9.2%) and in the Motor Finance Corporation book of 10.3% (2011: 9.7%), while tightening criteria resulted in personal loans growing at a reduced rate of 28.7% (2011: 36.5%). Low consumer demand for home loans in conjunction with selective advances growth and the roll-off of the back-book led to a 5.5% reduction in the retail home loans book, with origination through its own client relationships and channels being emphasised.

Deposits

Deposits grew by a healthy 5.1% to R551 billion (2011: R524 billion), maintaining a strong loan-to-deposit ratio of 95.7% (2011: 95.2%).

The lengthening of the funding profile was primarily due to ongoing growth in call and term deposits of 9.9% and fixed deposits of 8.2% as a result of a strong uptake in the Retail Savings Bond of R3.3 billion and wholesale deposit offerings such as Corporate Saver. Cash management deposits grew 7.5%, boosted by net primary banking client gains, whereas the more volatile negotiable certificate of deposit (NCD) category decreased 21.4%.

Current and savings accounts grew well, increasing 7.9% and 9.3% respectively, underpinned by Nedbank's strong franchise. Altogether, these improvements in the funding profile ensured that Nedbank continued to hold a higher proportion of household deposits relative to the size of our retail bank.

However, strong competition for deposits in 2012 resulted in some loss of overall market share in household deposits. The launch of innovative new deposit products such as Nedbank Money Trader, increasing functionality on our world-class internet and mobile banking applications, and various other initiatives will contribute to growing the transactional client base and positioning Nedbank strongly for sustainable growth in savings and investment deposits.

Case study

Nedbank green money

At Nedbank we have a number of products and solutions to help grow the green economy. We are one of the leading investors in infrastructure projects in South Africa's financial market, particularly in financing renewable energy projects. We provide a range of funds focused on environmental and social benefits that our customers can invest in, such as our BGreen Exchange-Traded Fund (ETF), and the Nedbank Green Savings Bond; and we recently launched the Nedbank Capital Sustainable Business Awards to recognise the contributions of companies and individual leadership towards sustainable business practices in Africa.

For more information on the Group's Responsible Business activities see pages **10-11**.

Strategic focus

Nedbank's strategy is outward-looking, with a focus on growing the franchise and delivering on its key strategic initiatives of repositioning Nedbank Retail, growing NIR, implementing the portfolio tilt strategy and expanding into the rest of Africa.

- Nedbank Retail is allocated 39.1% of Nedbank's capital and its strategic repositioning will contribute significantly to ongoing improvements in Nedbank's performance. While endeavouring to leverage early turnaround gains to achieve an RoE at or above the cost of equity (CoE) of 13% by the end of 2013, a year ahead of the original 2014 target, the deteriorating credit health of consumers noted in the last quarter of 2012 could make this challenging to deliver. Continued excellent progress was made in positioning Nedbank Retail as a more client-centred and integrated business while maintaining growth momentum in the underlying businesses, growing the number and quality of clients, embedding effective risk management practices and strengthening balance sheet impairments.
- Nedbank's NIR-to-expenses ratio target of > 85% is a key focus area as we continue to deliver good-quality annuity income through commission and fee growth from

primary-client gains, volume growth, new innovative products and cross-sell. In our technology division we enabled greater efficiencies, including the rationalisation of 20 banking systems and the reduction of our servers from 3,500 to 1,139 since 2009.

- The portfolio tilt strategy continued to gain traction, supporting EP growth from R57 million in 2009 to R1,511 million in 2012. Excellent growth in 2012 in commission and fee income of 13.7%, insurance income of 24.9%, assets under management of 34.1% and deposits of 5.1%, while emphasising profitable secured lending, demonstrates the benefit of focusing on these strategically important EP-rich, lower-capital and liquidity-consuming activities.
- In the short to medium term Nedbank's primary focus on South Africa and the Southern African Development Community (SADC) area continues to benefit Nedbank as this region has the largest EP pool for financial services in sub-Saharan Africa. The rights to acquire a shareholding of up to 20% in ETI in less than two years creates a path to provide a significant benefit to Nedbank's clients in the rest of Africa and the opportunity for shareholders to gain access to the higher economic growth in the rest of Africa in a prudent yet substantive manner.

Economic outlook

Despite a more promising start to many financial markets in 2013 there appears to be downside risk in most developed and many emerging market economies and forward visibility is limited.

South Africa's GDP is forecast to grow by 2.6% in 2013. Interest rates are likely to remain lower for longer and are expected to be unchanged through most of 2013.

Consumer indebtedness is anticipated to ease gradually, but remains high compared with historical levels, particularly with 39-year-low interest rates. This, combined with the lack of job security, is expected to limit the growth in demand for housing and other secured loans. Growth rates in unsecured lending are expected to continue to moderate.

Uncertainty is likely to continue to affect the level of business confidence and contain capital expenditure and growth in wholesale assets in the private sector. Government and public corporations are forecast to escalate their infrastructure spending, which should contribute to improved wholesale advances growth.

Prospects

In the context of the anticipated economic environment and continued low interest rates in South Africa, Nedbank's guidance for 2013 is as follows:

- Advances to grow at mid to upper single digits
- NIM to remain at levels similar to those in 2012
- The CLR 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, and allow Nedbank to meet the medium to long-term NIR-to-expenses target of > 85%
- Expenses to increase by mid to upper single digits.

Nedbank's medium-to-long-term targets remain unchanged, with the exception of revised targets relating to capital adequacy and dividend cover following finalisation of the SARB's revised guidelines on Basel III capital levels and the new dividend tax regime in South Africa announced during the year.

Metric	**2012 performance**	**Medium to long-term targets**	**2013 outlook**
RoE (excluding goodwill)	16.4%	5% above cost of ordinary shareholders' equity	Improving, remaining below target
Growth in diluted headline earnings per share	19.0%	≥ consumer price index + GDP growth + 5%	Meet target
Credit loss ratio	1.05%	Between 0.6% and 1.0% of average banking advances	Improving into upper end of target
NIR-to-expenses ratio	84.4%	> 85%	Improving to meet the target
Efficiency ratio	55.5%	< 50.0%	Improving, remaining above target
Common equity Tier 1 capital adequacy ratio (Basel III)	11.6%	10.5% to 12.5%	Strengthening, remaining around mid-point of new target
Economic capital	Internal Capital Adequacy Assessment Process (ICAAP): A debt rating (including 10% capital buffer)		
Dividend cover	2.19 times	1.75 to 2.25 times	1.75 to 2.25 times

SHORT-TERM INSURANCE

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

Key financial highlights

Adjusted operating profit (pre-tax and pre-NCI)

£43m

2011: £89m

Combined ratio

101.7%

2011: 95.0%

Number of employees

2,371

2011: 2,390

Underwriting result
(£m)

2012	**(10)**
2011	30

Underwriting margin
(%)

2012	**(1.7)**
2011	5.0

Return on Equity (RoE)
(%)

2012	**7.1**
2011	14.9

Gross premiums
(£m)

2012	**746**
2011	761

Overview

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.

Strategy

Our strategy is to deliver strong underwriting profit and premium 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 we 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 strategy in action:

1. Improve the customer proposition and experience

Reduced personal lines quote time through improved question flow and auto-population of data.
Implemented a dedicated complaints management capability.
Upgraded *Allsure* with new cover inclusions, cover restrictions and wording simplification.
Deployed a commercial quotation tool.
Continued to sign up new business in affinities, UMA and direct channels, in addition to our traditional broker channel.

2. Deliver high performance

Designed and implemented consistent commercial underwriting processes in the branch network.
Embedded a risk-based capital approach to pricing and capital reserving, in compliance with upcoming South African solvency regulation.

3. Share skills and experience across the Group

Continued premium growth through iWyze, M&F's direct insurance joint venture with the Emerging Markets Mass Foundation distribution team.
Concluded operational mechanism for partnering the Emerging Markets business in Africa.

4. Build a culture of excellence

Introduced a platform for staff to submit innovative ideas and earn rewards for the best ideas.
Refreshed the M&F brand in South Africa.

5. Simplify our structure

Reduced the number of levels in the organisational structure, allowing for more efficient communication.

Going forward:

1. Improve the customer proposition and experience

Focus on expansion into niche markets and new territories.
Develop iWyze proposition including improved digital capability and expanded product range.

2. Deliver high performance

Achieve disciplined, profitable growth with greater emphasis on niche business and reinsurance.
Further reduce management expenses through increased efficiencies.
Reduce average claims costs through a supply chain management strategy that enables us to direct our claims expenditure and build long-term strategic partnerships.

3. Share skills and experience across the Group

Work with Emerging Markets in Nigeria following proposed acquisition of Nigerian property and casualty business.
Continue to partner Old Mutual Emerging Markets in the rest of Africa to identify opportunities and exploit synergies.

4. Build a culture of excellence

Continue embedding a culture that supports outstanding performance.
Continue to focus on developing and retaining talent.

5. Simplify our structure

Consolidate all property and casualty businesses across the Group into a single reporting structure.

SHORT-TERM INSURANCE continued

Business profile	
Commercial (41.4% of Gross Written Premiums (GWP)	Our largest portfolio, 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 (10.1% of GWP)	Focused on corporate clients from mid-size companies to large multinationals. Offerings include protection, fire policies, accident policies and motor fleet insurance. The portfolio is serviced by specialists who support the major brokers in this sphere with expertise in mining, engineering, chemical production, motor manufacture and other major sectors.
Personal (31.4% of GWP)	Provides household, motor and all-risk short-term insurance to domestic customers and various financial groups. Our comprehensive personalised branded product, *Allsure*, continues to enjoy significant broker support. 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 (9.1% of GWP)	Alternative risk transfer products provided by a well-regarded team, primarily to medium-sized commercial customers.
Credit (8.0% of GWP)	Underwritten by an M&F subsidiary with a market-leading position in credit insurance.

Highlights

Growth continued with exceptional claims and start-up losses in iWyze impacting the underwriting result

			Rm
	2012	2011	% change
Underwriting margin	**(1.7)%**	5.0%	
Underwriting result	**(132)**	354	(137)%
Long-term investment return (LTIR)	**608**	625	(3)%
AOP (IFRS basis, pre-tax)[1]	**555**	1,039	(47)%
Gross written premiums	**9,706**	8,865	9%
Net earned premiums	**7,573**	7,039	8%
Claims ratio	**72.4%**	65.2%	
Combined ratio	**101.7%**	95.0%	
International solvency ratio	**64.0%**	66.4%	
Return on equity	**7.1%**	14.9%	

[1] 2012 and 2011 included 50% of the losses incurred by iWyze, M&F's direct insurance joint venture with Emerging Markets. The remaining 50% was recognised in Emerging Markets.

Review of results

Despite strong growth in the number of policies written, particularly in new direct markets and niche business, AOP was down 47%. This decrease was due primarily to a lower underwriting result, following severe weather losses and a marked deterioration in commercial fire claims. LTIR decreased by 3% due to the lower LTIR rate applied in 2012.

iWyze, our direct insurance joint venture with the Mass Foundation distribution team, continued to grow premiums, with policy count growth of 33% during the period. While still in a start-up phase, we are on track to deliver underwriting profitability.

The company remains well capitalised, with a 64% international solvency ratio (the ratio of net assets to net premiums) at 31 December 2012. M&F is at an advanced stage in its preparation for Solvency II and its South African equivalent, Solvency Assessment and Management (SAM), and continues to explore mechanisms to structure its balance sheet efficiently.

Underwriting and IFRS AOP results

The underwriting margin of (1.7)% (2011: 5.0%) was impacted by a significant market-wide increase in claims, investment in new business and lower premium rates, but benefited from well-contained claims servicing costs. Credit Guarantee performed well and the businesses in Namibia and Botswana continued to deliver satisfactory contributions. Start-up losses in iWyze increased to R161 million (2011: R119 million) and continued to have a significant impact on the overall underwriting result.

Gross written premiums increased by 9%, supported by good unit growth partially offset by softening rates. We increased our focus on achieving premium growth through alternative distribution channels, including direct through iWyze, underwriting management agencies and niche business.

The claims ratio increased from 65.2% in 2011 to 72.4%. We experienced a significant increase in large claims in our Commercial lines business and a higher number of claims in our Personal lines business, due primarily to adverse weather conditions. Some R204 million of hailstorm and flood claims from storms in Q4 2012 accounted for 2.7% of the claims ratio in 2012.

Process efficiencies identified in our change programme enabled us to reduce expenses by 5.5%, with an absolute fall of £5 million. The expense ratio improved from 15.7% to 13.8% as we continued to grow the business without increasing the cost base. But the reduced underwriting result decreased the RoE from 14.9% to 7.1%.

Management actions during the year

We are in the process of acquiring Oceanic's Nigerian general insurance business from Ecobank, subject to regulatory approval, for around R170 million (US$20 million). The transaction is expected to be completed in Q2 2013.

We successfully contained operating costs and implemented selective pricing action on poorly performing lines of business. This will continue in the 2013 renewal season and beyond.

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

Outlook for 2013

The significant number of catastrophe claims in late 2012 – and the continued high incidence of large claims in early 2013 – supports a likely hardening of rates in 2013. In addition, improved management information will allow us to implement selective price strengthening. We will continue to focus on disciplined, profitable premium growth, particularly through increased contributions from alternative channels. And we will improve underwriting performance through continued cost containment and a more efficient supply chain management strategy to reduce average claims costs.

Our operational activities and targets include:

- Keeping the expense ratio below 14% and increasing operational efficiency
- Implementing selective rate increases
- Increasing innovation, particularly in the area of digital connectivity
- Further developing pricing differentiation between iWyze customers
- Helping the broker community to manage the impact of tightened regulation on the remuneration for their services to customers
- Improving service levels to support further growth in policy count.

Going forward we will report all of the Group's Property and Casualty activities as a single segment, including 100% of the iWyze result.

Case study

Building financial knowledge in our future customer base

Old Mutual, Nedbank, Mutual & Federal all work together with Women Investment Portfolio Holdings (WIPHOLD) to create a full range of financial services and stimulate business development in the poorest and remotest regions of South Africa through an initiative called 'Imbizo'. Initially community and business support is provided through the Old Mutual and Nedbank Foundations, alongside business mentoring and coaching, free Old Mutual financial education and financial wellbeing workshops, developmental funding through Masisizane and unique financing vehicles such as the Nedbank Zakheleni loans. This develops business knowledge and capability so that businesses are in a position to take advantage of our range of financial services available to small businesses.

For more information on the Group's Responsible Business activities see **pages 10-11.**

US ASSET MANAGEMENT

Trading as Old Mutual Asset Management (OMAM) and based in Boston, US Asset Management (USAM) is an international asset management business. Through its multi-boutique framework it delivers institutionally driven, active investment management to clients around the world.

Key financial highlights

Results from Continuing Operations[1]

£95m

2011: £85m

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

29%

2011: 27%

Number of employees

1,225

2011: 1,564

Adjusted operating profit (pre-tax) (£m)

2012	**91**
2011	67

Operating margin (before NCI) (%)

2012	**26**
2011	18

Funds under management: Results from Continuing Operations[1] (£bn)

2012	**128.4**
2011	117.8

Net client cash flow: Results from Continuing Operations[1] (£bn)

2012	**0.9**
2011	(2.9)

Overview

USAM's nine boutique firms (affiliates) offer a diverse range of investment strategies and products to a wide range of institutional investors around the globe.

We support our affiliates from the centre by providing them with strategic capabilities, promoting offshore expansion through our global distribution capabilities and helping them to deliver superior investment performance, innovative offerings and focused service to clients.

In 2012 we took steps to align our affiliate portfolio with our strategic growth plan by divesting affiliates which did not fit with our focus on long-term, institutionally driven, active investment management. We therefore continue to present our results on two bases: 'reported results' and 'results from continuing operations'. Results from continuing operations exclude the operating results of the divested affiliates and certain restructuring costs, to represent the earnings of the business as it is now constituted[1].

Strategy

Our strategy is to achieve continued growth in our core nine affiliates by developing their investment capabilities to react to changing institutional requirements. We will accelerate this process through selected centre-led initiatives. Future investments in the affiliates in seed capital provision and global distribution will be combined with ongoing cost control at the centre and monitored against our required return criteria.

1 Continuing operations excluded the results of 2100 Xenon, Larch Lane, 300 North, Analytic, Ashfield Dwight, and Old Mutual Capital, which were disposed during 2012, and Lincluden, which was disposed during 2011. Continuing operations also excluded OMAM(UK), which was transferred to the Old Mutual Wealth operation of LTS in 2012. Reported results include OMAM(UK) in 2011 and Q1 2012.

Our strategy in action:

1. Improve the customer proposition and experience

Strong investment performance in key products with 62%, 66% and 76% of assets beating benchmark over one, three and five years
Progressed global distribution strategy, completing the process of filling key roles and identifying focus areas

2. Deliver high performance

AOP grew 41% from $107 million on reported basis in 2011 to $151 million on continuing operations basis.
Operating margin, before non-controlling interests, of 29% achieved on continuing operations basis.
Positive NCCF of $1.4 billion on continuing basis.

3. Share skill and experience across the Group

$1.8 billion of Group mandates sourced by USAM in 2012[1].
Co-ordination with multiple Group companies to support affiliate growth.

4. Build a culture of excellence

Continued improvement in culture metrics.

5. Simplify our structure

Divestitures completed for 2100 Xenon, Larch Lane, 300 North, Analytic, Ashfield, Lincluden, Dwight and Old Mutual Capital
OMAM(UK) transferred to Old Mutual Wealth.
Over $100 million of seed capital returned from sale of affiliates.

Going forward:

1. Improve the customer proposition and experience

Enhance partnership with existing affiliates.
Assess affiliate portfolio to fill critical product and asset class gaps.
Successfully execute global distribution strategy.

2. Deliver high performance

Manage business to achieve agreed financial targets.
Drive sustained positive NCCF.

3. Share skill and experience across the Group

Increase level of Group mandates managed by USAM.
Leverage Group distribution channels.

4. Build a culture of excellence

Drive equity culture.
Focus on achieving desired cultural attributes.

5. Simplify our structure

Continue to align centre activities with strategy.

[1] Including $0.3 billion in relation to affiliates disposed during 2012, and $0.8 billion in relation to OMAM(UK).

US
ASSET MANAGEMENT continued

USAM boutique investment managers (continuing operations)			
Affiliate	Established	Investment style	Funds under management 31 December 2012
Barrow Hanley	1979	Fundamental US global and international value equity and US fixed income manager	$67.7bn
Acadian	1986	Quantitative US, global and international equity manager	$51.9bn
Rogge	1981	Fundamental global fixed income manager	$50.2bn
Heitman	1966	Public and private real estate, real estate debt manager	$20.5bn
Campbell	1981	Timber investment management company	$6.6bn
TS&W	1969	Fundamental US/international value equity and fixed income manager	$6.2bn
ICM	1972	Fundamental US value equity manager	$2.1bn
Copper Rock	2005	Fundamental US small/SMID growth and global equity manager	$1.8bn
Echo Point	2010	Fundamental international growth equity manager	$1.7bn

Highlights

AOP up 35% through strategic repositioning of affiliate portfolio, strong market returns, and a return to positive NCCF in our continuing operations

			$m
Reported results[1]	**2012**	2011	% change
AOP (IFRS basis, pre-tax)	**144**	107	35%
Operating margin, before non-controlling interests	**26%**	18%	
Operating margin, after non-controlling interests	**21%**	15%	
Net client cash flow ($bn)	**(0.4)**	(24.6)	98%

	31-Dec-12	31-Dec-11	% change
Funds under management ($bn)	**208.6**	231.5	(10)%

			$m
Results from continuing operations[1]	**2012**	2011	% change
AOP (IFRS basis, pre-tax)	**151**	137	10%
Operating margin, before non-controlling interests	**29%**	27%	
Operating margin, after non-controlling interests	**24%**	24%	
Net client cash flow ($bn)	**1.4**	(4.7)	130%

	31-Dec-12	31-Dec-11	% change
Funds under management ($bn)	**208.6**	183.3	14%

1 Continuing operations excluded the results of 2100 Xenon, Larch Lane, 300 North, Analytic, Ashfield Dwight, and Old Mutual Capital, which were disposed during 2012, and Lincluden, which was disposed during 2011. Continuing operations also excluded OMAM(UK), which was transferred to the Old Mutual Wealth operation of LTS in 2012. Reported results include OMAM(UK) in 2011 and Q1 2012.

Review of 2012 progress (2012 results from continuing operations compared to 2011 reported results)

IFRS AOP from continuing operations of $151 million was up 41% on the 2011 reported result, supported by positive markets. AOP operating margin on continuing operations (before non-controlling interests) increased 1,100 basis points to 29% from a reported margin of 18% in 2011.

Benefiting from positive market conditions, continued strong investment performance and affiliate divestitures, net client cash inflows from continuing operations improved to $1.4 billion (2011: $24.6 billion outflow on a reported basis), turning positive for the first time since the reported flows of 2007.

IFRS AOP results and operating margin

Reported results

IFRS AOP was up 35% to $144 million (2011: $107 million), driven largely by savings realised through the sale of seven affiliates and the transfer of OMAM(UK) to Old Mutual Wealth, in addition to strong market performance.

AOP operating margin before non-controlling interests improved 800 basis points to 26% (2011: 18%) as a result of the improvement in IFRS AOP, despite the fall in FUM over the period.

Results from continuing operations

IFRS AOP from continuing operations was up 10% to $151 million (2011: $137 million), due to increases in management and performance fees and lower deferred acquisition cost amortisation than the comparative period, partly offset by additional investment in global distribution.

Management fees increased $15 million or 3% over the comparative period due to higher average FUM, while performance and transaction fees were up $24 million or 126%.

AOP operating margin before non-controlling interests was up 200 basis points at 29%. We maintain a margin target of 25% to 30% or more, before non-controlling interests.

Investment performance for continuing operations

For the one-year period ended 31 December 2012, 62% of assets outperformed benchmarks (2011: 65%). Over the three and five-year periods to 31 December 2012, 66% and 76% of assets outperformed benchmarks (2011: 73% and 69%); the fall in three-year performance resulted primarily from one product's below-benchmark performance.

$bn

	Continuing operations		Disposed of or transferred affiliates		Total	
	2012	2011	**2012**	2011	**2012**	2011
Opening FUM	**183.3**	188.4	**48.2**	69.9	**231.5**	258.3
Gross inflows	**28.7**	20.9	**3.4**	8.5	**32.1**	29.4
Gross outflows	**(25.3)**	(24.6)	**(5.2)**	(28.4)	**(30.5)**	(53.0)
Total client-driven net flow	**3.4**	(3.7)	**(1.8)**	(19.9)	**1.6**	(23.6)
Hard asset disposals[1]	**(2.0)**	(1.0)	**–**	–	**(2.0)**	(1.0)
Net client cash flow	**1.4**	(4.7)	**(1.8)**	(19.9)	**(0.4)**	(24.6)
Disposals	**–**	–	**(42.0)**	(2.7)	**(42.0)**	(2.7)
Transferred to Old Mutual Wealth	**–**	–	**(6.6)**	–	**(6.6)**	–
Market and other	**23.9**	(0.4)	**2.2**	0.9	**26.1**	0.5
Closing FUM	**208.6**	183.3	**–**	48.2	**208.6**	231.5

[1] Hard asset disposals constitute forestry, property and similar assets, which were sold and proceeds passed to client beneficiaries.

Reported results

FUM ended the period at $208.6 billion (31 December 2011: $231.5 billion).

The management buy-outs of 2100 Xenon Group, 300 North Capital, Analytic Investors, Ashfield Capital Partners and Larch Lane Advisors during Q4 2012 reduced FUM by $11.2 billion, while the disposals of Dwight Asset Management Company LLC and OMCAP in Q2 2012 reduced FUM by $30.8 billion. Positive market movements added $26.1 billion, or 11% of opening FUM.

Net client cash outflows for the period totalled $0.4 billion (2011: $24.6 billion outflow). Positive cash flows in continuing firms concentrated in global fixed income and emerging markets were offset by outflows in US equities. 2011 saw substantial stable value outflows at Dwight.

Results from continuing operations

Year-end FUM increased 14% to $208.6 billion (2011: $183.3 billion) due to market appreciation and improved NCCF.

FUM consisted primarily of long-term investment products diversified across equities ($118 billion, 57%), fixed income ($63 billion, 30%) and alternative investments ($28 billion, 13%).

Net client cash inflows of $1.4 billion (2011: $4.7 billion outflow) reflected continued strong affiliate investment performance and positive market trends for the year in aggregate. Total client-driven net client cash inflows were $3.4 billion before investment-driven hard asset disposals of $2.0 billion in USAM's real estate and timber managers.

The combination of improved NCCF and an increase in average basis points on cash flows yielded annualised revenue of $12.4 million (or an average of 88 basis points) from NCCF in 2012.

Gross inflows totalled $28.7 billion (2011: $20.9 billion), with $11.8 billion of gross inflows relating to new client accounts. Inflows were led by US and global fixed income products, in addition to emerging markets, international and global equities. Gross outflows totalled $27.3 billion (2011: $25.6 billion), led by US and international equities, and global fixed income products.

During 2012 Barrow, Hanley, Mewhinney & Strauss won a $1.4 billion mandate to sub-advise the Transamerica Dividend Focused Fund. $871 million of this funded in January 2013; the remainder is expected to fund later this year. In Q4 our timber manager, Campbell Group, won a $0.7 billion acquisition of forestry assets in South Australia – a key step in its global expansion.

Non-US clients currently account for 35% of FUM (2011: 33%). International equity, emerging markets, global equity and global fixed income products accounted for 52% of year-end FUM (2011: 50%).

Management actions and decisions taken during the year

We completed the repositioning of our existing affiliate portfolio in Q4 2012, divesting five affiliates through management buy-outs: 2100 Xenon Group, 300 North Capital, Analytic Investors, Ashfield Capital Partners and Larch Lane Advisors. These transactions, completed at the end of Q4, followed the Q2 sales of OMCAP and Dwight Asset Management Company – allowing us to refocus on investment and distribution efforts for the nine continuing affiliates. OMAM(UK) was transferred to Old Mutual Wealth at the start of Q2 2012. We are exploring opportunities to reallocate the capital returned as a result of these transactions.

In 2012 we announced organisational changes to further align USAM's executive structure with its strategic objectives. Key among these was the appointment of Linda Gibson as Head of Global Distribution. She will advance our strategy of building core institutional distribution capabilities in global markets and channels to support the expansion of our nine continuing affiliates, including leveraging existing Group capabilities and relationships. We continued to progress this strategy in 2012, completing the process of filling key roles and identifying primary focus areas.

Outlook for 2013

In 2013 we expect to maintain our operating margin within the target range of 25% to 30% or more, before non-controlling interests. We expect aggregate NCCF to remain positive, assuming continued strong markets and affiliate investment performance, and we aim to increase our penetration of markets outside the US in 2013 and beyond. We continue actively seeking and evaluating opportunities to add to the existing investment capabilities in our portfolio of affiliates, both organically and through fold-in acquisitions.

Case study

Demonstrating best practice in carbon reporting

Old Mutual has remained on the 'Carbon Disclosure Leadership Index' for the past four consecutive years and currently ranks 8th in the Financial Services Sector for the FTSE350 category. The index represents the largest source of corporate carbon data on companies world-wide and is used by investors to assess a company's professional approach to corporate governance in respect of climate change disclosure practices. Our position in the leadership Index is recognition of market leading data management and the understanding of climate change related issues affecting the company.

For more information on the Group's Responsible Business activities see pages **10-11**.

NON-CORE BUSINESS
BERMUDA

Old Mutual Bermuda is a non-core business; its results are excluded from the Group's IFRS AOP, although the interest on inter-company loans from Bermuda to Group Head Office is charged to AOP.

Management actions

Old Mutual Bermuda continued to implement its run-off strategy of risk reduction while managing for value. An option-based hedging strategy implemented in March 2012 has significantly improved its risk profile by hedging the impact of any subsequent adverse equity market movements on the cash top-up payments to policyholders reaching the fifth anniversary of their Universal Guarantee Option (UGO) Guaranteed Minimum Accumulation Benefits (GMAB) contracts.

In addition to the option hedge in place for fifth anniversary cash top-up payments, we have dynamically hedged foreign currency exchange exposures and the residual equity market risk for the risk extending beyond the five-year top-ups at a level of 50%.

In July 2012, in consultation with the Bermuda Monetary Authority, the Group recapitalised Old Mutual Bermuda in anticipation of the expected new Bermudan solvency requirements.

Key metrics and outcomes

IFRS results

The IFRS post-tax profit for the period was $254 million (2011: $286 million loss), driven primarily by the reduction in GMAB reserves and a realised gain on the fixed income portfolio, partially offset by a full write-off of all remaining deferred acquisition costs.

MCEV results

The 2012 operating MCEV earnings resulted in an after-tax gain of $157 million (2011: $76 million). The improvement was due mainly to a combination of positive operating experience and favourable changes in the surrender and future operating expense assumptions as a result of higher-than-expected lapses on the UGO GMAB business.

MCEV earnings including economic variances and other non-operating variances totalled $342 million (2011: $343 million loss), primarily due to an improvement in capital markets and realised fixed income portfolio gains.

Total insurance liabilities

Of year-end insurance liabilities totaling $2,764 million (2011: $4,831 million):

- $2,119 million (2011: $3,130 million) was held in a separate account relating to variable annuity investments, of which $1,856 million related to GMAB policies (2011: $2,858 million)
- $229 million (2011: $1,061 million) related to the variable annuity guarantee reserve on the GMAB policies
- $416 million (2011: $640 million) related to other policyholder liabilities. These included deferred and fixed indexed annuity business as well as variable annuity fixed credited interest investments.

The vast majority of the variable annuity guarantee reserve relates to contracts with UGO GMABs. The 2012 year-end UGO GMAB reserve was $219 million – a decrease of $816 million over the year, due mainly to improved overall equity market performance and a high level of UGO GMAB surrenders during the year.

UGO GMAB reserves and top-up payments

The UGO GMAB reserve relates to the full remaining period of the relevant policies, including the five-year anniversary value of 105% of total premiums, on contracts yet to reach that anniversary; the 10-year 120% top-up of total premiums; and any contracts with a Highest Anniversary Value (HAV) feature.

Fifth-anniversary payments began on 5 January 2012 and will continue until 29 August 2013. At the end of 2012, 67% of the UGO GMAB contracts by guarantee amount had passed their five-year top-up date.

The total estimated cash cost of meeting these fifth-anniversary payments to policyholders decreased from $689 million to $530 million as a result of favourable equity market movements. Hedge gains and losses have not been taken into account in the cash cost calculations.

The table below shows the level of guarantee reserves and, in respect of the UGO GMAB fifth-anniversary guarantees, the cumulative top-ups paid and the estimated top-up payments remaining based on equity market levels on the calculation date.

Calculation Date

$m

	Guarantee reserves for UGO GMAB	Actual cumulative top-up paid[1,2]	Estimated remaining top-up payment[1,2]	Total estimated top-up payment[1,2]
31-Dec-10	660	–	334	334
31-Dec-11	1,035	–	689	689
31-Dec-12	219	425	105	530
31-Jan-13	164	443	67	510

1 To meet UGO GMAB fifth anniversary payments.
2 Cash cost before gains on hedge options.

Highest Anniversary Value

80% of the UGO GMAB book by value at 31 December 2012 included an HAV feature, which gave holders of the policies concerned a 10-year guarantee value based on the highest policy value at any anniversary date. At 31 December 2012, 5% of the total UGO GMAB book by value had a 10-year guarantee above 120%.

Surrender development

Across the whole Bermuda book there were $1,929 million of surrenders in 2012 (2011: $1,182 million). At 31 December 2012 around 80% of non-Hong Kong UGO policies and around 60% of Hong Kong policies had been surrendered on or after their anniversary date.

Of the 16,842 UGO GMAB contracts that reached their fifth anniversary during 2012, 10,343 were surrendered.

There were 10,765 UGO GMAB contracts that had not reached their fifth anniversary at 1 January 2013, of these 10,472 will reach their fifth anniversary in H1 2013, with the remainder reaching this milestone by the end of August 2013.

2,840 non-GMAB policies remained at 31 December 2012, 13% of the total book. Total non-GMAB liabilities decreased by 26% to $679 million, of which non-GMAB separate account liabilities relating to variable annuity investments were $263 million.

Investment portfolio and treasury management

The realised gain on the fixed income portfolio was $31 million (2011: $1 million) and the net unrealised position was a gain of $14 million (2011: $29 million). There were no investment losses and no impairment or credit defaults in the period

The portfolio has a current average Moody's rating of Aa3, with investment-grade holdings continuing to represent more than 90% of the portfolio.

Old Mutual Bermuda will continue to sell assets from the fixed income portfolio and use other liquid assets of the business to meet its liabilities, which will include the cash requirements of the remaining 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 notes are structured in tranches allowing capital and treasury management flexibility, if cash is required from this source.

Capital and surplus

Local entity statutory capital and surplus increased to $1,105 million at 31 December 2012 (2011: $291 million), reflecting the July recapitalisation and the improved profitability for the year. The July recapitalisation related to the transfer of $571 million of capital to Bermuda from Group. The capital comprised $250 million of new inter-company loan notes, $260 million of Group seed investments and cash of $61 million.

The future level of capital required on both an economic and a regulatory basis will be influenced by the nature and extent of the run-off of the Bermuda business book and the amount of the investment hedge in place. We would expect to review the regulatory capital requirement with the Bermuda Monetary Authority in 2013.

Strategy and outlook

Old Mutual Bermuda will continue to implement its run-off strategy of reducing risk while managing for value, with liability management and de-risking initiatives designed to accelerate the run-off in 2013. Consideration is also being given to the future management of the remaining book of 10-year 120% top-up HAV policies and non-GMAB policies.

The Bermuda business assets backing the liabilities include:

			$m
	31-Dec-12	31-Dec-11	% change
Cash and other liquid assets	**330**	443	(26)%
Fixed income general account portfolio	**195**	543	(64)%
Collateral for hedge assets & FV of equity options	**52**	91	(43)%
Inter-company loan notes	**1,032**	830	24%
Investment in affiliated subsidiary (Group seed investments)	**260**	–	–
Separate account assets	**2,119**	3,130	(32)%
Other assets	**58**	122	(52)%
Total assets	**4,046**	5,159	(22)%

FINANCIAL REVIEW

Group Financial Highlights

Group highlights[1]

	2012	2011 (constant currency)	Change	2011 (as reported)	Change £m
Adjusted operating profit (IFRS basis, pre-tax)	**1,614**	1,363	18%	1,515	7%
Adjusted operating earnings per share (IFRS basis)	**17.5p**	16.1p	9%	18.0p[2]	(3)%
Group net margin[3]	**50bps**	43bps	7bps	46bps	4bps
Return on equity[4]	**13.0%**			14.6%	(160)bps
Net asset value per share	**146.2p**	132.4p	10%	140.2p	4%
LTS gross sales (£bn)	**23.3**	20.4	14%	21.5	8%
Life assurance sales – APE basis	**1,133**	1,152	(2)%	1,207	(6)%
Non-covered business sales[5]	**14,893**	13,007	14%	13,786	8%
Net client cash flow (£bn)	**5.0**	(11.7)		(11.4)	
– LTS net client cash flow (£bn)	**3.2**	3.2		3.2	
– USAM net client cash flow (£bn)	**(0.2)**	(15.6)		(15.3)	
Funds under management (£bn)	**262.2**	255.6	3%	267.2	(2)%
Total dividend for the year	**7.0p**			5.0p	2.0p
Total profit after tax attributable to equity holders of the parent	**1,173**			667	

1 The figures in the table are in respect of core continuing businesses only. The comparatives have been restated accordingly.
2 2011 adjusted operating earnings per share has been restated to take account of the 7-for-8 share consolidation that took effect on 23 April 2012.
3 Ratio of AOP before tax to average assets under management in the period.
4 RoE is calculated as core business IFRS AOP (post-tax) divided by average ordinary shareholders' equity (excluding the perpetual preferred callable securities).
5 Includes unit trust, mutual fund and other non-covered sales.

Adjusted operating profit (AOP)

During the year to 31 December 2012 ('2012' or 'the period') Old Mutual showed strong growth in profits compared to the year to 31 December 2011 ('2011') on a constant currency basis. Pre-tax AOP was £1,614 million, an increase of £251 million on a constant currency basis, driven by increased profitability in our long-term savings and banking businesses in the emerging markets. AOP earnings per share were up 9% to 17.5p on a constant currency basis. The weakening in the rand to sterling average exchange rate reduced sterling earnings; the profit increase on a reported basis was £99 million.

47% of AOP generated by the business units after tax and non-controlling interests was paid to the holding company in cash.

Group net margin

Group net margin (measured as profit before tax on average FUM and average banking assets at Nedbank) increased by seven basis points from 43 to 50 basis points on a constant currency basis. The increase was driven by strong profit growth in Nedbank, Emerging Markets and USAM. Average FUM was marginally up. In Emerging Markets, net margin increased by nine basis points due largely to a 19% growth in profits. In Old Mutual Wealth the net margin, excluding the gain from the previously reported smoothing for policyholder tax in 2011, decreased marginally from 31 basis points to 30 basis points, with a shift towards lower margin platform business, offset by operational scale in our expense base.

Return on equity

Core Group RoE was 13.0%, against a 2011 RoE of 12.5% with Nordic included. The 2012 equity base was reduced as a result of the Special Dividend in June 2012, more than offsetting the profit on disposal of Nordic. The 2011 reported Core Group RoE was 14.6%, with Nordic net average equity of £1.8 billion excluded from the equity base, as a result of its classification as a discontinued operation.

Long-Term Savings gross sales

Gross sales for Emerging Markets grew 25% to £11.7 billion, with the sales mix in South Africa continuing to shift from traditional life products to modern investment products including unit trusts and mutual funds. Gross sales in Old Mutual Wealth were £11.6 billion, led by UK Platform and OMGI inflows. Non-covered business sales in LTS, including unit trust and mutual fund sales, were up 27%. Non-covered sales in the second half of 2012 were strong at £8.3 billion, up 33% on the first half of 2012. Life assurance annual premium equivalent (APE) sales were down 2% to £1.1 billion.

Net client cash flow

The Group had strong positive NCCF of £5.0 billion (2011: £11.7 billion outflow). Excluding the outflows at the divested affiliate firms at USAM, NCCF was £6.1 billion (2011: £0.9 billion). Old Mutual Wealth NCCF was £2.0 billion, the positive inflows reflecting the momentum in our proposition as we attract new customers and further enhance features and functionality. This is particularly encouraging as it comes despite a backdrop of challenging markets, where advisers have remained focused on ensuring readiness for the RDR. Emerging Markets NCCF improved from £0.4 billion to £1.2 billion, despite the Public Investment Corporation outflow of £1.0 billion (R12.6 billion) from Old Mutual Investment Group South Africa's (OMIG(SA)) Electus boutique in July 2012. USAM saw net client cash inflows in its continuing business, reflecting continued strong investment performance in a number of key strategies and positive market trends.

Funds under management

Reported FUM increased by 3% on a constant currency basis, with NCCF of £5.0 billion and positive market movements of £26.9 billion offset by a £27.0 billion reduction in FUM from the divestment of affiliates at USAM and the disposal of Old Mutual Wealth's Finnish business. Excluding the impact of these divestments, FUM increased by 15%.

FUM rose 17% in LTS, with Emerging Markets up 16% and Old Mutual Wealth up 18%: £4.0 billion of this increase was due to the inclusion of Old Mutual Asset Managers (UK) (OMAM(UK)) for the first time in 2012. USAM FUM rose 14% in its continuing businesses.

Equity markets finished strongly in 2012, with the FTSE 100, S&P 500, MSCI World and the JSE All Share indices up by 6%, 13%, 13% and 23% respectively over the year.

Impact of foreign exchange

The rand to sterling average exchange rate weakened by 12% during 2012, reducing sterling earnings from our South African businesses. The US dollar to sterling average rate strengthened by 1%, increasing sterling earnings from USAM. The year-end rand closing rate was 10% lower than in 2011. The US dollar closing rate was also lower, down 4% against 2011. Both foreign exchange closing rate movements reduced sterling FUM.

Other economic impacts

South African long-term interest rates reduced significantly in 2012, with the 10-year government bond yield used as the Financial Soundness Valuation (FSV) rate decreasing from 8.2% at end-2011 to 6.9% at end-2012. This economic change had an unfavourable impact on IFRS AOP for Emerging Markets and in particular for the Retail businesses.

In order to manage the downside risk of a volatile FSV interest rate and its consequent impact on IFRS profits, Emerging Markets put a hedge programme in place in the second half of 2012. This partially hedged the risk and helped to reduce the negative impact from a further decline in the FSV rate in the latter part of the year. The hedge programme has been rolled forward into 2013.

AOP analysis

£m

	2012	2011 (constant currency)[1]	% change	2011 (as reported)[1]	% change
Revenue					
Fees	**2,086**	2,036	2%	2,075	1%
Underwriting[2]	**1,425**	1,322	8%	1,471	(3)%
Nedbank net interest income[3]	**1,145**	1,002	14%	1,120	2%
Nedbank non-interest revenue	**1,298**	1,135	14%	1,268	2%
Net other revenue	**404**	365	11%	402	–
Total revenues	**6,358**	5,860	8%	6,336	–
Expenses					
Finance costs	**(130)**	(128)	(2)%	(128)	(2)%
Administration expenses & other expenses	**(3,592)**	(3,388)	(6)%	(3,676)	2%
Acquisition expenses	**(1,022)**	(981)	(4)%	(1,017)	–
Total expenses	**(4,744)**	(4,497)	(5)%	(4,821)	2%
AOP before tax and non-controlling interests	**1,614**	1,363	18%	1,515	7%

1 The comparative period 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.

Sources of earnings are analysed on a constant currency basis below:

Fees increased by 2% to £2,086 million. The increase was driven by Emerging Markets and Old Mutual Wealth, reflecting higher average FUM. This was partly offset by a decrease in USAM due to the disposals of affiliates. Fees include asset-based fees, transactional fees, performance fees and premium-based fees, earned on unit-linked investment contracts and asset management revenues.

Underwriting increased 8% to £1,425 million. The increase was mainly driven by higher mortality profits in Emerging Markets and lower claims costs within Old Mutual Wealth. Mutual & Federal's underwriting results were impacted by higher claims experience during the period.

Nedbank net interest income (NII) was up 14% to £1,145 million, net of impairments, due to an increase in the net interest margin, an increase in interest-earning assets and a reduction in impairment provisions.

Nedbank non-interest revenue (NIR) was up 14% to £1,298 million. NIR includes service charges, trading income, commission and transactional fees. The increase was due to higher trading income, higher commission and fees, higher transactional volumes and increased insurance revenues.

Net other revenue was up 11% to £404 million, driven by an increase in long-term investment return (LTIR) in Emerging Markets and on excess assets. LTIR on excess assets increased by 64% to £54 million (2011: £33 million), primarily due to an increase in average excess assets held in South Africa pending payment of the Special Dividend to South African shareholders.

The LTIR rates are reviewed annually and reflect the returns expected on the chosen asset classes. The 2012 long-term rates for Emerging Markets, Mutual & Federal and Old Mutual Wealth were 9.0% (2011: 9.0%), 8.6% (2011: 9.0%) and 1.5% (2011: 2.0%) respectively. The 2013 long-term rates for Emerging Markets, Mutual & Federal and Old Mutual Wealth are 8.0%, 7.4% and 1.0% respectively. The asset allocation in South Africa will continue to be split 75% cash and bonds and 25% equity.

In 2012 the Group's AOP finance costs increased marginally as a result of the higher coupon on the £500 million Tier 2 bond issued in June 2011, compared to the Group's other debt instruments, and the timing of the debt repayment during the year. In September 2012 the Group redeemed the $750 million cumulative preference securities. The costs associated with this instrument are accounted for as non-controlling interests. Total finance costs, including the cost of this instrument, reduced by approximately £8 million. These finance costs are expected to reduce by over 35% in 2013 as a result of the full year effects of the debt reduction undertaken in 2012.

Administration expenses increased by 6% to £3,592 million, with increased costs in Nedbank, primarily due to higher staffing to service increased volumes, and Emerging Markets, driven by project costs and inflationary increases. Old Mutual Wealth costs increased, with expense savings offset by transformation and development spend, and the inclusion of OMAM(UK) for the first time in 2012.

The following Group central costs were included in administration expenses:

- Corporate costs were down 5% to £54 million (2011: £57 million), due to our ongoing efforts to reduce corporate costs in line with the Group's previously announced targets. Around 12% of these costs were incurred in South Africa in respect of activities which support the corporate centre. A further 8% were unavoidable listed holding company costs, including corporate insurances, audit fees and other recurring professional fees. We consider them to be low compared to peers.
- Net interest payable to non-core operations reduced by 22% to £18 million (2011: £23 million), due to lower prevailing rates on the loan notes to our Bermuda business.
- The other net expenses reduced to nil (2011: £18 million), primarily due to higher Group seed investment gains generated at USAM's affiliates, offsetting expenses.

Acquisition expenses increased by 4% to £1,022 million, primarily due to increased new business volumes in Emerging Markets and increased trail commission in Old Mutual Wealth, resulting from improved market performance in the year, which more than offset the impact of lower new business volumes.

Summary MCEV results

Adjusted Group MCEV per share

The adjusted Group MCEV per share increased by 13% to 220.3p, with 4,893 million shares in issue (2011: 5,562 million). Adjusted operating earnings contributed 15.7p per share and non-operating earnings and other movements contributed 10.5p per share.

The positive contribution from non-operating earnings and other movements was primarily due to the increase in the uplift for the Nedbank market value of 11.9p per share and the sale of Nordic resulting in an increase of 12.4p per share. This comprised the Nordic sale proceeds of 3.6p, share consolidation impact of 26.8p, offset by the Special Dividend paid on 7 June 2012, which reduced MCEV per share by 18.0p. Foreign exchange movements from rand depreciation had a negative impact of 13.4p per share.

		p
Adjusted Group MCEV per share at 31 December 2011[1]		**194.1**
Covered business	9.0	
Non-covered business	6.7	
Adjusted operating Group MCEV earnings per share[1]		**15.7**
Economic variances and other earnings	7.2	
Foreign exchange and other movements	(13.4)	
Dividends paid to ordinary and preferred shareholders	(6.1)	
Nedbank market value adjustment	11.9	
BEE and ESOP adjustments	(0.3)	
Mark to market of debt	(1.2)	
Impact of share consolidation	26.8	
Net proceeds from Nordic sale	3.6	
Special dividend	(18.0)	
Non-operating MCEV earnings and other movements		**10.5**
Adjusted Group MCEV per share at 31 December 2012[1]		**220.3**

[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.

The adjusted operating Group MCEV earnings per share decreased by 3.7p to 15.7p, including Nordic, and by 1.6p to 15.2p excluding Nordic. Non-covered business operating earnings increased by 0.7p and now represent 43% of total operating earnings (2011: 31%).

Covered business operating MCEV earnings per share decreased by 4.4p to 9.0p, including Nordic, and by 2.4p to 8.6p excluding Nordic. Excluding Nordic, the movements include:

- Emerging Markets earnings in sterling decreased 0.7p due to the weakening of the rand exchange rate. In rand terms, earnings increased due to a higher new business contribution, expected return and positive experience and assumption changes in respect of mortality and disability. This was partially offset by experience losses, including one-off development expenses in 2012 and significantly lower persistency profits, following the release of short-term termination provisions and alignment of persistency experience to assumptions at the end of 2011.
- Lower earnings from Old Mutual Wealth reflected restructuring initiatives of 1.8p, largely as a result of the change of strategy, including the future operation of the selected European businesses on a manage for value basis and lower positive rebate variances compared to 2011.
- Higher earnings from Old Mutual Bermuda as a result of positive persistency experience on variable annuity products, and the lightening of persistency and expense assumptions.

Non-covered business operating earnings per share increased by 0.7p to 6.7p, including Nordic, and increased 0.8p to 6p excluding Nordic. The increase excluding the contribution from Nordic was a result of higher earnings from the banking businesses, with Nedbank's earnings a result of higher net interest income and non-interest revenue. This was partially offset by lower earnings from Mutual & Federal.

At end-2012, 63% of the adjusted Group MCEV, pre-debt and net other business, was in emerging market countries (including Nedbank and Mutual & Federal businesses) (2011: 55%), with 22% in European businesses (2011: 35%) and 15% in the US (2011: 10%).

The RoEV is calculated as the adjusted operating Group MCEV earnings after tax and non-controlling interests of £789 million (2011: £1,055 million) divided by the opening Group MCEV.

During the period Old Mutual owned on average 54.6% of Nedbank. At end-2012, the market capitalisation of Nedbank was R90.5 billion, equivalent to £6.6 billion (2011: R69.6 billion; £5.5 billion). On a constant currency basis, Nedbank's market capitalisation increased by £1.5 billion from £5.1 billion at end-2011, due to a 30% increase in its share price over the period.

Free surplus generation

Core continuing operations generated £814 million of free surplus (2011: £803 million), of which £593 million (2011: £552 million) was generated by the LTS division. Covered business generated £493 million (2011: £431 million) with the increase attributable to lower new business investment and higher economic variances resulting from strong equity market performance partly offset by lower transfers from value of in-force business and adverse experience variances mainly arising from one-off development and restructuring costs. We expect the value of our remaining in-force business to generate a surplus of about £1.5 billion over the next three years. Over 50% of this surplus is expected to come from Old Mutual Wealth.

Non-covered business generated £321 million (2011: £372 million), with the decline mainly attributable to the lower underwriting result in Mutual & Federal.

Cash and liquidity

	£m
Opening cash and liquid assets at Plc at 1 January 2012	**441**
Operational inflows	
Operational receipts	**212**
Distributions from South African operations	**258**
Total operational inflows	**470**
Operational outflows	
Interest paid	**(142)**
Group Head Office costs	**(54)**
Inter-company interest and other operational outflows	**(9)**
Ordinary cash dividends	**(268)**
Total operational outflows	**(473)**
Net capital flows	**34**
Closing cash and liquid assets at Plc at 31 December 2012	**472**

Operational cash inflows to holding company

Inflows to holding company included hard currency operational inflows of £212 million, consisting of £145 million from Old Mutual Wealth and £67 million from US Asset Management. Distributions of £258 million were made by the South African businesses, with £108 million from Emerging Markets, £138 million from Nedbank and £12 million from Mutual & Federal.

Operational cash outflows and distributions by holding company

Operational outflows included finance costs of £142 million and Head Office costs of £54 million.

Ordinary cash dividends totalled £268 million. Dividends of £147 million were paid to shareholders on the South African register, funded directly by the South African businesses.

Net capital flows

Capital inflows included proceeds from the sale of the Nordic business, Dwight and Old Mutual Capital in the first half of 2012 and the sale of Old Mutual Wealth's Finnish business in the second half of 2012. The Group also sold 75% of its Zimbabwean operation to an OMSA subsidiary for an initial consideration of R1.1 billion, with deferred consideration of R0.5 billion potentially payable in 2015, subject to valuation.

We have agreed terms for the transfer of the Colombian and Mexican businesses to OMSA, subject to regulatory approval, and are continuing to prepare for the transfer of certain other emerging market subsidiaries to align their legal structures with their operational management.

Capital outflows included:

- Payment of the Special Dividend of £1.0 billion
- A cash transfer of £38 million ($61 million) into Old Mutual Bermuda in July 2012 in response to the expected new Bermudan solvency requirements. This formed part of the total additional capital of $571 million transferred to Bermuda, the balance being comprised of $250 million of new inter-company loan notes and $260 million of Group seed investments
- Cash of £1,073 million used to repay debt during the period
- The settling of an inter-company loan with Nedbank.

Liquidity

At 31 December 2012, the Group had available liquid assets and undrawn committed facilities of £1.7 billion (2011: £1.5 billion). Of this, available liquid assets at the holding company were £0.5 billion (2011: £0.4 billion).

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.

Capital and leverage

Debt strategy, profile and maturities

At 31 December 2012 the Group had applied £1.52 billion of cash to the repayment of debt since 1 January 2010, successfully completing its £1.5 billion initial debt reduction target set in March 2010. The £1.52 billion debt repaid included:

- £110 million (net of debt raised) repaid in 2010
- £339 million (net of debt raised) repaid in 2011
- £1,073 million repaid in 2012.

The debt repaid in 2012 included:

- £144 million to repay €200 million of a €750 million Tier 2 bond in January 2012
- £459 million to repay £388 million nominal of the £500 million senior debt (maturing in 2016) in August 2012
- £464 million to repay the $750 million cumulative preference securities in September 2012
- £6 million to repay subordinated debt in December 2012.

A further £180 million of debt will be repaid in due course, in accordance with the plans set out in the shareholder circular on the Nordic sale. Any decisions regarding the repayment of further debt will take account of capital treatment and the economic impact of the repayment and, where appropriate, will be subject to regulatory approval.

In the medium-to-long term the Group has further first calls on debt instruments amounting to £620 million in 2015 and £348 million in 2020. In addition the Group has £112 million of senior debt maturing in 2016, representing the amount outstanding following the tender in 2012. The £500 million Tier 2 bond issued in June 2011 matures in 2021.

Group debt summary

		£m
	2012	2011
Senior gearing (net of holding company cash)	**(3.0)%**	0.5%
Total gearing (net of holding company cash)	**8.5%**	15.6%
Book value of debt – MCEV basis	**1,607**	2,515
Book value of debt – IFRS basis	**1,569**	2,529
Total interest cover[1]	**8.8 times**	7.7 times
Hard interest cover[1]	**1.9 times**	1.7 times

1 Total interest cover and hard interest cover ratios exclude Nordic profits in current and prior periods.

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

At 31 December 2012 the Group had no direct exposure to the sovereign debt of Portugal, Italy, Ireland, Greece and Spain. The exposure to French sovereign debt at 31 December 2012 was less than £3 million.

Financial Groups Directive results

The Group's regulatory capital surplus, calculated under the EU Financial Groups Directive (FGD), at 31 December 2012 was £2.0 billion (2011: £2.0 billion). The £2.0 billion FGD surplus represented a coverage ratio of 158%, compared to 154% at end-2011. When stressed against a 1 in 10 shock event, the Group's FGD surplus would fall to £1.6 billion.

The FGD surplus was increased by statutory profits, but this was offset by the increase in the local regulatory capital requirement in Bermuda and the repayment of the Tier 2 subordinated debt. The sale of Nordic increased the FGD surplus by £1.6 billion. This was largely offset by the payment of £1.2 billion in special and ordinary dividends during 2012.

The future level of capital required in Old Mutual Bermuda, on both an economic and a regulatory basis, will be influenced by the extent and nature of the run-off of its book and the amount of the investment hedge in place. Taking account of the higher than anticipated surrender experience, we expect to review the regulatory capital requirement with the Bermuda Monetary Authority during 2013.

The Group's subsidiary businesses continue to have strong local statutory capital cover.

Business local statutory capital cover

	31-Dec-12	31-Dec-11
Old Mutual Life Assurance Company (South Africa)	**4.0x**	4.0x
Mutual & Federal	**1.8x**[1]	1.5x
UK	**2.3x**	2.0x
Nedbank[2,3]		
Common equity Tier 1:	**11.4%**	10.5%
Tier 1:	**12.9%**	12.0%
Total:	**14.9%**	14.6%
Bermuda	**1.6x**[4]	2.3x

1 2012 local statutory cover was based on interim SAM framework for non-life insurers, implemented on 1 January 2012.
2 This includes unappropriated profits.
3 2012 and 2011 Nedbank capital ratios are calculated on a Basel II.5 basis.
4 Based on Bermuda's expected new regulatory regime.

Regulatory capital

	2012		2011[1]	
	£m	**%**	£m	%
Ordinary equity	**4,948**	**89%**	4,565	80%
Other Tier 1 equity	**572**	**10%**	593	10%
Tier 1 capital	**5,520**	**99%**	5,158	90%
Tier 2	**1,343**	**24%**	1,903	33%
Deductions from total capital	**(1,289)**	**(23)%**	(1,360)	(23)%
Total capital resources	**5,574**	**100%**	5,701	100%

1 Capital as reported to the FSA. Numbers may differ slightly from those reported in the Annual Report and Accounts for 2011.

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's 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 is different from the locally reported surplus as 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, not all make a positive contribution to the Group's FGD position. The Group's regulatory capital was calculated in line with the FSA's prudential guidelines.

Economic capital

We continue to manage our business and monitor solvency internally on an economic capital at risk basis, which expresses solvency at a 99.93% confidence level. We are comfortably solvent on this basis with a current solvency ratio of over 160% (estimated, unaudited figure), and are therefore well positioned for the transition to Solvency II in the UK and its South African equivalent, Solvency Assessment and Management. Economic capital represents our internal view of our business and is more representative of the underlying risks. It allows for diversification both between different risks within entities and across sectors and territories.

Group RoE and margin and cost-saving targets

At the 2009 Preliminary Results and Strategy Update, the Group introduced three-year RoE and cost-saving targets. Progress against these targets is set out below.

RoE and margin targets	**2012**	2011	Target
Long-Term Savings			
Emerging Markets[1]	**24%**	24%	20%-25%
Old Mutual Wealth[2]	**13%**	16%	12%-15%
LTS Total	**20%**	20%	16%-18%
USAM operating margin[3]	**21%**	15%	25%-30%

1 Within Emerging Markets, African and Asian RoE are calculated as return on allocated capital.
2 Old Mutual Wealth RoE is calculated as IFRS AOP (post tax) divided by average shareholders' equity, excluding goodwill, PVIF and other acquired intangibles.
3 USAM operating margin measures AOP as a percentage of revenue and 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 to exclude gains/losses on seed capital.

Cost reduction targets

			£m
	Cumulative run-rate savings	Cumulative cost incurred to date	2012 run-rate target
Long-Term Savings			
Emerging Markets	**21**	–	5
Old Mutual Wealth	**80**	56	60
LTS Total	**101**	56	65
USAM	**15**	20	10
Group-wide corporate costs	**17**	1	15
Total	**133**	77	90

RoE and margin targets

Emerging Markets RoE remained high at 24%, with increased post-tax profits offset by an increased allocated capital base, supporting growth and expansion plans in Africa. Old Mutual Wealth RoE reduced to 13%, with lower operating profits partially offset by a more efficient capital base, following capital flows to the Group in 2012.

USAM's operating margin improved from 15% to 21% on a reported basis. USAM's operating margin from continuing business, which excluded divested affiliates, was 24% (2011: 24%) after non-controlling interests and 29% (2011: 27%) before non-controlling interests.

Nedbank's RoE (excluding goodwill) was 16.4%, an improvement of 1.1% on 2011, but was 1.7% below Nedbank's medium-to-long term target of 5% above the cost of ordinary shareholders' equity.

Cost reduction targets

We have delivered £133 million of cumulative run-rate savings, more than the £90 million run-rate target announced in March 2010, with all business units meeting or exceeding targets. The original £100 million target was restated to exclude Nordic following its sale. The cost incurred to deliver run-rate savings in 2012 totalled £1 million.

Group corporate cost run-rate savings of £17 million were delivered through ongoing restructuring at the Group's Head Office.

Statutory results

Reconciliation of Group AOP and IFRS profits

				£m
		2012		2011[1]
Adjusted operating profit		**1,614**		1,515
Adjusting items		**(459)**		(329)
Non-core operations (including Bermuda)[2]		**165**		(183)
Profit before tax (net of policyholder tax)		**1,320**		1,003
Income tax attributable to policyholder returns		**75**		(9)
Profit before tax		**1,395**		994
Total tax expense		**(472)**		(225)
Profit from continuing operations after tax		**923**		769
Profit from discontinued operations after tax		**564**		198
Profit after tax for the financial year		**1,487**		967
Other comprehensive income		**(835)**		(1,400)
Total comprehensive income		**652**		(433)
Attributable to:				
Equity holders of the parent		**476**		(408)
Non-controlling interests:				
Ordinary shares	**126**		(87)	
Preferred securities	**50**		62	
Total non-controlling interests		**176**		(25)
Total comprehensive income		**652**		(433)

1 The comparative period has been restated to reflect Nordic as discontinued.
2 Non-core operations include £161 million of profit after tax from Bermuda and £4 million of inter-segment revenue and profit from discontinued operations after tax, reflecting the results of Nordic.

Adjusting items

Key adjusting items made to IFRS profits to determine AOP:

- A £126 million loss on Group debt instruments held at fair value, resulting from a tightening in credit spreads, was excluded from AOP
- A £123 million amortisation charge in respect of other acquisition accounting adjustments primarily relating to the remaining Skandia business (ie excluding Nordic), was excluded from AOP
- £113 million of investment returns on policyholder investments in Group equity and debt instruments were included in AOP
- A £78 million charge for short-term fluctuations in investment return, largely as a result of lower returns on cash and bonds in South Africa compared to our LTIR assumption and expected asset allocation.

Non-core business units – Bermuda

The IFRS post-tax profit for the period was £161 million (2011: £178 million loss), driven primarily by the reduction in Universal Guaranteed Minimum Accumulation Benefits (GMAB) reserves and a realised gain on the fixed income portfolio, partially offset by a full write-off of all remaining deferred acquisition costs.

At 31 December 2012, 67% of the Universal Guarantee Option (UGO) GMAB contracts by guarantee amount had passed their five-year top-up mark. The cash cost of fifth anniversary top-ups paid was £268 million, further reduced by positive equity market movements. The estimated outstanding cash cost of fifth anniversary top-ups was £66 million at end-2012.

We experienced significantly higher than expected surrender rates for 2012. The UGO GMAB guarantee reserve at 31 December 2012 was £135 million (2011: £665 million). At 31 December 2012, around 80% of non-Hong Kong UGO policies and around 60% of Hong Kong policies had been surrendered on or after the fifth anniversary date.

Further information on Bermuda is included in the Business Review on pages 63-64.

Income tax attributable to policyholder returns

Under IFRS, tax on policyholder investment returns is included in the Group's tax charge rather than being offset against the related income. The impact is to increase profit before tax, with a corresponding increase to the tax charge. In 2012, tax on policyholder investment returns was £75 million (2011: £9 million credit), of which £27 million was attributable to Old Mutual Wealth and £48 million to Emerging Markets. In 2011, a smoothing adjustment in respect of Old Mutual Wealth's previous years' deferred tax assets gave rise to an AOP gain of £32 million; there was no such gain in 2012.

Total tax expense

The effective tax rate (ETR) on AOP increased from 23% in 2011 to 27% in 2012. Over 88% of the 2012 AOP tax charge relates to Emerging Markets and Nedbank. Movements in these business units have a correspondingly large impact on the Group's ETR. The increase in ETR was largely a result of:

- A 2% increase in Nedbank's ETR to 27%, due mainly to a lower proportion of untaxed dividend income
- A return to a more normal ETR of 27% (2011: 21%) in Emerging Markets, which also saw a reduction in the proportion of low taxed income in 2012
- An increase in AOP tax rate in Old Mutual Wealth from 12% to 22%. This was principally driven by market fluctuations resulting in significantly less exempt dividend income being allocated to the shareholder.

During the period we paid corporation tax of approximately £300 million. Around 90% was paid in South Africa, where a large proportion of the Group's profits were generated. Total taxes paid and collected in the year were around £1 billion.

Looking forward, and depending on market conditions and profit mix, we expect the ETR on AOP in future periods to range between 25% and 28%. We are reviewing the proposed changes to South African life business taxes announced in the South African budget on 27 February 2013, which may impact this range if enacted.

Discontinued operations – Nordic

Profit from discontinued operations included a £564 million profit on the disposal of Nordic. A brand impairment of £35 million attributable to the sale was recognised in the second half of 2012. We anticipate further IT and rebranding costs of around £60 million, directly related to the transaction in 2013.

Other comprehensive income

Other comprehensive income for the period showed a loss of £835 million (2011: £1,400 million loss), driven by the recycling of the foreign exchange reserves associated with Nordic from other comprehensive income through the income statement and unrealised foreign exchange losses, largely on the net asset value of the South African businesses.

Non-controlling interests

Non-controlling interests' share of total comprehensive income was £176 million (2011: £25 million loss), mainly reflecting non-controlling interests' share of Nedbank's profit, partially offset by their share of unrealised losses generated on the translation of Nedbank.

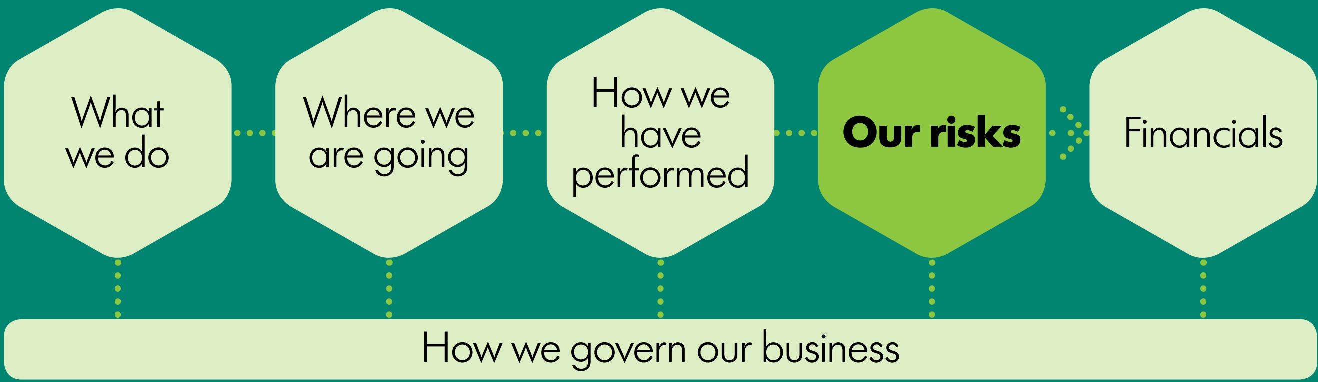
Supplementary financial information (data tables)

Summarised financial information (as reported)	**2012**	2011	£m % change
IFRS results[1]			
Basic earnings per share	**24.9p**	12.9p	93%
IFRS profit after tax attributable to equity holders of the parent	**1,173**	667	76%
MCEV results[2]			
Adjusted Group MCEV (£bn)	**10.8**	10.8	–
Adjusted Group MCEV per share	**220.3p**	194.1p	13%
AOP Group MCEV earnings (post-tax and non-controlling interests)	**789**	1,055	(25)%
Adjusted operating Group MCEV earnings per share	**15.7p**	19.4p	(19)%
Return on Group MCEV	**8.1%**	10.7%	

1 The comparative period has been restated to reflect Nordic as discontinued.
2 Includes Nordic and US Life.

OUR RISKS

Here we describe how we manage the major risks to which the Group and its businesses are exposed



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RISK AND CAPITAL MANAGEMENT

Old Mutual has invested significantly in enhancing its risk and capital management over the past four years.

This investment has been led by the Board and senior management, driven by a desire to support sound business decisions and attribute capital according to an accurate assessment of the economic risks involved. Despite the delays in regulatory reforms under Solvency II, South Africa is progressing with their equivalent development which is due to come into effect in January 2015. We believe that this early investment is timely and positions the Group well to comply with the new regulatory requirements as they arise. We are already sufficiently capitalised on an economic capital basis to comply with the new requirements as currently drafted.

We began the year with an established risk and governance framework set out in the Group Operating Model, economic capital tools developed through at least two full iterations, and transparent processes for managing, monitoring and controlling risks. During 2012 we merged these new tools and processes into business-as-usual operations and embedded them more deeply into the underlying businesses. We will continue to refine structures and processes, but the overall governance structures are stable and provide opportunities to obtain more detailed management information as required. Risk frameworks, governance and the Group's internal capital model are overseen centrally but implemented by our businesses locally so that local requirements can be addressed appropriately. This is reinforced through senior Group executive representation on business unit regulatory boards coupled with formal dual reporting for all key control functions.

In 2012 we revisited the risk strategy set in 2010, and now separately consider each of the regions in which we operate. This has confirmed that each region is sufficiently capitalised in its own right and that the distribution and allocation of capital to the relevant businesses in each region largely reflect the different risk profiles within those regions. This has also supported the decision and successful execution of our debt repayment programme. Even when applying significant economic stresses to our current capital, the Group remains sufficiently capitalised. We have also identified management actions that could be taken to remedy the Group's capital or liquidity position in a severe shock event where capital or liquidity levels significantly breach our risk appetite limits for a sustained period. In future we will be seeking to make use of diversification within these different regions in line with the Group's overall strategy.

The sale of the Nordic business in Q1 2012 did not change our overall risk profile significantly, as Nordic had very similar risks to the other European business. Broadly speaking, the risk strategy set in 2010 indicated a preference to reduce non-banking credit risk (subsequently achieved through the 2011 sale of US Life) and to increase liability risk. While the overall strategy to increase liability risk but contain credit risk continues to make sense, evidential experience has shown that this will be difficult to achieve by organically growing pure risk products alone.

The Group's overall risk profile, reflected by our economic capital results, is stable and indicates that the Group is comfortably within appetite on all capital measures, despite the weakened global recovery.

The outlook for earnings remains volatile. The most significant external risks to earnings relate to the concentration of businesses in South Africa and the translation of earnings from rand to sterling. The level of the rand is very susceptible to changes in the level of foreign investment in South African government debt. This remains high as the prolonged period of low growth in the US and Europe drives foreign investors to seek yield elsewhere. Any reversal of these flows could potentially trigger rapid decline in the rand, reducing our sterling earnings. Having modeled scenarios involving a severe rand drop, we are comfortable that the Group has sufficient capital and liquidity headroom to withstand such events.

As the Group's businesses position themselves for growth over the next few years, we recognise that this could increase short-term operational risk – particularly in Old Mutual Wealth, where the pace and level of change are greatest. Generally, at business unit level the increase in exposures is driven primarily by structural changes and cost control measures offset by continuing expected improvements to the control environment. Our relative exposure to operational risk is expected to reduce over the planning period, although in absolute terms it will remain stable due to business growth.

Exposure to credit risk has increased slightly, reflecting growth in Nedbank and Old Mutual Finance, but remains within appetite limits. In the current environment, our South African business remains exposed, from an earnings perspective, to interest rate risk. The Group remains underweight compared to its risk strategy goal of increasing liability risk, and business plans include a number of actions to increase this exposure while meeting our risk and return requirements. Old Mutual Bermuda (OMB), has significantly reduced market risk exposures including volatility risk, due to the hedging programme introduced in March 2012 and favourable surrender experience this year. This has greatly benefited the overall Group capital position.

Our strategic emphasis on customer focus and continuing senior-level engagement with regulatory policymakers position us well to address changes such as the UK's Retail Distribution Review and twin peaks regulation in the UK and SA.

In 2013 risk management activity will build on the investment made in the past, while supporting the following objectives:

- Ensure that risk measures are embedded and influences the behaviours of our staff and management through our employee performance management process
- Focus on our customers' needs and requirements, and review our product set to ensure that our products remain appropriate for our customers
- Further embed the use of relevant tools and skills to support us in taking on risk through new product offerings and entry into new territories, thus supporting our expansion into Africa and further diversification of our business in Old Mutual Emerging Markets
- Improve expense management and control throughout Old Mutual Wealth as the business implements its new operating model, including moving to an efficient cost base for the heritage books
- Take on more liability risk in our Old Mutual Wealth business as appropriate.

The following pages give more details of our risk preferences and current risk profile, with an overview of our current topical risks.

Sue Kean
Group Chief Risk Officer

RISK AND CAPITAL MANAGEMENT continued

Managing our economic risks

We continue to manage our business and monitor solvency internally on an economic capital basis, which expresses solvency at a 99.93% confidence level (ie covering a seven in 10,000 years event). We are comfortably solvent on this basis with a current solvency ratio in excess of 160%[1], and thus well positioned for the transition to Solvency II and the Solvency Assessment and Management regime (SAM) in South Africa. The economic capital basis represents our internal view of our business and is more representative of the underlying risks. It allows for diversification both between different risks within entities and across sectors and territories.

Old Mutual currently assesses and reports regulatory capital adequacy under the EU's Financial Groups Directive (FGD). Our planned transition to managing regulatory capital adequacy on a Solvency II basis has been deferred in line with the delay to the implementation of the Solvency II schedule. During 2012 we revised our FGD target metric to a coverage ratio, rather than an absolute amount, using stress and scenario testing techniques from our economic capital framework. The coverage ratio at December 2012 is comfortably above our new target (for more information on the Financial Groups Directive results see page 69).

Our risk appetite framework has evolved significantly over the past few years and the Group's internal capital model supports the setting of our integrated risk business strategy. We have enhanced the methodology, notably in the way risk appetite limits are set and agreed with each business unit. In particular, we have made limit-setting an iterative part of the business planning process to support the setting of local risk limits that reflect local business plans rather than being set 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.

We are comfortably solvent on an economic capital basis with a current solvency ratio in excess of 160%[1].

Periodically through the year business units calculate their risk exposures against the appetite set by the Group. The table below summarises the four quantitative measures we use to express our risk appetite 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 as a market value balance sheet basis for life companies and IFRS equity for non-life companies) over a one-year forward-looking time horizon that should only be exceeded seven times in 10,000 years (99.93% confidence level). ECaR helps us to optimise risk-based decisions. The stress tests underlying ECaR allow us to monitor our exposures and deepen our understanding of where the business could further improve its capital allocation. ECaR is similar to the 'solvency capital requirement' measure in Solvency II and has been calculated and used within the Group for more than five years.	Available financial resources should not fall below 100% of (internal) ECaR.
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 70%.
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 by over £500 million more than once in 10 years.
Operational risk (OpRisk)	The reduction in pre-tax economic value due to one in 10 year unexpected operational loss events (90% confidence level).	OpRisk as a percentage of pre-tax AOP should not rise above 10% of planned earnings over the year ahead.

[1] Estimated, unaudited figure

In addition to quantitative risk appetite limits, we also use qualitative risk appetite 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 2012 all Group risk metrics showed a lower level of risk exposure and Old Mutual is comfortably within appetite on all capital measures and earnings volatility. The reduction in risk exposure results mainly from steps taken to de-risk Bermuda and from favourable capital market performance. Group currency risk and Nedbank's credit and counterparty risk remain the top two quantitative contributors to economic capital at risk. As discussed below, the most significant risk to sterling earnings is the concentration of source earnings in rand in South Africa.

Risk profile of the Old Mutual Group by region

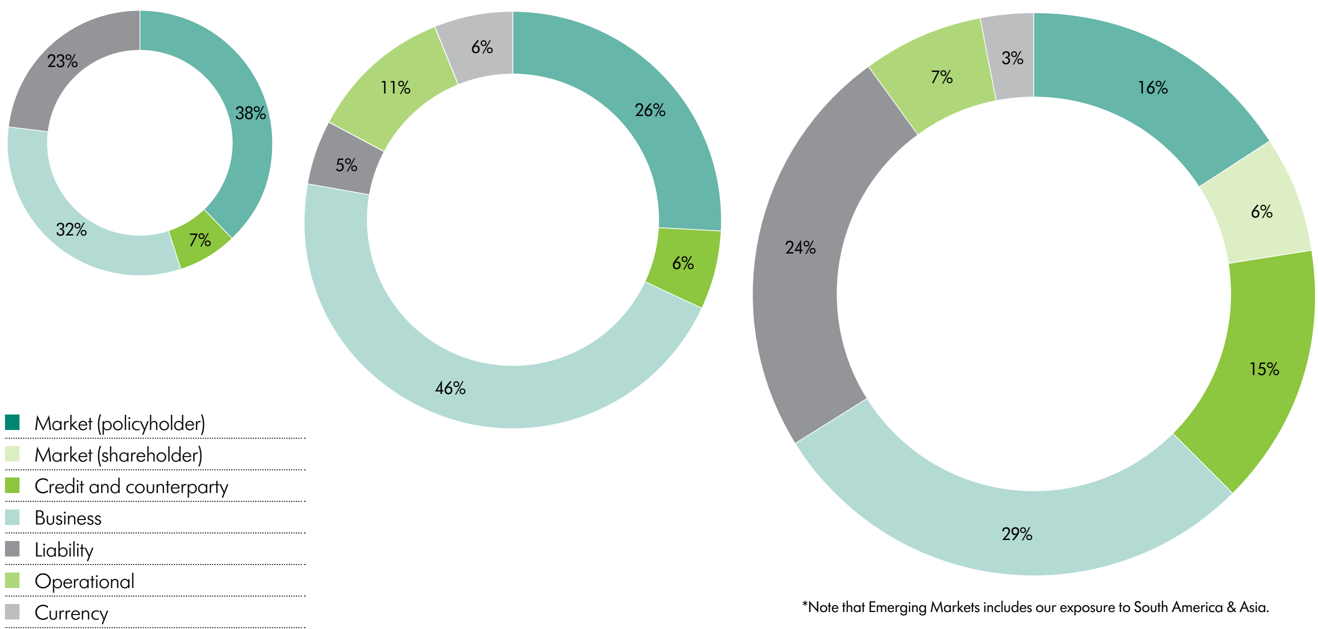
Our Group risk strategy distinguishes between risk and return preferences. The Group's risk preferences outline our position on different risk types, identifying the risks that we actively seek, avoid or view neutrally. The return preferences are driven by the probability and size of the returns.

The risk profile of the Group is based on stand-alone economic capital at risk, ie the relative contribution of each risk is determined before allowing for the impact of diversification between risks. We are moving towards a 'three regions' structure for our risk strategy and target risk preferences. The pie charts below set out our current risk profile by region (with the size of the pies providing an indication of the relative significance in capital terms of each region), and show that we are well diversified at a regional level. Each region is sufficiently capitalised and does not rely on diversification between regions for solvency purposes.

For Old Mutual Wealth, market risk (policyholder) consists of the impact of changes in fund-related management fees earned from client portfolios as a consequence of movements in asset markets. The classification of this risk is consistent across our life businesses, whereas for our asset management businesses this risk exposure is currently classified as business risk.

The risk profiles for the Old Mutual Wealth region, and the Emerging Markets, Nedbank, and Mutual & Federal region have remained stable over the period. The relative exposure to market risk (policyholder) in USAM and OMB has reduced significantly due to the de-risking exercise in Bermuda. This resulted in an increase in the relative contribution of USAM to the overall risk profile, as well as an increase in the relative contributions of both operational and business risk.

USAM and OMB (6%) | **OMW (27%)** | **Emerging Markets*, Nedbank and M&F (67%)**



*Note that Emerging Markets includes our exposure to South America & Asia.

RISK AND CAPITAL MANAGEMENT continued

The Group's current overall risk profile is set out below. This allows for additional risks at Group level not included in the pie charts, most notably currency translation risk due to our significant rand exposure. The expected return relative to target was developed as part of our 2010-2012 business and risk strategy setting, and reflects the risk-adjusted expected return. We will be reviewing the risk-adjusted expected return during 2013.

Our Group risk profile changed over 2012 due to favourable lapse experience and the implementation of management actions in Bermuda decreasing our market risk (policyholder), and a reallocation between market risk (policyholder) and currency risk.

We will continue to enhance our economic capital and stress and scenario testing framework, and further embed these within our business during 2013.

Risk Category	Risk preference	2010 profile	2011 profile	2012 profile	Expected return relative to target
Market (policyholder)	For	26%	27%	17%	Excellent
Credit and counterparty	Against*	22%	13%	11%	Neutral
Business	Neutral	24%	25%	29%	Good
Market (shareholder)	Against	4%	6%	4%	Poor
Liability	Strongly for**	8%	13%	15%	Excellent
Operational	Strongly against	12%	11%	9%	Very poor
Currency	NA***	4%	5%	15%	NA***

* Unless taken in the form of well governed and managed banking-related credit risk
** Assumes risk is correctly priced
*** No risk preference is set for currency as this risk is essentially a balance sheet translation risk of our SA business from rand into sterling

The Group's current topical risks

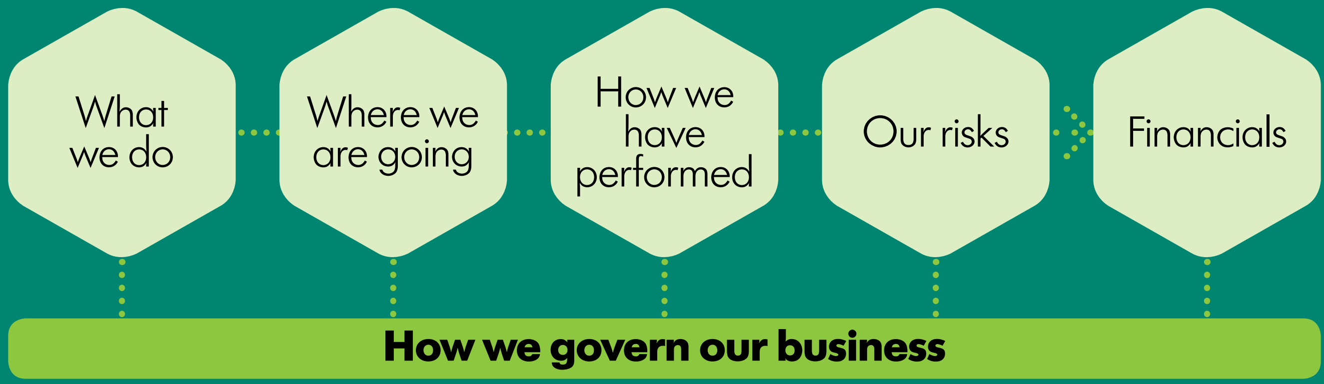
The table below summarises the Group's top five topical risks, which are currently at the top of our agenda. These risks are closely monitored and overseen by Group, which gives regular updates to the Board and Executive Risk Committees. Our business is also impacted by a number of inherent risks, such as the exposure to market levels (which drives a significant proportion of our capital requirement). Although market risk (policyholder) is material, a large portion is from the inherent risk within our product offering, as we are exposed to the impact of market movements on asset-based fees generated from client-selected investments. For further information on our inherent and significant risks, please refer to our website www.oldmutual.com/reports2012.

Risk description	2012 and beyond	Risk mitigation and management action
1. Currency translation risk and SA market risk The bulk of the Group's capital is held in South Africa to match the risks faced by the business there. In addition, a significant portion of our earnings comes from our South African businesses. Earnings and surplus capital are directly impacted by a depreciation in the rand. In addition to this, earnings from our South African business are exposed to market movements in the South African market.	During 2012, South African Government debt was downgraded and the rand depreciated significantly and is expected to remain volatile. Bond yields reduced during the year, increasing the value of certain liabilities in the South African business. In addition, Old Mutual Emerging Markets' IFRS earnings are sensitive to further falls in bond yields. Despite this, a positive climate for doing business remains in South Africa. The economic and demographic trends provide a strong case for investment and the country has a high level of fiscal discipline, with a strong banking sector which is well capitalised.	While future dividend flow from subsidiaries is still heavily impacted by rand risk, this is partly mitigated by the proposed policy of linking dividends to earnings. In addition, the Group uses currency hedging to partially mitigate the risk of a depreciation in the value of rand receipts from the South African business. Partial hedging was implemented during 2012 to protect against further interest rate reductions.
2. Credit risk across the Group One of our largest single quantifiable risks to the Group is our exposure to banking credit risk through our exposure to Nedbank. Despite tight controls and processes, profits remain sensitive to relatively small movements in the credit loss ratios. Our exposure to Nedbank is primarily contagion risk to earnings, as Nedbank's capital and liquidity requirements are both met from its own resources. There is also credit risk within the South African Life business through: ▪ Our unsecured lending joint venture, called Old Mutual Finance (OMF) ▪ Old Mutual Specialised Finance (OMSFIN) ▪ The South African Life business, predominantly through the management of assets backing annuity products ▪ A building society in Zimbabwe, although the exposure is very small.	Our credit risk remains stable. However, there has been an increase in our unsecured loan books in both Nedbank and OMF in a market with weakened credit characteristics amongst consumers. If low economic growth persists in South Africa, this may have an impact on impairment levels. However this risk would be mitigated to some extent if lower interest rates persist.	We are currently enhancing the credit risk limit framework to enable greater granularity and consistency of limits across the Group. We are closely managing credit loss ratios, though these are broadly within target range and have improved in the retail area. Nedbank and OMF apply cautious underwriting criteria compared to some of their competitors, to the extent of constraining growth vis-à-vis peers.

Risk description	2012 and beyond	Risk mitigation and management action
3. Old Mutual Wealth execution risk The key risk here is one of execution due to the volume and complexity of change rather than funding or capital constraints.	The level of operational risk within Old Mutual Wealth is increasing in the short term, reflecting significant changes to the operating model and staffing changes resulting in reduced continuity. We are increasing our focus on the control environment and prompt escalation during this period in order to mitigate the risk. While this is contrary to the Group's stated strategy of reducing overall operational risk, we have made an explicit exception as the operational risk increase is temporary and is necessary to address a larger strategic risk to the sustainability of the Old Mutual Wealth business model.	The business plan seeks to transform Old Mutual Wealth into a simpler, unified business with updated IT systems. The strategy, focusing mainly on the UK and International markets, is to take on more fund management and product risk to increase margins. There has been significant investment in IT and change governance over the past year. More recently we have changed the operating model to place more execution responsibility at the Old Mutual Wealth business level, with ongoing oversight at Group level.
4. Expansion in Africa We are looking to expand our business further into the African continent. This could potentially increase execution, reputational, legal and people risk.	The level of investment in new territories is still relatively small; while nominally more capital has been allocated to these territories, from an economic capital perspective they are not yet material to Emerging Markets. The approach has been cautious, and volumes of business are low.	We perform due diligence and careful groundwork before entering new territories to ensure we fully understand the risk that we are taking on. Where possible we consider partnering with local businesses rather than going in on our own. Where we have existing operations, we monitor new business levels and required capital for these businesses in order to identify higher than expected growth.
5. Old Mutual Bermuda The residual risk relating to the Bermuda business remains. However, we have reduced the exposure through reducing the equity volatility in the business.	At the start of 2012, the exposures in relation to Bermuda were our largest single risk to capital and the only material area which was outside risk appetite. In March 2012 we put in place an option-based hedging programme to mitigate the market risk for the five-year top-ups. In addition, significantly more policies than expected have been surrendered at or shortly after the five-year point.	The exposure to Old Mutual Bermuda has substantially reduced and the residual exposure is now within risk appetite. Although this is no longer the largest single risk to the Group, we continue to monitor the market exposure in the business.

HOW WE GOVERN OUR BUSINESS

In this section, we look at who is on the Board and explain how we address governance matters



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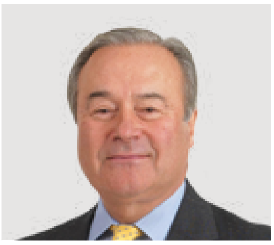
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1 Patrick O'Sullivan (63) (Irish)
M.Sc., B.B.S., F.C.A. (Ireland)
Chairman of the Board since January 2010.
Also chairs the Nomination Committee

Prior relevant experience

Vice Chairman of Zurich Financial Services (2007-2009), where he had specific responsibility for its international businesses including those in South Africa. Prior to that, he had been Group Finance Director and CEO, General Insurance and Banking, of its UKISA division. He has also held positions at Bank of America, Goldman Sachs, Financial Guaranty Insurance Company (a subsidiary of GE Capital), Barclays/BZW and Eagle Star Insurance Company.

External positions held

Chairman of the Shareholder Executive in the UK, non-executive director of Man Group plc and Deputy Governor of the Bank of Ireland.

2 Julian Roberts (55) (British) B.A., F.C.A., M.C.T.
Group Chief Executive
Please see Group Executive Committee on page 22 of this Report for further information.

3 Philip Broadley (52) (British) M.A., F.C.A.
Group Finance Director
Please see Group Executive Committee on page 22 of this Report for further information.

4 Mike Arnold (65) (British) B.Sc., F.I.A.
Independent non-executive director since September 2009.
Chairman of the Board Risk Committee and a member of the Group Audit and Nomination Committees

Prior relevant experience

Principal Consulting Actuary and Head of Life practice at the consulting actuarial firm Milliman (2002 - 2009). Prior to that, he had been the senior partner at the practice from 1995. 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.

External positions held

Non-executive director of Financial Information Technology Limited and Scottish Equitable Policyholders Trust Limited.

5 Russell Edey (70) (British) F.C.A.
Independent non-executive director since June 2004.
Chairman of the Remuneration Committee and a member of the Group Audit and Nomination Committees. Having now served on the Board for nearly nine years, Mr Edey will retire at the AGM in May 2013

Prior relevant experience

Chair of Anglogold Ashanti Limited (1998-2010). Prior experience as a member of the boards of a large number of listed UK companies. His career began in the Finance Division of the Anglo American Corporation of South Africa Limited in Johannesburg. He joined Rothschild in 1977 and was Head of Corporate Finance from 1991 to 1996.

External positions held

Chairman of Avocet Mining Plc and a non-executive director of a number of companies in the Rothschild Group.

6 Alan Gillespie (62) (British) CBE, B.A., M.A., Ph.D.
Senior Independent Director since May 2011, having joined the Board as an independent non-executive director in November 2010. Also a member of the Group Audit, Nomination and Remuneration Committees

Prior relevant experience

Partner at Goldman Sachs New York from 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.

External positions held

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).

7 Danuta Gray (54) (British) B.Sc., M.B.A.
Independent non-executive director appointed from 1 March 2013. She will also become a member of the Group Audit, Nomination and Remuneration Committees

Prior relevant experience

Chairman of Telefónica O_2 in Ireland until December 2012, having previously been its Chief Executive from 2001 to 2010, and she remains a consultant to Telefónica in Germany. Prior to that, she was a Senior Vice President for BT Europe in Germany, where she gained experience in sales, marketing, customer service and technology and in leading and changing large businesses. She previously served for seven years on the board of Irish Life and Permanent plc and was also a director of Business in the Community.

External positions held

Non-executive director, chairman of the Remuneration Committee and a member of the Audit Committee of Aer Lingus plc and also a non-executive director and member of the Remuneration Committee of Paddy Power PLC.

8 Reuel Khoza (62) (South African) Eng. D., M.A.
Non-executive director of the Company since January 2006 and Chairman of Nedbank Group since May 2006. Also a member of the Board Risk and Nomination Committees

Prior relevant experience

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.

External positions held

Chairman of Aka Capital, which is 25% owned by Old Mutual (South Africa). Non-executive director of Nampak Limited, Protea Hospitality Holdings Limited and Corobrik (Pty) Limited. Fellow and President of the Institute of Directors of South Africa.

9 Roger Marshall (63) (British) B.Sc. (Econ.), F.C.A.
Independent non-executive director of the Company and Chairman of the Group Audit Committee since August 2010. He is also a member of the Board Risk and Nomination Committees

Prior relevant experience

Former audit partner in PricewaterhouseCoopers, where he led the audit of a number of major groups, including Zurich Financial Services and Lloyds TSB.

External positions held

Chairman of the Accounting Council, a Director of the Financial Reporting Council and a non-executive director of Genworth Financial's European insurance companies.

10 Bongani Nqwababa (46) (South African)
B.Acc., C.A., M.B.A.
Independent non-executive director of the Company since April 2007. Also a member of the Group Audit, Nomination and Remuneration Committees

Prior relevant experience

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.

External positions held

Finance Director of Anglo American Platinum Limited since 2009. Chairman of the South African Revenue Services (Receiver of Revenue) Audit Committee.

11 Nku Nyembezi-Heita (52) (South African)
B.Sc., M.Sc., M.B.A.
Independent non-executive director of the Company since March 2012. She will become a member of the Board Risk and Nomination Committees from March 2013

Prior relevant experience

Former non-executive director of Old Mutual Life Assurance Company (South Africa) Limited (2010-2012), a position she relinquished upon taking up her role at plc level. Former Chief Officer of Mergers & Acquisitions for the Vodacom Group and Chief Executive Officer of Alliance Capital.

External positions held

Chief Executive Officer of ArcelorMittal South Africa since 2008. Non-executive director of the JSE Limited.

12 Lars Otterbeck (70) (Swedish) Dr. Econ.
Independent non-executive director since November 2006, also a member of the Board Risk, Nomination and Remuneration Committees. Following the Group's disposal of its Nordic business during 2012, Mr. Otterbeck will retire from the Board at the AGM in May 2013

Prior relevant experience

Prior to joining the Board, Mr Otterbeck held various senior business positions in Sweden, including as President and CEO of the Swedish mutual pension insurance company, Alecta, from 2000 to 2004.

External positions held

Non-executive director of Skandia Liv.

Further details of the assessment of the individual Board members' contribution to the Board and its Committees during 2012 and of the reasons for shareholders to support those standing for election or re-election at the 2013 AGM are contained in the explanatory notes accompanying the relevant resolutions in the shareholder circular relating to that meeting.

DIRECTORS' REPORT ON **CORPORATE GOVERNANCE** AND OTHER MATTERS

We continue to aim to meet investors' ever-increasing expectations in the areas of best practice and governance

2012 proved to be a significant year for the Company and its Board, with major steps being taken to achieve the various targets that we had announced in 2010. The Board monitored the progress that was being made against those targets closely throughout the year, which was the final year of the original three-year restructuring plan presented to shareholders. Our particular focus during the first half was on ensuring that the sale of our Nordic business was completed successfully and that the proceeds were deployed through a mixture of returns to shareholders by way of a Special Dividend and repayment of Group debt.

The Board and the Group Audit Committee continued to monitor the Group's financial position, reviewing monthly financial information and considering the Group's full-year and interim results announcements so as to ensure that they presented an accurate and appropriate picture of the Group's affairs. In line with recommendations emanating from last year's externally facilitated Board effectiveness review, we refined the content of the Board's monthly financial reports. Attention was paid to ensuring that Board and Committee members were receiving the right amount and type of information that would best enable them to obtain assurance about the state of the Group's finances, risk management and culture through a proactive marshalling of Board and Committee materials.

We also continued to take a close interest in the management of the run-off of liabilities under the closed book of business at Old Mutual Bermuda, which we were pleased to note showed a satisfactory and improving trend.

On the strategic front, we received presentations on our South African businesses' plans to expand into the rest of Africa, on Old Mutual Wealth's repositioning for the post-RDR world and on Nedbank's readiness for Basel III, among other topics, and we continued to devote a significant amount of Board time to discussing longer-term strategic options for the Group as a whole.

The Board again received feedback from the annual survey of Group culture and values, which helped to show where improvements had been achieved and where work still needed to be done. We see this as a crucial tool for monitoring and, where necessary, initiating change in the prevailing ethos of our businesses, which is so important for a customer-focused financial services group like ours.

The Company continues to seek to widen skills and diversity at Board level and we are pleased that Danuta Gray has joined us with effect from 1 March 2013.

In the regulatory area, we received further briefings on the prospective impact on the Group of Solvency II, including the consequences arising from the likely postponement of the implementation date for this new solvency regime. We also regularly reviewed the status of relationships with our regulators.

Looking forward, I am focused on ensuring that the Board continues to have the necessary skills and capacity to deal with the issues that face the Group and that we meet investors' ever-increasing expectations in the areas of best practice and governance.

Patrick O'Sullivan
Chairman

What is the Company's 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.

Our Group Operating Model is based upon a 'strategic controller' model steered from our Head Office. Its objectives are:

- To establish clear principles of delegation and escalation designed to provide appropriate levels of assurance about the control environment, while retaining flexibility for our businesses to operate efficiently
- To set out a clear and comprehensive governance framework, with appropriate procedures, systems and controls, facilitating the satisfactory discharge of the duties and obligations of regulated firms, directors and employees within the Group
- To provide a clear articulation of Old Mutual plc's expectations (as shareholder) of business unit boards when exercising their powers as set out in their respective constitutions
- To take due account of the regulatory requirement that boards of regulated entities maintain proper controls over the affairs of their respective businesses
- 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.

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 other territories where its shares are listed. The Company's major South African subsidiaries are 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 2012 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 UK Auditing Practices Board.

Who serves on the Board?

The Old Mutual Board currently has 12 members, two of whom are executive and 10 of whom are non-executive. All of the current directors, except for Nku Nyembezi-Heita (who joined the Board in March 2012) and Danuta Gray (who joined the Board from 1 March 2013), served throughout the year ended 31 December 2012. Eva Castillo served as a non-executive director throughout 2012, but resigned, because of the burden of other commitments, as a director and as a member of the Board Risk, Nomination and Remuneration Committees, on 28 February 2013. Russell Edey and Lars Otterbeck will both retire from the Board at the end of the AGM in May 2013, resulting in a continuing complement of 10 members.

The table below sets out the Board's membership in more detail.

Role	Name and nationality	Date of original appointment	Date current term ends	Current term as director	Committee memberships (from March 2013) Group Audit Committee	Board Risk Committee	Remuneration Committee	Nomination Committee
NED	Russell Edey (UK)	June 2004	May 2013	3rd (final year)	*		* Chair	*
NED	Reuel Khoza (SA)	Jan 2006	Jan 2014	3rd (2nd year)		*		*
NED	Lars Otterbeck (Swedish)	Nov 2006	May 2013	3rd (final year)		*	*	*
NED	Bongani Nqwababa (SA)	April 2007	April 2013[1]	2nd	*		*	*
NED	Mike Arnold (UK)	Sept 2009	Sept 2015	2nd	*	* Chair		*
CHAIR	Patrick O'Sullivan (Irish)	Jan 2010	Jan 2016	2nd				* Chair
NED	Roger Marshall (UK)	Aug 2010	Aug 2013	1st	* Chair	*		*
SID	Alan Gillespie (UK)	Nov 2010	Nov 2013	1st	*		*	*
NED	Nku Nyembezi-Heita (SA)	March 2012	March 2015	1st		*		*
NED	Danuta Gray (UK)	March 2013	March 2016	1st	*		*	*
CEO	Julian Roberts (UK)	Aug 2000						*
CFO	Philip Broadley (UK)	Nov 2008				*		

[1] On 28 February 2013, the Board approved the extension of Bongani Nqwababa's engagement for a further year from 1 April 2013.

What is the Board's role and how does it operate?

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 and Group Finance's monthly reports and holds regular strategy sessions at which high-level strategic matters are discussed. 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.

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, whose current members are described elsewhere in 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, in line with 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 2012 are outlined under the heading "What are the standing Board Committees and how have they operated during the year?" below and, for the Remuneration Committee, in the Remuneration Report.

While the Board currently includes 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, which help to keep it informed about the discussions that are taking place between the Group Chief Executive and the heads of the Group's main businesses and of Group central functions such as Risk, Strategy and Human Resources.

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.

In the absence of exceptional circumstances, non-executive directors (including the Chairman) serve a maximum of nine years in office. This maximum period of tenure now operates on the basis of two three-year terms, followed by 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 their appointment takes place.

What did the Board do during 2012?

The Chairman's introduction to this section describes some of the main matters that were addressed by the Board during the year. In addition to those and the regular updates on the Group's results, the Group Chief Executive's report on recent significant developments and major projects around the Group, and reports from Board committee chairmen, the following table sets out some more details of the Board's other activities at its scheduled meetings during 2012.

Date of meeting	Location	Topics covered
January 2012	OMSA's and Nedbank's offices in Sandton, Johannesburg	■ Pre-year-end review of results and the Annual Report and Accounts for 2011 ■ Update on the disposal of our former Nordic business and approval of the related shareholder circular ■ Update on strategy and progress against Group targets
March 2012	London	■ Review of the preliminary results for 2011 ■ Approval of the Annual Report and Accounts for 2011 ■ Recommendation of the final dividend for 2011 ■ Feedback from the 2011 Board effectiveness review
May 2012	London	■ Approval of the Q1 Interim Management Statement ■ Update on Group strategy ■ Presentations on the Group's Long-Term Savings (LTS) and LTS asset management businesses
July 2012	London	■ Briefing on the use of risk management tools and data in strategic decision-making ■ Strategy discussions
August 2012	Old Mutual Wealth's offices in Southampton	■ Review of the interim results ■ Declaration of the interim dividend for 2012
September 2012	London	■ Presentation on Old Mutual Wealth's European operations ■ Board briefing on the Internal Model for Solvency II
November 2012	London and by telephone	■ Approval of the Q3 Interim Management Statement
December 2012	OMSA's and Nedbank's offices in Cape Town	■ Review and approval of the Group business plan for 2013-15 ■ Discussion of Group strategy ■ Presentations by OMSA, Nedbank and Mutual & Federal on their business and strategy plans for 2013-15 ■ Presentation by Nedbank on its readiness for Basel III

How are people selected to join the Board?

Plans for refreshing and renewing the Board's composition are managed 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. This Committee also considers, in making recommendations, the independence of candidates and their suitability and willingness to serve on other committees of the Board. 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.

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.

DIRECTORS' REPORT ON **CORPORATE GOVERNANCE** AND OTHER MATTERS continued

What is the Company's approach to gender diversity?

In September 2011, we 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 appointed Eva Castillo in February 2011, Nku Nyembezi-Heita in March 2012, and Danuta Gray from March 2013, although Eva Castillo has now resigned from the Board (from the end of February 2013) because of her other commitments. Based upon our Board as it will be after this year's AGM (assuming no further changes prior to then), we would have two women out of ten continuing directors, ie 20% female representation.

At senior executive levels, women now hold approximately 15% of roles, slightly up on previous years, and make up 20% of the executive succession pipeline. We continue to take active steps through a variety of initiatives to encourage female members of staff around the Group to progress to more senior positions. These include our participation in the FTSE100 Cross-Company Mentoring Programme, in which our Chairman mentors a senior woman from another organisation and a CEO from another company mentors one of our female executives. We provide sponsorships to attend women's leadership programmes at premier business schools such as INSEAD, have an active Women's Network in the UK and have other related initiatives in other parts of the Group.

Are the non-executive directors independent?

Eight of the nine current non-executive directors other than the Chairman (Mike Arnold, Russell Edey, Alan Gillespie, Danuta Gray, Roger Marshall, Bongani Nqwababa, Nku Nyembezi-Heita and Lars Otterbeck) are considered by the Board to be independent within the criteria set out in the UK Corporate Governance Code, ie they are independent in character and judgement and have no relationships 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.

Who is your Senior Independent Director?

Alan Gillespie has been the Senior Independent Director since 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.

How is the Board's performance reviewed?

The Board conducts a review of its performance on an annual basis. These reviews are now carried out by an external expert at least every three years in line with the UK Corporate Governance Code. The review is designed to address the balance of skills, experience, independence and knowledge of the Group's businesses on the Board, its diversity (including gender), how the Board works together as a unit, and other factors relevant to its effectiveness.

Following the externally facilitated review that took place through IDDAS in 2011, the review for 2012 was conducted through an online questionnaire whose contents were co-ordinated with the prior year's process, supplemented by a series of thorough one-to-one interviews with each member of the Board carried out by the Group HR Director. The results were collated and reported back to a session of the Nomination Committee (which all other members of the Board were also invited to attend) at the end of January 2013.

The review concluded that:

- The Board and its committees had operated satisfactorily during the year, with a generally appropriate mix of skills represented on each of them and good levels of information and discussion, well facilitated by their respective chairmen
- The Company, in seeking new non-executive directors to join the Board, should consider people with additive experience in areas such as IT, the retail sector and doing business in the rest of Africa
- Efforts should be made to expand the Board's interaction with executive management further down the structure in order to help with evaluating succession planning for senior roles.

Who will be standing for re-election at this year's AGM?

All of the directors (save for the two who are retiring) will stand for election or re-election at the 2013 AGM. The Board 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 further details of the basis upon which the Board has assessed the performance, and recommends the election or re-election of the directors concerned are set out in the explanatory notes in the AGM circular.

Are directors required to hold shares in the Company and what are their current interests?

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% of his annual base salary within five years of appointment; the equivalent figure for other executive directors is 150% of their annual base salary. Both Julian Roberts and Philip Broadley are currently fully compliant with these guidelines. The Board has considered whether to adopt a shareholding requirement for non-executive directors, but does not consider this to be appropriate.

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 the interests in the first table below between 31 December 2012 and 1 March 2013. Danuta Gray does not currently have any interests in any of the Group's listed shares.

	Old Mutual plc Number of ordinary shares of 11³⁄₇p each[1]	Nedbank Group Limited Number of shares
At 31 December 2012		
Mike Arnold	11,134	–
Philip Broadley	513,434[2]	–
Russell Edey	21,875	2,604
Alan Gillespie	–	–
Reuel Khoza	–	14,774
Roger Marshall	45,000	–
Bongani Nqwababa	–	–
Nku Nyembezi-Heita	–	–
Patrick O'Sullivan	91,319	–
Lars Otterbeck	–	–
Julian Roberts	1,385,889[2]	–
Former director		
Eva Castillo (resigned on 28 February 2013)	–	–

	Old Mutual plc Number of ordinary shares of 10p each	Nedbank Group Limited Number of shares
At 1 January 2012 (or date of appointment as a director, if later)		
Mike Arnold	12,725	–
Philip Broadley	412,178[2]	–
Russell Edey	25,000	2,604
Alan Gillespie	–	–
Reuel Khoza	–	3,174
Roger Marshall	40,000	–
Bongani Nqwababa	–	–
Nku Nyembezi-Heita (appointed from 9 March 2012)	–	–
Patrick O'Sullivan	104,365	
Lars Otterbeck	–	–
Julian Roberts	1,128,633[2]	–
Former director		
Eva Castillo	–	–

1 The numbers for 31 December 2012 reflect the 7-for-8 share consolidation that took place in April 2012.

2 These figures do not include rights to restricted shares that have not yet vested, which are described in the Remuneration Report.

How are directors' conflicts of interest managed?

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 continued to operate effectively during 2012.

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.

What are the standing Board Committees and how have they operated during the year?

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 on the following pages.

DIRECTORS' REPORT ON **CORPORATE GOVERNANCE** AND OTHER MATTERS continued

Group Audit Committee

Members and dates 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). Danuta Gray has joined from March 2013. Secretary and date 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 eight times during 2012. The increased number of meetings, when compared to the prior year, did not reflect greater issues with the Group's results, but was rather intended to enable the Committee to review the preliminary results for 2011 and interim results for 2012 earlier in the process, with a confirmatory meeting following closer to their date of release.

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 insurance liabilities. The committee considers that the most significant areas of judgement in preparing the 2012 accounts were:
  - The accounting treatment of the disposal of Skandia Nordic
  - Actuarial assumptions relating to mortality at Old Mutual South Africa
  - The appropriate level of tax provisions
  - Loan loss provisions at Nedbank and Old Mutual Finance
  - Impairment of the carrying value of goodwill (see Note F1 to the Accounts). The committee reviewed the assumptions used to justify no impairment to goodwill this year and was comfortable with them. In particular, the committee reviewed the carrying value of goodwill and other intangibles relating to the Old Mutual Wealth businesses in continental Europe, now that certain countries are operating a closed book model. The committee agreed that the projected future cash flows from these businesses supported the carrying value of these intangibles, even though the carrying value would be unlikely to be realised on the open market given current market conditions.
  - 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, which reflects the surrender behaviour at those five-year anniversary dates that have fallen due so far of customers holding policies that contain potentially onerous guarantees. The eventual liability under policies containing such 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 range of possible outcomes.
- Reports received from the internal audit function, including the results of key audits and other significant findings relating to the Group's control environment, and the adequacy of management's responses and the timeliness of resolution. The committee also reviewed Group Internal Audit's response to an externally facilitated effectiveness exercise and endorsed its plans for adapting its future structure and working methodologies in response to this.
- Reports by the Risk Management and Compliance functions.
- 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 2011 had been completed, with input from the business units as well as from stakeholders at Old Mutual plc itself.
- Actions taken to resolve control risks of which the committee became aware, including progress with the Financial Controls Initiative. This included receiving reports from subsidiary management as appropriate.
- 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 and, if appropriate, the two committees can meet in joint session to discuss matters that are of common interest. 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 or controls 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 whistle-blowing 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 whistle-blowing facility and to help them detect the signs of possible fraudulent or improper activity.

The section later in this Report headed "Who are the Company's auditors and how much are they paid?" 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 2013.

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 received sufficient, reliable and timely information from management during the year to enable it to fulfil its responsibilities.

Board Risk Committee

Members and dates of appointment to the committee: Mike Arnold (Chairman) (2010), Philip Broadley (2010), Reuel Khoza (2010), Roger Marshall (2010), Lars Otterbeck (2010). Other member, until the end of February 2013: Eva Castillo. Nku Nyembezi-Heita has joined from March 2013. Secretary: Colin Campbell succeeded Martin Murray as Secretary to the committee in August 2012.

Mike Arnold has submitted the following report on behalf of the Board Risk Committee.

The committee met eight times during the year. The Chief Risk Officer and the Group Internal Audit Director attended each meeting and the Group Chief Actuary attended seven of the meetings. The external auditors were also invited to attend seven of the meetings.

The committee received a report at each of its meetings during 2012 from the Chief Risk Officer 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 2013 to 2015.

During the year, the committee devoted significant time to the financial risks in relation to Old Mutual Bermuda and the hedging and other mitigating actions taken to reduce these risks. The committee also reviewed the stress and scenario testing used to support the Board's decisions on capital management in the context of the Special Dividend and the repayment of debt.

In addition, during our meetings in 2012, we focused on:

- The Group's preparations for Solvency II
- The adoption of a revised Group-wide internal capital model which takes account of the Solvency II requirements as they currently stand, recognising that there are continued delays in reaching final agreement on aspects of Solvency II across Europe
- Assessments of the Group's capital and solvency position
- The content and suitability of the Group's suite of risk policies
- 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.

In connection with the finalisation of the Group's annual results, the committee submitted a report prepared by the Chief Risk Officer to the Remuneration Committee commenting on 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.

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.

During 2012, either Roger Marshall or I personally attended the risk and audit committees of each of the major subsidiaries of the Group and we have ongoing dialogue with the independent directors who chair those subsidiaries' committees. I shall continue to attend these meetings in 2013 in order to remain close to any major risk issues that may arise during the coming year.

Now that the Group's risk framework has been established, we intend to evolve the operation of the committee further during 2013. The committee will revert to a more normal level of four meetings annually, but I will receive more frequent updates through my meetings with the Chief Risk Officer and the Group Chief Actuary.

Nomination Committee

Members and dates of appointment to the committee: Patrick O'Sullivan (Chairman) (2010), Mike Arnold (2010), Russell Edey (2005), Alan Gillespie (2010), Reuel Khoza (2010), Roger Marshall (2010), Bongani Nqwababa (2010), Lars Otterbeck (2010), Julian Roberts (2008). Other member, until the end of February 2013: Eva Castillo (2011). Danuta Gray and Nku Nyembezi-Heita have joined from March 2013. Secretary and date 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 certain 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 are independent non-executive directors.

The 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, independence or diversity. 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.

In light of the fact that two of the existing non-executive directors (Russell Edey and Lars Otterbeck) would be stepping down at the AGM in May 2013, the Committee agreed at its meeting in August 2012 to start a process for identifying potential replacements, with the search to focus on candidates with a proven track record as a chief executive and strong general management experience. As the Group's strategy is reliant on strong IT systems, the ability to interact with customers online and a strong retail customer focus, experience in the IT and/or retail areas were deemed additional desirable skills.

MWM Consulting (an independent executive search and board advisory consulting firm) was appointed to lead the search, building on work that they had completed previously for the Board. The search commenced in earnest in September 2012, with submission of a long list, which was subsequently reduced to a shortlist of six candidates who were selected for interview.

Danuta Gray was deemed the most suitable candidate and it was agreed that she should attend the Board meeting in December, when she could meet the remaining Board members and observe the Board and committee meetings. Her candidature was duly endorsed and her appointment confirmed in February 2013, effective from 1 March 2013. It was also agreed that she would become a member of the Group Audit, Nomination and Remuneration Committees.

Remuneration Committee

Members and dates of appointment to the committee: Russell Edey (Chairman) (2007), Alan Gillespie (2010), Bongani Nqwababa (2010), Lars Otterbeck (2010). Other member, until the end of February 2013: Eva Castillo (2011). Danuta Gray has joined from March 2013. Secretary: Paul Forsythe succeeded Martin Murray as Secretary to the committee in August 2012.

A full description of the role of the Remuneration Committee and of its activities during 2012 is contained in the Remuneration Report.

Other committees

There are a number of executive committees which assist the Group Chief Executive with the day-to-day management of the Group. These include the Group Executive Committee mentioned earlier in this report, the Group Executive Risk Committee, whose responsibilities are described in the Risk and Capital Management report earlier in this document; and the Group Capital Management Committee, whose role is, among other things, 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.

What was the Board's attendance record during 2012?

The table below sets out the number of meetings held and individual directors' attendance at meetings of the Board and its principal committees (based on membership of those committees, rather than attendance as an invitee) during 2012.

Attendance record	Board (scheduled and ad hoc)	Group Audit Committee	Board Risk Committee	Remuneration Committee	Nomination Committee
Number of meetings held	11	8	8	5	6
Mike Arnold[1]	11/11	8/8	8/8	–	5/6
Philip Broadley[2]	10/11	–	7/8	–	–
Russell Edey	11/11	8/8	–	5/5	6/6
Alan Gillespie	10/11	8/8	–	5/5	6/6
Reuel Khoza	11/11	–	8/8	–	6/6
Roger Marshall	10/11	8/8	8/8	–	6/6
Bongani Nqwababa[3]	10/11	6/8	–	3/5	5/6
Nku Nyembezi-Heita[4]	6/7	–	–	–	–
Patrick O'Sullivan	11/11	–	–	–	6/6
Lars Otterbeck	10/11	–	8/8	5/5	6/6
Julian Roberts	11/11	–	–	–	6/6
Former director					
Eva Castillo[5]	9/11	–	5/8	4/5	4/6

1 Mike Arnold missed one Nomination Committee meeting because of a close family illness.
2 Philip Broadley missed one Board and one Board Risk Committee meeting because of a close family bereavement.
3 Bongani Nqwababa missed a number of Board and Committee meetings during 2012 because of conflicting executive commitments in his role as Finance Director of Anglo American Platinum Limited.
4 Nku Nyembezi-Heita missed one Board meeting during 2012 because of conflicting executive commitments in her role as Chief Executive of ArcellorMittal South Africa.
5 Eva Castillo missed a number of Board and Committee meetings towards the end of 2012 because of conflicting executive commitments in her new role as Chairman and Chief Executive Officer of Telefónica Europe. These other commitments led to her resigning from the Board with effect from 28 February 2013.

Who are the Company's auditors and how much are they paid?

KPMG Audit Plc have been the Company's auditors since the Company was originally listed in 1999. 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.

The Group Audit Committee regularly keeps under review the question of whether to put the Company's audit engagement out to tender and takes into account the results of an internal report on satisfaction with the prior year's audit processes, as well as benchmarking data, in doing this. The Company has not entered into any contractual restriction preventing it from considering a change of auditors. Based upon a review of and feedback from the 2011 audit, the Group Audit Committee remains satisfied with KPMG Audit Plc's performance and did not feel it was necessary or appropriate to consider a tender for the 2012 or 2013 audit engagement.

During the year ended 31 December 2012, fees paid by the Group to KPMG Audit Plc, the Group's auditors, and its associates totalled £12.4 million for audit services (2011: £13.7 million) and £5.1 million for tax, assurance and other non-audit services (2011: £3.4 million). In addition to the above, Nedbank Group paid a further £4.2 million (2011: £4.4 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 May 2013.

What is the Company's internal control environment?

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 2012 and up to the date of approval of this Report. The process accords with the Turnbull guidance set out in 'Internal Control: Revised Guidance for Directors on the Combined Code' (the Combined Code being the previous version of what is now the UK Corporate Governance Code) and is regularly reviewed by the Board.

How is internal control monitored and reviewed?

The Board has overall responsibility for the Group's system of internal control and for reviewing its effectiveness, while the implementation of internal control systems is the responsibility of management. Executive management has implemented an internal control system designed to help ensure:

- The effective and efficient operation of the Group and its business units by enabling management to respond appropriately to significant risks to achieving the Group's business objectives
- The safeguarding of assets from inappropriate use or from loss and fraud and ensuring that liabilities are identified and managed
- The quality of internal and external reporting
- Compliance with applicable laws and regulations, and with internal policies on the conduct of business.

The system of internal control is designed to manage, rather than eliminate, the risk of failure to achieve the Group's business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

The Group's actions to review the effectiveness of the system of internal control include:

- An annual review of the risk assessment procedures, control environment considerations, information and communication and monitoring procedures at Group level and within each business unit. This review covers all material controls, including financial, operational and compliance controls and the risk management systems
- A certification process, under which all business units are required to confirm that they have undertaken risk management in accordance with the Group risk framework, that they have reviewed the effectiveness of the system of internal controls, that internal policies have been complied with and that no significant risks or issues are known which have not been reported in accordance with policy
- Regular reviews of the effectiveness of the system of internal control by the Group Audit 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 section 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.

What steps are you taking to monitor the quality of the Group's financial controls?

In order to improve the quality of the Group's financial reporting controls, the Board launched a Financial Controls Initiative in 2009. This initiative has implemented and embedded a Group-wide framework of financial controls. Management assessed the effectiveness of this framework at 31 December 2012, based on the criteria described in 'Internal Control – Integrated Framework' issued by the Committee of Sponsoring Organizations of Treadway Commission, and concluded that it was effective. Management has reported its progress in implementing this framework to the Group Audit Committee at regular intervals since 2009, and that committee has supported the Board in concluding that it can rely upon the operation of these controls as part of its review of internal control effectiveness referred to above.

What is the role of 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 material amendments to it and also satisfies itself that GIA has adequate resources to discharge its function (which the Board is able to confirm is the case for 2012-13).

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. The most recent assessment was carried out in the second half of 2012 and concluded that GIA was fit for purpose in meeting the current assurance needs of the Group.

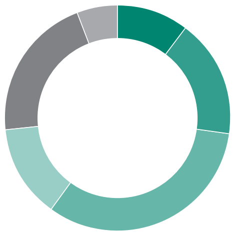
How does the Company conduct its relations with shareholders and analysts?

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, in both the equity and debt spheres, and to keep investors updated on the Company's performance in accordance with the UK Listing, Prospectus and Disclosure and Transparency Rules. The IR team also participates in programmes to identify best international IR practice and to promote such practice actively to its investor base.

The Company has a small, dedicated IR team based in South Africa and London which runs the Group's international IR programmes. The team consists of experienced capital market professionals as well as finance professionals who have transferred from other parts of Old Mutual. The team works closely with the media relations, responsible business and public affairs teams of the Group and businesses units, and reports to the Director of External Communications. Old Mutual's investor base is very diversified in terms of both investor style and geographic location and the Company has over 400,000 retail shareholders.

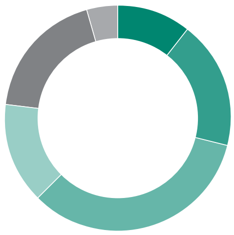
The focus of our IR strategy during the year has been to improve dialogue with investors and sell-side analysts, providing them with briefings and educational support, so as to enable them to obtain a better understanding of the Group's operations.

2012



	% shareholding
US (including Canada)	**10.29**
UK	**17.00**
South Africa institutional	**32.73**
South Africa retail, policy and BEE holders	**13.51**
Europe and Rest of the World	**20.67**
Miscellaneous	**5.80**

2011



US (including Canada)	**10.69**
UK	**18.39**
South Africa institutional	**33.69**
South Africa retail, policy and BEE holders	**14.42**
Europe and Rest of the World	**18.53**
Miscellaneous	**4.28**

During 2012, we 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 further diversifying the Company's shareholder base. We also increased our communication and engagement with the investment community, attending 11 investment conferences during the year, in both Europe and South Africa. The Company conducted a number of investor presentations during the year for investors willing to travel to London, Cape Town and Johannesburg. The most extensive of these was a whole-day session on the Old Mutual Wealth business in London, which was also webcast live.

Educating international investors on the Group's operations in South Africa and in the rest of Africa has been an area of significant focus in the last three years. To facilitate this, we have organised a number of visits for investors to our South African operations. We expect to continue this in 2013. This educational process also involves educating buy-side investors in South Africa on the Group's international operations and the operational environment in these markets.

The following are the major IR educational events that we have organised over the last four years:

November 2012	Old Mutual Wealth roadshow (in South Africa)
November 2012	OMEM roadshow in London
October 2012	Investor field trip to South Africa
October 2012	Investor presentation on Old Mutual Wealth in London
May 2012	Presentation to investors and analysts on Old Mutual Asset Management
October 2011	OMIGSA presentation on alternative asset classes and panel discussion
August 2011	Emerging Markets presentations to investors
July 2011	Roadshow on Old Mutual Wealth (in South Africa)
April 2011	Presentation to investors on Emerging Markets
October 2010	Long-Term Savings Showcase (London + webcast)
September 2010	SA Finance Minister and Minister of Mineral Resources presentation (London)
November 2009	Nedbank showcase (London + webcast)
June 2009	Presentation on the outlook for South Africa's political and economic landscape (London + dial-in)
May 2009	Skandia UK showcase (London and Johannesburg)

The table below shows the five-year track record of improving the Group's relationship with sell-side analysts and investors from around the world.

	2012	2011	2010	2009	2008
Total number of events	**421**	336	254	238	191
Total with executives	**233**	243	179	199	170

During 2012, IR meetings were held with investors in the UK, South Africa, North America and continental Europe, involving 193 individual institutions. In 2012, we met with each on average 2.2 times compared to 1.8 times in 2011, demonstrating an increasing intensity of contact with institutions. 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 IR team also supported the execution of the Group's corporate actions, including most importantly the sale of the Group's Nordic business and the resulting Special Dividend paid to shareholders.

Currently 18 sell-side analysts from Europe and South Africa actively publish research on the Company. Sell-side analysts are encouraged to cover the Company to provide their opinion to investors on the Group's valuation, its performance and the business environment in which it operates, and also to make meaningful comparisons with peers. During the year, two new research analysts initiated coverage on the stock, one based in the UK and one with dual coverage from the UK and South Africa.

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 communications with the investment community. In addition to this, independent surveys are commissioned regularly to provide the Board with the views of major investors on the Company's management and performance.

Copies of all investor presentations and, where appropriate, transcripts are posted on the Company's website so that they are accessible to shareholders generally.

When are Annual General Meetings (AGMs) held?

The Board uses the AGM, which is held at the Company's head office in London in May each year, to comment on the Group's trading performance during the first quarter. 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.

The notice of AGM is sent out to those shareholders who have elected or are entitled to receive physical documents in time to arrive in the ordinary course of the post at least 20 working days before the date of the meeting.

DIRECTORS' REPORT ON **CORPORATE GOVERNANCE** AND OTHER MATTERS continued

Has the Company granted indemnities to its directors?

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.

What is the Company's policy on making payments to its suppliers?

The Company has signed up to the Prompt Payment Code in the UK. Under this, the Company undertakes:

- To pay suppliers on time, within the terms agreed at the outset of the contract, without attempting to change payment terms retrospectively, and without changing practice on length of payment for smaller companies on unreasonable grounds
- To give clear guidance to suppliers, providing suppliers with clear and easily accessible guidance on payment procedures, ensuring there is a system for dealing with complaints and disputes which is communicated to suppliers, and advising them promptly if there is any reason why an invoice will not be paid in line with the agreed terms
- To encourage good practice by requesting that lead suppliers encourage adoption of the code throughout their own supply chains.

The total outstanding indebtedness of the Company (and its service company subsidiary, Old Mutual Business Services Limited) to trade creditors at 31 December 2012 amounted to £6.6 million, corresponding to 37 days' payments when averaged over 2012.

What charitable contributions did the Company make in 2012?

The Group made a wide range of significant donations to charitable causes and social development projects during 2012, as described in more detail in our Responsible Business Report for 2012, which is available on our website. The Company, its subsidiaries in the UK, and the Old Mutual Bermuda Foundation collectively made charitable donations of £149,000 during the year (2011: £216,000). For the Group as a whole, the equivalent figure was £13.4m (2011: £14.2m (excluding Nordic)).

Where can I find a description of the Company's approach to environmental matters?

A description of the Group's environmental impact and management during the year is contained in our Responsible Business Report for 2012, which is available on our website.

What are the Group's employment policies?

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.

Did you make any political donations during 2012?

The Group made no EU or other political donations during the year.

What final dividend is being recommended and what is your dividend policy?

The Board is recommending a final dividend for 2012 of 5.25p per share (or its equivalent in other applicable currencies). This equates to 2.5 times IFRS AOP earnings cover. A scrip dividend alternative is not being made available in relation to this dividend.

Further information on the final dividend for 2012 is contained in the Shareholder Information section of this document.

From 2013 onwards, the Board intends to pursue a progressive dividend policy consistent with our strategy, having regard to overall capital requirements, liquidity and profitability, and targeting a dividend cover of at least 2.25 times IFRS AOP earnings. Interim dividends will continue to be set at about 30% of the prior year's full ordinary dividend.

How many shares are in issue?

The Company's share capital is divided into ordinary shares of 11 3/7 pence each. The issued share capital at 31 December 2012 was £559,214,849.60 divided into 4,893,129,934 ordinary shares of 11 3/7 pence each (2011: £580,104,127.70 divided into 5,801,041,277 ordinary shares of 10 pence each).

During 2012, 5,415,005 ordinary shares of 10p each were issued under the Company's employee share option schemes at an average price of £0.6424 pence each and a further 21,986,215 ordinary shares of 11 3/7 pence each were issued under those schemes at an average price of £0.4039 each. The pre-existing ordinary shares of 10p each were consolidated, on a 7-for-8 basis, in April 2012, following the disposal of our Nordic business and to reflect the payment of the Special Dividend out of the proceeds of sale. As reported in last year's Annual Report, 239,434,888 ordinary shares of 10p each formerly held in treasury were cancelled with effect from 13 January 2012.

At 31 December 2012, 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 486,692,500 shares. No shares were bought back by the Company during 2012 or during the period up to 1 March 2013.

Out of the 4,893,129,934 shares in issue at 31 December 2012, 161,366,539 shares were beneficially 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 2012 (which includes the shares beneficially held by the African life and asset management subsidiaries) was 4,893,129,934.

In the period 1 January to 1 March 2013, 215,880 further shares were issued by the Company under its employee share schemes at an average price of £0.628 each. No shares were bought back during that period. As a result, the Company's issued share capital at 1 March 2013 was £559,239,521.60 divided into 4,893,345,814 ordinary shares of 11³⁄₇ pence each. The total number of voting rights at that date was also 4,893,345,814.

How can I find out about the rights and obligations attaching to the Company's shares?

The rights and obligations attaching to 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.

Does the Company have any significant agreements involving change of control?

The following significant agreement to which the Company is a party contains 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).

Who are currently the Company's largest shareholders?

At 31 December 2012, the following substantial interests in voting rights had been declared to the Company in accordance with the Disclosure and Transparency Rules:

	31 Dec 2012 Number of voting rights	% of voting rights
Cevian Capital	359,405,008	7.35
Public Investment Corporation of the Republic of South Africa	268,811,081	5.49
Sanlam Investment Management (Pty) Limited	255,514,951	5.22
BlackRock Inc	238,981,311	4.88
Legal & General Group PLC	152,095,032	3.11
Old Mutual Life Assurance Company (South Africa) Limited	148,380,709	3.03

Between 31 December 2012 and 1 March 2013, there have been no new notifications of disclosable interests by other shareholders, but the Company has received notifications of the following changes to the above interests:

	Event date	Notification date	Number of voting rights	% of voting rights
BlackRock Inc	18/1/13	22/1/13	244,654,440	5.00
BlackRock Inc	31/1/13	1/2/13	241,440,319	4.93
BlackRock Inc	1/2/13	5/2/13	245,074,793	5.01

Can you confirm that the Company is a going concern?

The Group's business activities, together with factors likely to affect its future development, performance and position in the current economic climate, are set out in the sections of this Annual Report entitled "What we do" and "Where we are going".

The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the section of this Annual Report entitled "How we have performed". In addition, Note E1 to the Accounts includes the Group's objectives, policies and processes for managing its capital and sets out details of the principal risks related to financial instruments and insurance risks including market, credit and liquidity risks as well as their sensitivities.

The preceding sections of the Annual Report referred to above also explain 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 FGD surplus capital and cash flow are stress tested and are within the limits described in the Risk and Capital Management section. As a consequence, the directors believe that the Group is in a strong financial position and is well placed to manage its business risks successfully.

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 financial statements.

DIRECTORS' REPORT ON **CORPORATE GOVERNANCE** AND OTHER MATTERS continued

Has all relevant information been disclosed 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 sections of this Annual Report under the headings "Where we are going", "How we have performed", "Our risks" 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

1 March 2013

REMUNERATION REPORT

In this section, we describe the Company's remuneration practices during 2012 and its policies for 2013 and future years, with particular emphasis on the remuneration arrangements for the executive directors

Summary

REMUNERATION REPORT

Introduction from the Chairman of the Remuneration Committee

Executive pay has been subject to significant investor focus over the last four years, following the 2008 financial crisis. In this context, the Remuneration Committee of the Board of Old Mutual plc (referred to in the rest of this report as 'the Committee') is cognisant of:

- Changing regulatory governance guidelines and principles to reflect changing conditions in the financial sector
- Significant pressure exerted by shareholders and shareholder bodies where they feel reward is not aligned to performance
- Somewhat different shareholder expectations in this respect in the main regions where the Group operates
- Differing responses by companies trying to adapt to the changing environment and best practice advice.

In this respect, extensive work has been done by the Company 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. This approach has been adopted in line with FSA guidelines and the evolving requirements of Solvency II.

During 2012, the long-term incentives granted in 2009 vested fully against the agreed three-year performance targets. This was the first time in four years that vesting had occurred under the long-term incentive plan.

For awards made under the Old Mutual Strategic Incentive Plan (OMSIP) in 2010, which were subject to targets for vesting at the end of 2012:

- 85.9% attainment was achieved in relation to awards made with Financial Objectives, although actual vesting will be in two equal tranches in 2013 and 2014; and
- 75% attainment was achieved in relation to the one-time awards made for Rationalising Objectives, specifically approved by shareholders in 2010 to incentivise a change in the strategic direction and restructuring of the Group over three years. Vesting will be in two equal tranches in 2013 and 2014.

After the 2010 and 2011 OMSIP awards, revised long-term incentive financial targets were agreed for 2012 awards, as described in the 2011 Remuneration Report, in order to provide an appropriate level of reward for sustained financial performance within agreed risk parameters.

For 2013, based on shareholder consultation, changes have been made to reflect the fact that further progress is expected on some key strategic initiatives. It is important that management incentives are adequately aligned. These changes are set out in more detail on pages 104 and 105.

The following key points regarding executive remuneration are described in detail in the body of the report that follows:

- During 2012, the short-term incentive plan resulted in awards above target, but below maximum levels, to reflect the good ongoing financial performance and sound risk management of the Group
- Basic salary increases for executive directors (and for other members of the Group Executive Committee) effective in 2013 were below inflation and below average increases provided to other employees across the Group
- Neither short-term nor long-term incentive percentages were increased for executive directors for 2013.

These actions and results are in line with the Committee's determination to ensure that executive pay does not become unduly inflated, is transparent and remains 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. Payments are made in cash and shares, with shares being subject to claw-back.

Recognising the increasing need for clarity, transparency and disclosure of remuneration and incentive arrangements, the Company has:

- Implemented a transparent approach to performance targets for long-term incentives
- Improved clarity to give a clear view of total remuneration in 'one number', which has been calculated in line with the guidelines provided by the Department for Business, Innovation & Skills (BIS) which will become mandatory from later this year.

This is my last year as a member and Chairman of the Committee as, after nine years on the Board and two years as Chairman of the Committee, I will be retiring at the Company's Annual General Meeting in May. I wish my successor, Alan Gillespie, well in taking over responsibility for chairing the Committee.

Russell Edey
Chairman of the Remuneration Committee
1 March 2013

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 page 102, 'Executive directors' remuneration during 2012' on pages 106 and 107, 'Directors' emoluments for 2012' on page 111 and 'Directors' interests under employee share plans' on page 114, 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 119. The information in the remainder of this report has not been audited.

Committee terms of reference, membership and meetings

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 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.

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 (Chairman since May 2011)
Eva Castillo	Member	February 2011 to February 2013
Alan Gillespie	Member	November 2010 to date
Bongani Nqwababa	Member	April 2010 to date
Lars Otterbeck	Member	April 2010 to date

The Committee Chairman has access to and regular contact with the Group Human Resources Department independently of the executive directors. During 2012, the Committee met five 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 until August 2012, at which time Paul Forsythe, Assistant Company Secretary, replaced him as Secretary to the Committee. Attendees (including Martin Murray and Paul Forsythe) at Committee meetings to which they were respectively invited during 2012 were as follows:

Name	Position	Attendance at meetings
Philip Broadley*	Group Finance Director	1
Paul Forsythe	Assistant Company Secretary	5 (2 as Secretary)
Tom Gosling	PricewaterhouseCoopers (PwC)	1
Alan Judes	Independent Adviser to the Committee	5
Martin Murray*	Group Company Secretary	5 (3 as Secretary)
Patrick O'Sullivan*	Chairman of the Board	5
Julian Roberts*	Group Chief Executive	5
Don Schneider*	Group HR Director	5
Kevin Stacey	Head of Remuneration	5

* Other than when their own remuneration was being discussed.

The Committee renewed the appointment of Alan Judes as its independent adviser for 2012, through his consultancy Strategic Remuneration, and has also done so for 2013. 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. No work was performed by Alan Judes for the Company, as distinct from the Committee, during 2012. Work undertaken by Alan Judes for the Committee during 2012 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 corporate governance best practice including regulatory requirements from Government departments and the FSA, advising in connection with disclosure of emoluments, base salary increases and RPI, design of performance measures, advising in connection with the assessment of OMSIP Rationalising Objectives, and accompanying the Chairman of the Committee to meetings with shareholder representatives to discuss remuneration structures. Strategic Remuneration is a member of the Remuneration Consultants Group and adheres to that body's Code of Conduct. His consultancy company's fees for 2012 totalled £107,000 excluding VAT (2011: £72,000 excluding VAT).

Don Schneider and Kevin Stacey of Group Human Resources assisted the Committee during the year. Group Human Resources 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. Group Human Resources used the services of external advisers (including PwC) as necessary.

REMUNERATION
REPORT continued

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 Human Resources and apply common principles, including the following:

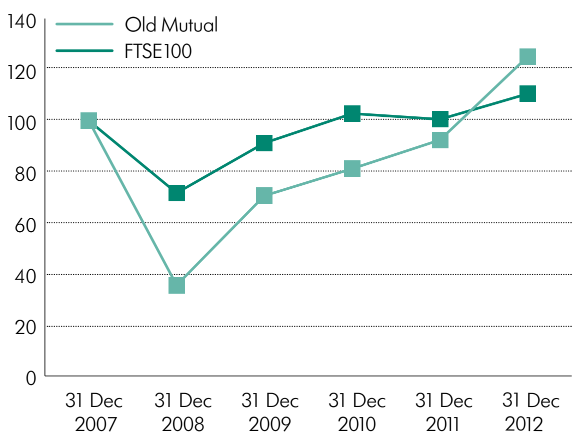
- Remuneration must support the business drivers, corporate vision, strategy and strategic priorities
- Incentives should align the interests of employees with shareholders
- Incentives should be performance-related and effectively linked to success in delivering the chosen strategy
- Pay should be set at levels that are both competitive and sustainable
- 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

The graph below shows the total shareholder return (TSR) to 31 December 2012 on £100 invested in shares in Old Mutual plc on 31 December 2007 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 TSR, as it is an index of which Old Mutual plc is a member and is located where the Company has its primary listing.

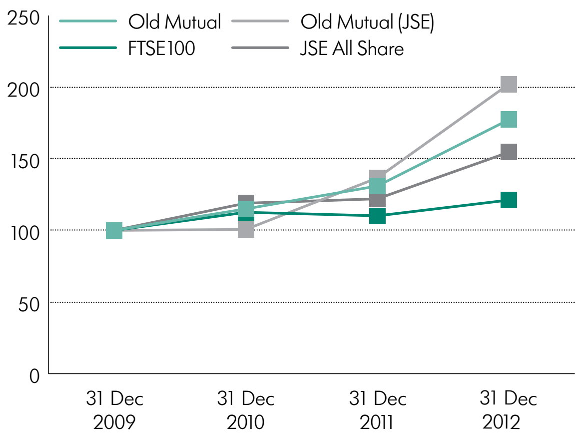
Old Mutual plc TSR performance:
Five-year performance to 31 December 2012



Source: Datastream

The graph below shows the TSR to 31 December 2012 on £100 invested in shares in Old Mutual plc on 31 December 2009 compared with £100 invested in the FTSE100 Index and on R100 invested in shares in Old Mutual plc on 31 December 2009 compared with R100 invested in the JSE ALSI. The three-year period shown coincides with the measurement period for targets set for the long-term incentive awards granted in 2010 and due to vest 50% in 2013 and 50% in 2014.

Old Mutual plc TSR performance:
Three-year performance to 31 December 2012



Source: Datastream

Remuneration policies and practice

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 2012 and intends to apply during 2013:

- 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 a 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 and evaluating the executive directors' short-term performance and receives and considers a report from the Group Chief Risk Officer. 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 median. It reviews this policy regularly and continues to consider it to be appropriate.

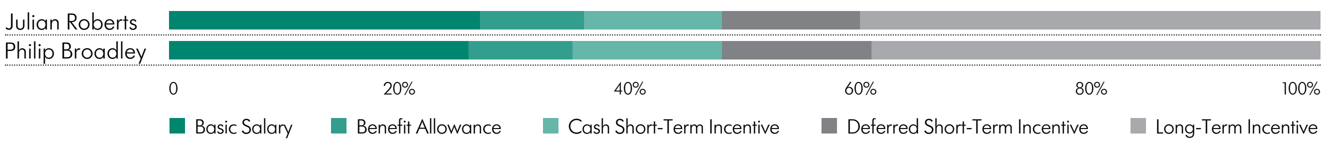
Following the removal of compulsory retirement ages in the UK, it is the Company's policy to have employment contracts without a specified duration. Notice periods are between six and twelve months and mitigation is applied to any termination payments that have to be made under contract.

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 to pay a benefit allowance and pension contributions to a total value of 35% of basic salary. Life cover of £1m and disability cover capped at an annual basic salary of £140,000 are also provided. From 1 April 2013, changes to benefits will come into effect as follows: (i) Life cover will increase to £1.25m, with an option to increase cover to 6x base salary, subject to the insurer's underwriting process and approval; (ii) disability cover will be capped at an annual basic salary of £120,000 for a maximum of five years; and (iii) single private health cover will be provided. These changes align to updated provisions for all UK employees.
Short-term incentives	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, half in cash and half deferred in Company restricted shares for three years. Deferred awards are subject to claw-back.
Long-term incentives	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'. Awards are subject to claw-back.

The following chart depicts the overall make-up of the executive directors' respective remuneration packages for 2013, assuming on-target delivery on short-term incentives and an expected value for long-term incentives:



Executive directors' remuneration in 2013

Basic salary and benefits

With effect from 1 January 2013, Julian Roberts' basic salary was increased by 1.7%, from £870,000 to £885,000, and Philip Broadley's basic salary was increased by 1.7%, from £580,000 to £590,000. These increases were below the average increases for other employees across the Group, ranging from 2% for staff in the UK to in excess of 5% in South Africa (other business units in Europe and US falling within this range), 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. Benefits equivalent to 35% of basic salary will continue to be payable either as contributions to agreed benefits or monthly in cash. Life cover and disability cover will continue to be provided and, with effect from April 2013, single private health cover will be provided.

Pension and flexible investment plans

The Company offers a pension plan and has introduced an Employee Flexible Investment Plan, which has been approved for its UK-based employees. Julian Roberts and Philip Broadley qualify to participate in both plans, but have indicated that they will not be contributing to either during 2013 and that they intend to opt out of pension 'auto-enrolment' when that is introduced later this year. The Company will therefore not be making contributions to any such schemes on their behalves.

Short-term incentives for 2013

The short-term incentive policy to be applied during the year is described on page 103 above and there have been no changes to the policy from 2012 to 2013. The respective weightings attached to Group metrics and scorecard objectives, shown as a percentage of basic salary, for the executive directors' short-term incentives for 2013, are as follows:

	Julian Roberts	Philip Broadley
Elements as % of salary	Maximum %	Maximum %
Group targets		
EPS (in constant currency)	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. 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, Compliance and Risk functions. The scorecard elements of his short-term incentives therefore have a higher weighting than for 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 for 2013

The Company will continue to align leadership incentives with the delivery of a shared Group vision, strategy and desired culture through agreed values and behaviours. In South Africa, this will focus on the retail segment as well as successful expansion into sub-Saharan Africa, through the combined efforts of Nedbank, OMSA and Mutual & Federal. In Old Mutual Wealth, the main strategic opportunities are in delivering cost efficiencies, building an integrated, modern wealth management business in the UK and in selected international markets supported by a successful asset management business and managing the remaining European businesses for value. In the US, the focus will be on the improvement of USAM's performance in terms of margin and net client cash flow and the effective management of risk and liabilities in Old Mutual Bermuda.

Previously, under OMSIP, part of the executive directors' long-term incentives was linked to Rationalising Objectives relating to strategic initiatives to be undertaken by the Group between 2010 and 2012, however, for awards made in 2012 there was no strategic element. Some shareholders have expressed concern about this and suggested that there should be both a strategic element and a returns measure in the long-term incentive plan. To address these concerns, we have expanded the core set of measures, as set out below, by adding a strategic element and a return on equity measure. The outcome of the measures will be subject to the TSR-multiplier mechanism implemented in 2012. The resultant change from awards granted in 2012 is illustrated below:

2012 Long-term incentives

Cumulative AOP multiplied by relative TSR performance*

	Threshold		Maximum
AOP (£bn)	2.9		3.5
% Vesting	0%	|———Interpolated———|	100%

* Relative TSR performance (calculated 50% against the FTSE100 Index and 50% against the JSE ALSI) as set out on page 111.

2013 Long-term incentives

	LTI Scorecard	Threshold	Target	Maximum	Weight
Financial	EPS (p) (IFRS AOP based CAGR*) (post tax)	5.0%	7.5%	10.0%	15.0%
	EPS (c) (IFRS AOP based CAGR*) (post tax)	5.0%	7.5%	10.0%	15.0%
	RoE – (IFRS AOP based – averaged over 3 years)	12.0%	13.5%	15.0%	30.0%
Strategic Objectives	**1. Emerging Markets – Africa expansion (excluding banking)**				
	Customer growth in Africa (excluding SA) (CAGR*)	10.0%	15.0%	20.0%	10.0%
	Profit (AOP) growth in Africa (excluding SA) (CAGR*) (pre tax inc. LTIR)	10.0%	15.0%	20.0%	5.0%
	2. Old Mutual Wealth				
	Profit (AOP) growth UK and International (CAGR*) (pre tax)	10.0%	15.0%	20.0%	7.5%
	3. Simplify/de-risk the Group				
	Group structural changes/key initiatives	Targets disclosed at the end of the three-year performance period			12.5%
	4. Risk, governance, culture and reputation				
	Measures of Risk, governance, culture and reputation	Assessed against targets and qualitatively			5.0%
Total					**100%**

* Compound annual growth over the three-year performance period.

Scorecard for Strategic Objectives

1. Emerging Markets
- Core measures of focus are growth in African business outside South Africa, focusing on customers and profit.
- This is in the Life and Short-term insurance businesses. It excludes banking (Nedbank, Central Africa Building Society) and minority interests.
- The Committee will also make a qualitative assessment of the overall delivery of a range of measures against plan.

2. Old Mutual Wealth
- Growth in AOP is the core measure – UK and International.
- The Committee will also make a qualitative assessment of the overall delivery of a range of measures against plan.

3. Simplify/de-risk the Group

Agreed structural initiatives are confidential, but include, for example:
- Old Mutual Wealth restructuring projects and managing the European businesses for value.
- Successful hedging of residual risk in Bermuda and efficient run-off of the business.

4. Risk, governance, culture and reputation

The Committee will use a number of measures to assess risk, culture and any impacts on governance and reputation, including the following:
- Risk assessments against key risk measures and risk appetite – assessed annually and over the three-year period
  - Includes overall assessment of material breaches in risk, regulatory or governance issues and any reputational impact.
- Annual culture survey results compared to prior years' results and to international standards
  - Measured at Group and business level for improved scores where needed or maintenance where levels in 2012 are high.

The Committee will apply its discretion in determining the final outcomes in relation to the 2013 long-term incentives, and in this regard:

- The Committee will receive a report from the Chief Risk Officer to confirm that the performance of the Group has been achieved within the stated risk appetite. Where the risk appetite has been breached, the Committee will have discretion to reduce the level of vesting accordingly
- The Committee will exercise its discretion to make adjustments where there is a significant negative impact on underlying financial performance which is not adequately reflected in AOP results (for example, where LTIR adjustments create any inconsistency between AOP and IFRS basic earnings)
- Where the Group undergoes a significant change, such as a large disposal, acquisition or restructuring, the Committee will review the targets to assess whether they need adjusting to reflect the change, or whether they should be replaced altogether.

TSR multiplier*

A TSR multiplier will be used to adjust the weighted average outcome of the LTI scorecard in the table above, as follows. TSR will be averaged at the start (Q4 2012) and end (Q4 2015) of the three-year performance period.

	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 (calculated 50% against the FTSE100 Index and 50% against the JSE ALSI) against the above ranges, with a multiplier being set on a straight-line basis between the points.

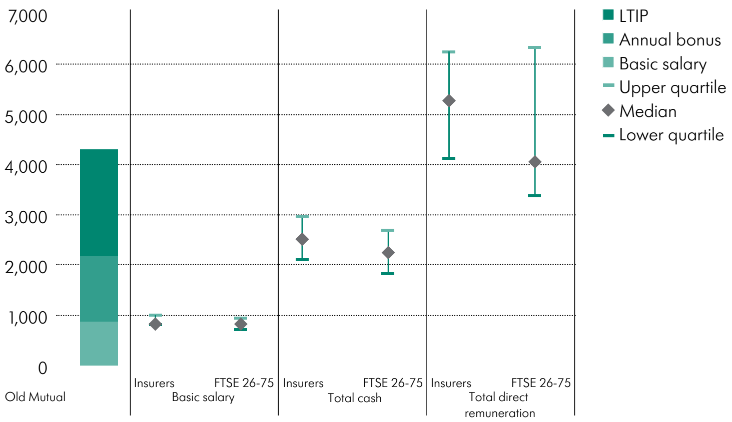
The maximum award for the executive directors, inclusive of the maximum TSR multiplier above, remains at 250% of basic salary at the date of award, and vesting will occur 50% after three years (in 2016) and 50% after four years (in 2017).

REMUNERATION
REPORT continued

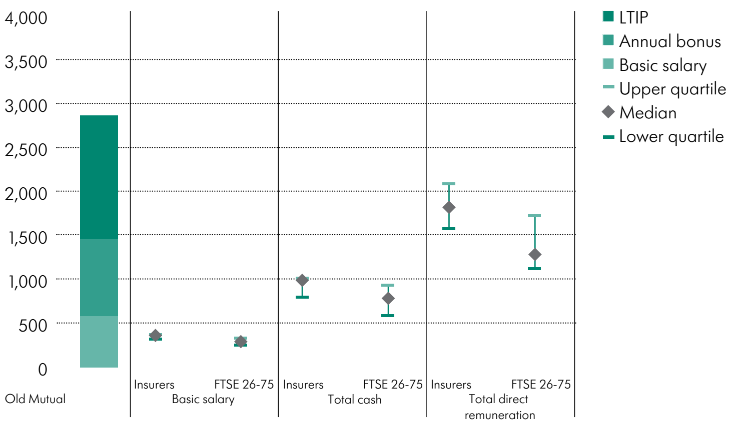
Executive directors' market benchmarking

The following graphics show market comparisons of Julian Roberts' and Philip Broadley's respective remuneration packages, based on basic salary and maximum award levels, for short-term and long-term incentives benchmarked in 2012, against a similar analysis of the UK insurers and the FTSE 26-75 companies by market capitalisation:

Group Chief Executive vs. benchmarks



Group Finance Director vs. benchmarks



Executive directors' remuneration during 2012

Basic salary and benefits

Julian Roberts' basic salary was £870,000 and Philip Broadley's basic salary was £580,000. Benefits equivalent to 35% of basic salary were paid monthly in cash. Life cover of £1m and disability cover capped at an annual basic salary of £140,000 were also provided at a cost of approximately £2,000 for each director.

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 £311,405 at 31 December 2012 (£281,900 at 31 December 2011). Philip Broadley does not participate in any employer-provided pension scheme of the Group.

Short-term incentive targets for performance year 2012

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 2012 are set out in the following table:

	Julian Roberts		Philip Broadley	
Elements as % of salary	Maximum %	Achieved %	Maximum %	Achieved %
Group targets				
EPS	56.3	43.0	37.5	28.7
RoE	56.3	53.9	37.5	35.9
Group targets – sub-total	112.5	96.9	75.0	64.6
Scorecard objectives	37.5	35.3	75.0	67.5
Total	150.0	132.2	150.0	132.1
£000 incentive for period	1,305	1,150*	870	766*
Achieved incentive as % of max		88.2		88.1

* These amounts are as reflected in the Directors' emoluments for 2012 table on page 111 and will be paid 50% in cash and 50% deferred for three years in the form of forfeitable shares awards. The Committee had regard to risk-related metrics in reviewing and evaluating the executive directors' short-term performance for 2012 and, as part of this, received and considered a report from the Group Chief Risk Officer submitted via the Board Risk Committee.

Summary of 2012 remuneration

The following table shows the value of remuneration earned by the executive directors in 2012. It reflects the gross (pre-tax) value of salary and benefits earned in the year, based on the short-term incentives to be paid in cash and shares in 2013 (in relation to 2012 performance) and an estimated market value, on the date of vesting, of any long-term incentive shares or share options where targets were determined to have been met during the year. This analysis is consistent with the 'one number' determined by BIS as part of its proposals for more detailed future reporting requirements.

Elements	Julian Roberts	Philip Broadley
Basic salary	£870,000	£580,000
Benefits allowance	£304,500	£203,000
Short-term incentives (50% cash and 50% deferred)	£1,150,358	£766,470
OMSIP 2010 Long-term incentives vesting in 2013*	£2,424,047	£1,606,298
OMSIP 2010 Long-term incentives vesting in 2014*	£2,424,047	£1,606,298
Total	**£7,172,952**	**£4,762,066**

* Reflects the full value of long-term incentive awards that will vest equally in May 2013 and May 2014, in accordance with the BIS 'one number' approach based on the average Old Mutual plc share price for the three months ended 31 December 2012, namely 172.8p.

Long-term incentives

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%

2010 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, with the first part being a one-time award based on Rationalising Objectives and debt reduction and the second part being an annual award based on key Financial Objectives relating to the restructuring of the Group. Substantial progress has been made towards delivering strategy, in particular in simplifying and de-risking the Group. The Company has:

- Delivered strong business unit performance improvements, especially in Nedbank and USAM
- Achieved the three-year RoE, cost-saving and debt repayment targets that were set in 2010
- Increased collaboration across the businesses to deliver synergies
- Embedded a common Group-wide culture of desired behaviours and aligned remuneration and reward, specifically in the Company's Long-Term Savings business (LTS), to drive the delivery of the three-year strategic targets.

Details of the specific targets for 2010 OMSIP awards and the outcomes achieved are set out below. Each award made to the executive directors under the OMSIP in 2010 had a face value of 250% of basic salary.

Plan	Award date	Vesting date	Performance target
OMSIP – annual (Financial Objectives)	13 May 2010	50% 13 May 2013 50% 13 May 2014	50% LTS (AOP, RoE, NCCF/AUM) 50% Absolute TSR
OMSIP – one-off (Rationalising Objectives)	13 May 2010	50% 13 May 2013 50% 13 May 2014	Rationalising Objectives and debt reduction

2010 OMSIP Financial Objectives

The OMSIP annual awards related to key financial goals split equally between the financial performance of the Company's LTS business post-restructuring and absolute TSR targets, the outcomes of which are shown below:

Overall Financial Objectives – outcomes

		Outcome	
Metric	Weight	Metric	Wt. Total
LTS Performance	50.0%	74.1%	**37.0%**
Absolute TSR	50.0%	97.8%	**48.9%**
Total			**85.9%**

The underlying calculations in respect of these targets are summarised below:

LTS Business Performance (50%)

					Outcome	
Metric	Weight	Threshold	Maximum	Result	Metric	Wt. Total
Cumulative IFRS AOP growth	40%	30%	70%	51.5%	63.1%	**25.2%**
RoE	40%	15%	18%	19.7%	100.0%	**40.0%**
Average ratio of NCCF/AUM	20%	2%	6%	3.2%	44.5%	**8.9%**
Total LTS						**74.1%**

Absolute TSR (50%)

					Outcome	
Metric	Weight	Threshold	Maximum	Result	Metric	Wt. Total
TSR (in GBP p.a.)	50%	10%	20%	19.4%	95.5%	**47.8%**
TSR (in ZAR p.a.)	50%	10%	20%	24.8%	100.0%	**50.0%**
Total TSR						**97.8%**

Vesting is 20% at threshold and straight-line interpolation between threshold and maximum.

2010 OMSIP Rationalising Objectives

In 2010, a one-off award was made to incentivise executives to deliver key initiatives which related to the restructuring of the business to streamline the Company, unlock value and reduce debt. Measurement criteria for each initiative were agreed to be:

- Total value released relative to available benchmark transactions
- Quality of execution including risk, reputational and other non-financial impacts
- Amount available to reduce debt from the proceeds of rationalising, in the context of the Company's stated target of £1.5bn of debt reduction.

Over the course of the three-year measurement period, the Company undertook a number of key initiatives to accomplish the goals of restructuring. The Committee evaluated the following initiatives:

1. The sale of the US Life business
2. The attempted sale of Nedbank
3. The restructuring and proposed initial public offering (IPO) of the US Asset Management business
4. The sale of the Nordic business
5. The restructuring of the Company's LTS business.

In evaluating each initiative against the three criteria, the Committee reviewed relevant quantitative and qualitative information. The information was presented to the Committee and discussed fully before a decision was made regarding the percentage level of achievement.

The evaluation of each initiative is discussed below:

Sale of the US Life business

As disclosed in the 2011 Remuneration Report, the Committee evaluated this initiative as 100% achieved against the three criteria. Factors considered were the total proceeds of sale, the fact that all proceeds were available to pay down debt, the significant reduction in risk achieved by removing this business from the Group and the fact that this sale was achieved in an environment where virtually no other comparable transactions took place.

Sale of Nedbank

In 2010, a preliminary agreement was reached for the sale of Nedbank, but the transaction did not complete. Therefore, the Committee concluded that 0% was achieved.

Restructuring and proposed IPO of the US Asset Management business

A stated objective of management was the restructuring and IPO of the US Asset Management business. During the period, a number of initiatives related to this objective took place:

- Sale of OMCAP to Touchstone Investments
- Sale of Dwight to Goldman Sachs
- Management buy-outs of Lincluden, 300 North Capital, 2100 Xenon, Larch Lane Advisors, Ashfield Capital Partners and Analytic Investors.

No IPO was launched during the period.

In assessing these actions, the Committee considered the proceeds from these sales and buy-outs, the impact on significantly improved operating profits and margins achieved by removing these businesses, the impacts on net client cash flows into USAM, any ongoing commitments to the businesses sold and the overall readiness of the resulting business for a successful IPO, if and when a decision is made to proceed. These IPO readiness factors were weighed against the fact that an IPO had neither been attempted nor achieved.

The Committee assessed the totality of these actions against the three criteria and concluded an evaluation of 50% achievement.

Sale of the Nordic business

The Company sold its Nordic business to Skandia Liv in March 2012 for £2.1 billion. This enabled a Special Dividend of 18p per share (or its equivalent in other applicable currencies) to be paid to the Company's shareholders as well as a material reduction in Group debt.

In evaluating this initiative, the Committee reviewed various factors including the total proceeds of the sale, the fact that the sale enabled a Special Dividend to be paid and a significant reduction to take place in Group debt, the premium value received above standard valuation metrics, the successful completion of the transaction in an environment where few, if any, comparable transactions were achieved and the successful transitional arrangements achieved in separating the businesses.

The Committee evaluated this initiative against the criteria and concluded an evaluation of 100% achievement.

Restructuring of the Company's LTS business

Over the period, the Company undertook a number of initiatives to restructure the Company's LTS business to streamline, simplify and align its structure for future profitability. These initiatives included:

- Sale of the Finnish business
- Closure of the Swiss, German and Austrian operations to new business
- Combining Skandia Investment Group with Old Mutual Asset Managers (UK) to create Old Mutual Global Investors (OMGI)
- Merging of businesses in Retail Europe into Wealth Management, to streamline operations, align legal structures and achieve cost synergies
- Completion of the Zimbabwe indigenisation programme
- Elimination of significant inter-company debt between South Africa and the Company and also within the European entities to simplify the Group's financial structure.

The number of different initiatives led the Committee to consider a variety of factors including proceeds from the Finnish sale, the reduction in risk from closing to new business in Europe, the cost synergies achieved through streamlining and alignment under Wealth Management (now Old Mutual Wealth), the release of capital resulting from the Zimbabwe indigenisation and the flexibility achieved through the simplification of financial structures.

The Committee evaluated these initiatives against the three criteria and concluded an evaluation of 50% was achieved.

Weighting of rationalising initiatives

The various initiatives were then weighted by the Committee based on their contribution toward the original objectives to streamline the Company, unlock value and reduce debt. The Committee's decisions on weightings and achievement are summarised below:

Initiative	Weight	Achievement	Total
Sale of the US Life business	22.50%	100.00%	22.50%
Sale of Nedbank	10.00%	0.00%	0.00%
Restructuring and proposed IPO of the US Asset Management business	12.50%	50.00%	6.25%
Sale of the Nordic business	37.50%	100.00%	37.50%
Restructuring of the Company's LTS business	17.50%	50.00%	8.75%
Total	100.00%		75.00%

Final assessment against objective of £1.5bn debt reduction target and any new information

As outlined in the plan, an overall objective of the initiatives was to provide proceeds to reduce Group debt by £1.5bn. The Committee retained discretion to reduce the vesting level of the award if this overall objective was not met, or if any other new information arose to suggest a different performance assessment. The debt reduction objective was fully achieved in September 2012 and no new information regarding achievement of any of the initiatives arose, which materially impacted earlier assessments. Therefore, the Committee concluded that no reduction was appropriate and the overall achievement of the OMSIP Rationalising Objectives was 75%.

2011 OMSIP awards

The 2011 awards used the same financial targets as the annual awards granted in 2010, relating to key financial goals, split equally between the financial performance of the Company's LTS business post-restructuring and absolute TSR targets, as set out below. The awards made to the executive directors under the OMSIP in 2011 had a face value of 250% of basic salary at the time of award, and will vest 50% in 2014 and 50% in 2015.

LTS business performance (50%)

Metric	Weight	Below threshold	Threshold	Maximum
IFRS AOP growth[1]	40%	< 42%	42%	103%
RoE[2]	40%	< 15%	15%	18%
Average ratio of NCCF/AUM[3]	20%	< 2%	2%	6%
Vesting %*		0%	20%	100%

* Straight-line interpolation between threshold and maximum.

1 Growth in AOP excluding Long-Term Investment Return on a constant currency basis over a four-year performance period.
2 IFRS AOP over aggregate equity allocated to the Company's LTS business in the final year of the performance period.
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 2010) and end (Q4 2013) of the three-year performance period. 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 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.

2012 Long-term incentives

The primary target for long-term incentive awards made in 2012 was based on cumulative growth over three years in post tax 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 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 underperformance 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 (calculated 50% against the FTSE100 Index and 50% against the JSE ALSI) against the above ranges, with a multiplier being set on a straight-line basis between the points.

The awards for the executive directors, inclusive of the maximum TSR multiplier above, were equal to 250% of basic salary at the date of award.

The Company undertakes the performance measurement and submits a report to the Committee advising the results for each specific award. The Committee obtains external audit sign-off from KPMG Audit plc and Strategic Remuneration as part of its oversight procedures.

Directors' emoluments for 2012

Directors' emoluments for the year ended 31 December 2012 and the preceding financial year (including in each case emoluments from offices held with the Company's subsidiaries where relevant) were as follows:

						£000
					2012	2011
	Salary and fees	Short-term Incentives[1]	Benefits and benefit allowance[2]	Pension	Total	Total
Chairman						
Patrick O'Sullivan	**350**	**–**	**–**	**–**	**350**	350
Executive directors						
Philip Broadley	**580**	**766**	**221**	**–**	**1,567**	1,539
Julian Roberts	**870**	**1,150**	**341**	**–**	**2,361**	2,350
Non-executive directors						
Mike Arnold	**93**	**–**	**–**	**–**	**93**	93
Russell Edey	**88**	**–**	**–**	**–**	**88**	83
Alan Gillespie	**84**	**–**	**–**	**–**	**84**	80
Reuel Khoza[3]	**365**	**–**	**–**	**–**	**365**	382
Roger Marshall	**96**	**–**	**–**	**–**	**96**	96
Bongani Nqwababa	**74**	**–**	**–**	**–**	**74**	74
Nku Nyembezi-Heita	**45**	**–**	**–**	**–**	**45**	–
Lars Otterbeck[4]	**152**	**–**	**–**	**–**	**152**	238
Former non-executive director						
Eva Castillo (resigned on 28 February 2013)	**72**	**–**	**–**	**–**	**72**	65
Total emoluments	**2,869**	**1,916**	**562**	**–**	**5,347**	5,350[5]

1 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, the cost of providing life cover and disability cover, and 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 £299,000 (£316,000 in 2011) in respect of Nedbank Group Limited.
4 Includes fees of £80,000 (£166,000 in 2011) in respect of Skandia Insurance Company Limited, Skandiabanken and Skandia Liv.
5 The prior-year comparative number as published in the Remuneration Report for 2011 was £5,459,000, which included £109,000 paid to the former non-executive directors, Nigel Andrews and Rudi Bogni.

The executive directors were required to waive fees for non-executive directorships held in subsidiary companies totalling £27,600 during the year ended 31 December 2012 (2011: £29,100) in favour of the Company or its subsidiaries. These waivers are expected to remain in force in the future.

REMUNERATION REPORT continued

Chairman's 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.

The annual fees payable to the Chairman and to other non-executive directors in 2012 and 2013, by role, are set out below:

	£	
	2013	2012
Chairman	360,000	350,000
Non-executive directors		
Base fee	57,000	55,000
Senior Independent Director additional fee	10,000	10,000
Additional fees payable for Committees		
Board Risk Committee		
Chairman	25,000	25,000
Member	8,000	8,000
Group Audit Committee		
Chairman	30,000	30,000
Member	10,000	10,000
Nomination Committee		
Member	3,000	3,000
Remuneration Committee		
Chairman	25,000	20,000
Member	8,000	6,000

None of the non-executive directors of the Company (including the Chairman) contributed to any Group pension fund during 2012 or had any accrued pension fund benefits in any Group pension fund at 31 December 2012.

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 2012, 149,255,489 shares in the Company were held in ESOTs as show below, and 119,125,003 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	1,104,238
Mutual & Federal Broad-Based Trust	South Africa	3,185
Mutual & Federal Management Incentive Trust	South Africa	15,890,544
Mutual & Federal Senior Black Management Trust	South Africa	4,177,723
Mutual & Federal Namibia Broad-Based Trust	Namibia	2,682
Mutual & Federal Namibia Management Incentive Trust	Namibia	143,842
Mutual & Federal Namibia Senior Black Management Trust	Namibia	144,605
Old Mutual plc Employee Share Trust	Guernsey	34,607,097
OMN Broad-Based Employee Share Trust	Namibia	443,731
OMN Management Incentive Trust	Namibia	1,316,368
OMSA Broad-Based Employee Share Trust	South Africa	12,753,368
OMSA Management Incentive Trust	South Africa	58,543,158
OMSA Share Trust	South Africa	20,124,948
Total		**149,255,489**

The strategy for all non-Black Economic Empowerment (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 Old Mutual UK Sharesave Plan, SAYE, 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 were, at 31 December 2012, 17,457,883 such shares held under option. In respect of the vesting of share options on 8 April 2012, certain unapproved share options originally granted to UK employees in 2009 were cash-settled on exercise rather than being 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 or has been cash-settled are disregarded. The Company has complied with these limits at all times.

At 31 December 2012, the Company had 1.61% of share capital available under the 5%-in-10-years limit applicable to discretionary share incentive schemes and 5.83% of share capital available under the 10%-in-10-years limit applicable to all share incentive schemes.

Nedbank Group Limited share incentive schemes

The Company's separately listed subsidiary, Nedbank Group Limited, has its own share incentive schemes, which are under the control of the Remuneration Committee of its board and are not further addressed in this report. Neither of the executive directors of the Company has any interest under any of the Nedbank Group Limited share incentive schemes.

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 2012 in favour of the executive directors. Those granted during 2012 are highlighted in bold and those vested, released, exercised or lapsed during 2012 are shown in italics:

Award type and plan	Reason for award	Perfor-mance targets to be met	Grant Date	Market value per share at grant (p)	At 1 Jan 12	Granted	Exercised, Released, Lapsed	Share reduction as a result of consoli-dation	At 31 Dec 12	Exercise price per share (p)	Share price at date of exercise/ release (p)	Gain made on exercise/ release (£)	Exercised or released or from which exercisable or releasable	Expiry or vesting date
Philip Broadley														
Shares (SRP)	*DSTI[1, 2]*	*No*	*08-Apr-09*	*54.10*	*44,235*	–	*44,235*	–	–	–	*150.95*	*66,773*	*10-Apr-12*	*10-Apr-12*
	DSTI[1,3,4]	No	23-Mar-10	125.70	262,530	–	–	32,817	229,713	–	–	–	23-Mar-13	23-Mar-13
	DSTI[1,3,4]	No	11-Apr-11	144.70	267,969	–	–	33,497	234,472	–	–	–	11-Apr-14	11-Apr-14
	DSTI[1,3,4]	**No**	**10-Apr-12**	**157.10**	**–**	**241,411**	**–**	**30,177**	**211,234**	**–**	**–**	**–**	**10-Apr-15**	**10-Apr-15**
Option (PSP)	*Match[5,6]*	*Yes*	*08-Apr-09*	*54.10*	*442,357*	–	*442,357*	–	–	*54.10*	*150.95*	*428,423*	*10-Apr-12*	*08-Apr-15*
Shares (PSP)	*Match[5,7]*	*Yes*	*08-Apr-09*	*55.78*	*85,805*	–	*85,805*	–	–	–	*150.95*	*129,523*	*10-Apr-12*	*10-Apr-12*
	Joining[5,7]	*Yes*	*08-Apr-09*	*54.10*	*739,372*	–	*739,372*	–	–	–	*150.95*	*1,116,082*	*10-Apr-12*	*10-Apr-12*
Nil-cost options (PSP)	Rationalising[3,8]	Yes	13-May-10	119.00	577,732	–	–	–	577,732	–	–	–	13-May-13	12-May-20
	Rationalising[3,8]	Yes	13-May-10	119.00	577,731	–	–	–	577,731	–	–	–	13-May-14	12-May-20
	Financial Objectives[3,9]	Yes	13-May-10	119.00	577,732	–	–	–	577,732	–	–	–	13-May-13	12-May-20
	Financial Objectives[3,9]	Yes	13-May-10	119.00	577,731	–	–	–	577,731	–	–	–	13-May-14	12-May-20
	Financial Objectives[3,10]	Yes	11-Apr-11	144.70	488,079	–	–	–	488,079	–	–	–	11-Apr-14	10-Apr-16
	Financial Objectives[3,10]	Yes	11-Apr-11	144.70	488,079	–	–	–	488,079	–	–	–	11-Apr-15	10-Apr-16
	Financial Objectives[3,11]	**Yes**	**10-Apr-12**	**157.10**	**–**	**461,490**	**–**	**–**	**461,490**	**–**	**–**	**–**	**10-Apr-15**	**09-Apr-22**
	Financial Objectives[3,11]	**Yes**	**10-Apr-12**	**157.10**	**–**	**461,490**	**–**	**–**	**461,490**	**–**	**–**	**–**	**10-Apr-16**	**09-Apr-22**
Total					**5,129,352**	**1,164,391**	**1,311,769**	**96,491**	**4,885,483**			**1,740,800**		
Julian Roberts														
Shares (SRP)	*DSTI[1,12]*	*No*	*08-Apr-09*	*54.10*	*301,594*	–	*301,594*		–	–	*150.95*	*455,256*	*10-Apr-12*	*10-Apr-12*
	DSTI[1,3,4]	No	23-Mar-10	125.70	378,849	–	–	47,357	331,492	–	–	–	23-Mar-13	23-Mar-13
	DSTI[1,3,4]	No	11-Apr-11	144.70	421,597	–	–	52,700	368,897	–	–	–	11-Apr-14	11-Apr-14
	DSTI[1,3,4]	**No**	**10-Apr-12**	**157.10**	**–**	**372,315**	**–**	**46,540**	**325,775**	**–**	**–**	**–**	**10-Apr-15**	**10-Apr-15**
Option (PSP)	*Match[5,13]*	*Yes*	*08-Apr-09*	*54.10*	*2,245,735*	–	*2,245,735*	–	–	*54.10*	*157.10*	*2,313,107*	*10-Apr-12*	*08-Apr-15*
	Match[5,14]	*Yes*	*08-Apr-09*	*54.10*	*2,190,494*	–	*2,190,494*	–	–	*54.10*	*168.22*	*2,499,792*	*09-Aug-12*	*08-Apr-15*
Shares (PSP)	*Match[5,15]*	*Yes*	*08-Apr-09*	*55.78*	*860,508*	–	*860,508*	–	–	–	*150.95*	*1,298,937*	*10-Apr-12*	*10-Apr-12*
Nil-cost options OMSIP (PSP)	Rationalising[3,8]	Yes	13-May-10	119.00	871,849	–	–	–	871,849	–	–	–	13-May-13	12-May-20
	Rationalising[3,8]	Yes	13-May-10	119.00	871,849	–	–	–	871,849	–	–	–	13-May-14	12-May-20
	Financial Objectives[3,9]	Yes	13-May-10	119.00	871,849	–	–	–	871,849	–	–	–	13-May-13	12-May-20
	Financial Objectives[3,9]	Yes	13-May-10	119.00	871,849	–	–	–	871,849	–	–	–	13-May-14	12-May-20
	Financial Objectives[3,10]	Yes	11-Apr-11	144.70	734,278	–	–	–	734,278	–	–	–	11-Apr-14	11-Apr-16
	Financial Objectives[3,10]	Yes	11-Apr-11	144.70	734,278	–	–	–	734,278	–	–	–	11-Apr-15	11-Apr-16
	Financial Objectives[3,11]	**Yes**	**10-Apr-12**	**157.10**	**–**	**692,235**	**–**	**–**	**692,235**	**–**	**–**	**–**	**10-Apr-15**	**10-Apr-22**
	Financial Objectives[3,11]	**Yes**	**10-Apr-12**	**157.10**	**–**	**692,235**	**–**	**–**	**692,235**	**–**	**–**	**–**	**10-Apr-16**	**10-Apr-22**
Option (SAYE)	[16]	No	09-Apr-09	63.30	48,906	–	–	–	48,906	32.00	–	–	01-Jun-14	30-Nov-14
Total					**11,403,635**	**1,756,785**	**5,598,331**	**146,597**	**7,415,492**			**6,567,092**		

1 Dividends are paid and the directors can vote the shares held under award during the vesting period.
2 On 10 April 2012, 44,235 shares were released to Mr Broadley in respect of the deferred short-term incentive forfeitable shares award granted on 8 April 2009. Mr Broadley sold all of these shares.
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 are found to have been materially incorrect or misleading or if undue risk was taken, resulting in financial loss to the Company.
4 These awards were consolidated on a 7-for-8 basis on 23 April 2012 as a result of the Special Dividend and share consolidation approved by shareholders.
5 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 vested on 8 April 2012.
6 Mr Broadley exercised these options on 10 April 2012 and retained 174,606 shares.
7 On 10 April 2012, 825,177 shares were released to Mr Broadley in respect of his joining and long-term incentive forfeitable shares awards granted on 8 April 2009. Mr Broadley sold all of these shares.
8 The Committee concluded that the overall achievement of the OMSIP Rationalising Objectives was 75% and the appropriate number of shares held under option will vest.
9 An overall achievement of 85.9% was determined for the 2010 OMSIP Financial Objectives and the appropriate number of shares held under option will vest.
10 Subject to the fulfilment of performance targets, under which 50% of the award is subject to the financial performance of the Company's LTS business post restructuring and 50% of the award is subject to absolute TSR.

Directors' interests under employee share plans continued

[11] Subject to the fulfilment of performance targets based on cumulative growth over three years in AOP on a constant currency basis, subject to adjustments based on the relative TSR over the three-year period, calculated 50% against the FTSE100 Index and 50% against the JSE ALSI.
[12] On 10 April 2012, 301,594 shares were released to Mr Roberts in respect of the deferred short-term incentive forfeitable shares award granted on 8 April 2009. Mr Roberts sold all of these shares.
[13] Mr Roberts exercised these options on 10 April 2012 and retained 55,241 shares.
[14] Mr Roberts exercised this option on 9 August 2012 and retained 350,000 shares.
[15] On 10 April 2012, 860,508 shares were released to Mr Roberts in respect of his long-term incentive forfeitable shares award granted on 8 April 2009. Mr Roberts sold all of these shares.
[16] The SAYE option price was determined 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 178.2p at 31 December 2012 and ranged from a low of 137.8p to a high of 179.6p during 2012.

Executive directors' shareholding requirements

The Group Chief Executive is expected to build up a holding of shares in the Company equal in value to at least 200% of his basic salary within five years of appointment and the equivalent figure for other executive directors is 150% of their 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) and illustrates that both Julian Roberts and Philip Broadley had met their respective requirements at 31 December 2012:

	Basic salary at 31 Dec 2012 (£)	Price at 31 Dec 2012 (p)	Percentage holding required	Minimum number of shares required to be held*	Shares held at 31 Dec 2012	Shares held at 31 Dec 2012 as a percentage of basic salary*
Julian Roberts	870,000	178.2	200%	976,431	1,385,889	284%
Philip Broadley	580,000	178.2	150%	488,215	513,434	158%

* Calculated using the market price of Old Mutual plc shares on 31 December 2012, namely 178.2p, and the basic salaries of the executive directors at 31 December 2012.

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 was 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. Mr O'Sullivan's term of engagement has now been extended for a second three-year term with effect from 1 January 2013.

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 initially for two successive three-year terms, 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. Non-executive directors' engagements are extended on an annual basis (for a maximum of three years) from the end of their second three-year cycle.

Terms of engagement – Chairman and non-executive directors continued

All directors (including the executive directors) are required to stand for election or re-election annually at the Company's Annual General Meeting. The following table sets out details of where each non-executive director (other than the Chairman) now stands in relation to the framework of appointment described above:

	Date of original appointment	Date of current appointment	Current term as director	Date current appointment terminates
Mike Arnold	1 Sep 2009	1 Sep 2012	2nd	1 Sep 2015
Russell Edey[1]	24 Jun 2004	24 Jun 2010	3rd (final year)	9 May 2013
Alan Gillespie	3 Nov 2010	3 Nov 2010	1st	3 Nov 2013
Danuta Gray	1 Mar 2013	1 Mar 2013	1st	1 Mar 2016
Reuel Khoza	27 Jan 2006	27 Jan 2013	3rd (2nd year)	27 Jan 2014
Roger Marshall	5 Aug 2010	5 Aug 2010	1st	5 Aug 2013
Bongani Nqwababa[2]	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[1]	14 Nov 2006	14 Nov 2012	3rd (final year)	9 May 2013

1 Russell Edey and Lars Otterbeck will retire at the conclusion of the Company's Annual General Meeting on 9 May 2013.
2 On 28 February 2013, the Board approved the extension of Bongani Nqwababa's engagement for a further year from 1 April 2013.

Shareholder approval of the Remuneration Report

An advisory vote on the Remuneration Report will be put to shareholders at the AGM on 9 May 2013.

Russell Edey
Chairman of the Remuneration Committee
On behalf of the Board
1 March 2013

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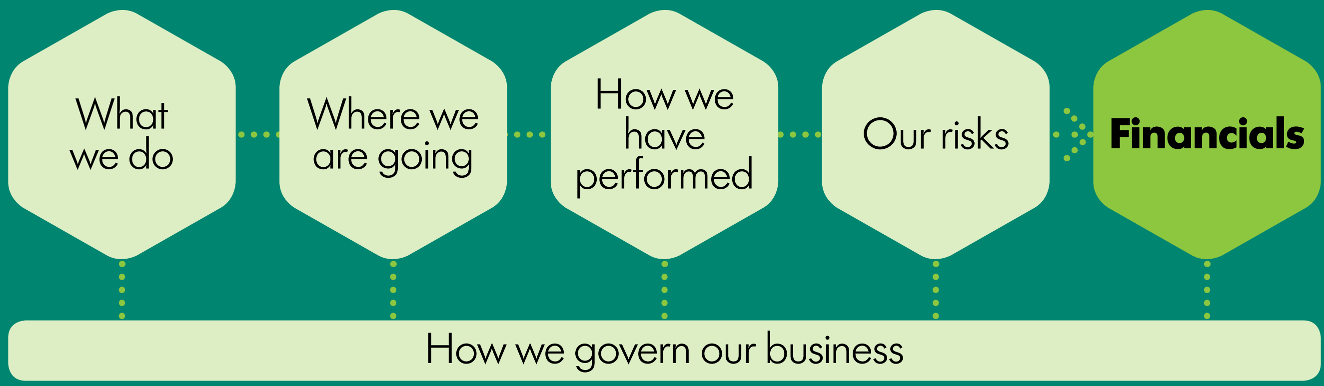
For the year ended 31 December 2012



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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 Annual Report includes a fair review of the development and performance of the business and the position of Old Mutual plc and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Julian Roberts
Group Chief Executive

Philip Broadley
Group Finance Director

1 March 2013

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF OLD MUTUAL PLC

For the year ended 31 December 2012

We have audited the financial statements of Old Mutual plc for the year ended 31 December 2012 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 118, 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/auditscopeukprivate.

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 2012 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 118, in relation to going concern; and
- The part of the Corporate Governance Statement on page 85 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
1 March 2013

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012	£m Year ended 31 December 2011
Revenue			
Gross earned premiums	B2	**3,725**	3,584
Outward reinsurance		**(322)**	(325)
Net earned premiums		**3,403**	3,259
Investment return (non-banking)	D2	**9,524**	(567)
Banking interest and similar income	D3	**3,431**	3,669
Banking trading, investment and similar income	D4	**214**	217
Fee and commission income, and income from service activities	D5	**3,096**	3,035
Other income		**125**	171
Total revenues		**19,793**	9,784
Expenses			
Claims and benefits (including change in insurance contract provisions)		**(5,612)**	(3,331)
Reinsurance recoveries		**221**	123
Net claims and benefits incurred		**(5,391)**	(3,208)
Change in investment contract liabilities		**(5,361)**	1,889
Losses on loans and advances		**(400)**	(458)
Finance costs	D6	**(214)**	(58)
Banking interest payable and similar expenses	D7	**(1,887)**	(2,095)
Fee and commission expenses, and other acquisition costs	D8	**(1,031)**	(1,007)
Other operating and administrative expenses	D9	**(3,754)**	(3,852)
Goodwill impairment	C1(b)	**–**	(264)
Change in third-party interest in consolidated funds		**(328)**	2
Total expenses		**(18,366)**	(9,051)
Share of associated undertakings' and joint ventures' profit after tax	G5	**24**	10
(Loss)/profit on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	**(56)**	251
Profit before tax		**1,395**	994
Income tax expense	D1	**(472)**	(225)
Profit from continuing operations after tax		**923**	769
Discontinued operations			
Profit from discontinued operations after tax	H1	**564**	198
Profit after tax for the financial year		**1,487**	967
Attributable to			
Equity holders of the parent		**1,173**	667
Non-controlling interests			
Ordinary shares	F11(a)	**264**	238
Preferred securities	F11(a)	**50**	62
Profit after tax for the financial year		**1,487**	967
Earnings per share			
Basic earnings per share based on profit from continuing operations (pence)		**12.6**	8.9
Basic earnings per share based on profit from discontinued operations (pence)		**12.3**	4.0
Basic earnings per ordinary share (pence)	C2(a)	**24.9**	12.9
Diluted earnings per share based on profit from continuing operations (pence)		**11.6**	8.0
Diluted earnings per share based on profit from discontinued operations (pence)		**11.5**	3.7
Diluted earnings per ordinary share (pence)	C2(a)	**23.1**	11.7
Weighted average number of ordinary shares (millions)	C2(a)	**4,587**	4,935

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	**Year ended 31 December 2012** £m	Year ended 31 December 2011 £m
Profit after tax for the financial year		**1,487**	967
Other comprehensive income for the financial year			
Fair value gains			
Property revaluation		**20**	39
Net investment hedge		**160**	28
Available-for-sale investments			
Fair value gains/(losses)		**30**	(1)
Recycled to the income statement		**(21)**	(6)
Shadow accounting		**6**	(22)
Currency translation differences/exchange differences on translating foreign operations		**(641)**	(1,240)
Other movements		**(46)**	(49)
Income tax relating to components of other comprehensive income	D1(c)	**5**	12
Total other comprehensive income for the financial year from continuing operations		**(487)**	(1,239)
Total other comprehensive income for the financial year from discontinued operations	H1(b)	**(348)**	(161)
Total other comprehensive income for the financial year		**(835)**	(1,400)
Total comprehensive income for the financial year		**652**	(433)
Attributable to			
Equity holders of the parent		**476**	(408)
Non-controlling interests			
Ordinary shares		**126**	(87)
Preferred securities		**50**	62
Total comprehensive income for the financial year		**652**	(433)

RECONCILIATION OF ADJUSTED OPERATING PROFIT TO PROFIT AFTER TAX

For the year ended 31 December 2012

	Notes	**Year ended 31 December 2012** £m	Year ended 31 December 2011 £m
Core operations			
Long-Term Savings	B3	**800**	793
Nedbank	B3	**828**	755
Mutual & Federal	B3	**43**	89
USAM	B3	**91**	67
		1,762	1,704
Finance costs		**(130)**	(128)
Long-term investment return on excess assets		**54**	37
Net interest payable to non-core operations		**(18)**	(23)
Corporate costs		**(54)**	(57)
Other net expenses		**–**	(18)
Adjusted operating profit before tax		**1,614**	1,515
Adjusting items	C1(a)	**(459)**	(329)
Non-core operations	B3	**165**	(183)
Profit before tax (net of policyholder tax)		**1,320**	1,003
Income tax attributable to policyholder returns	B3	**75**	(9)
Profit before tax		**1,395**	994
Total tax expense	D1(a)	**(472)**	(225)
Profit from continuing operations after tax		**923**	769
Profit from discontinued operations after tax	H1(a)	**564**	198
Profit after tax for the financial year		**1,487**	967

Adjusted operating profit after tax attributable to ordinary equity holders of the parent

	Notes	**Year ended 31 December 2012** £m	Year ended 31 December 2011[1] £m
Adjusted operating profit before tax		**1,614**	1,515
Tax on adjusted operating profit	D1(d)	**(441)**	(341)
Adjusted operating profit after tax		**1,173**	1,174
Non-controlling interests – ordinary shares	F11(a)	**(281)**	(257)
Non-controlling interests – preferred securities	F11(a)	**(50)**	(62)
Adjusted operating profit after tax attributable to ordinary equity holders of the parent		**842**	855
Adjusted weighted average number of shares (millions)	C2(b)	**4,818**	4,756
Adjusted operating earnings per share (pence)	C2(b)	**17.5**	18.0

[1] The results for the year ended 31 December 2011 have been restated to reflect the share consolidation which occurred on 23 April 2012 (see note A2).

Basis of preparation

Adjusted operating profit (AOP) reflects the directors' view of the underlying long-term performance of the Group. AOP is a measure of profitability which adjusts the standard IFRS profit measures for the specific items detailed in note C1, and as such it is a non-GAAP measure.

This reconciliation explains the differences between adjusted operating profit and profit after tax as reported under IFRS as adopted by the EU.

For core life assurance and general insurance businesses, AOP 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, AOP 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. Old Mutual Bermuda is treated as a non-core operation in the AOP disclosure, and Nordic, which is disclosed as discontinued operations for IFRS reporting, is also treated as a non-core operation for AOP disclosure. Non-core operations are not included in AOP.

Adjusted operating earnings per share is calculated on the same basis as AOP. It is stated after tax attributable to AOP 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 2012

	Notes	At 31 December 2012	At 31 December 2011
			£m
Assets			
Goodwill and other intangible assets	F1	**3,056**	3,358
Mandatory reserve deposits with central banks		**921**	951
Property, plant and equipment	F2	**848**	925
Investment property	F3	**1,946**	2,064
Deferred tax assets	F8	**340**	339
Investments in associated undertakings and joint ventures	G5	**137**	111
Deferred acquisition costs	F4	**1,288**	1,351
Reinsurers' share of policyholder liabilities	E8	**1,406**	989
Loans and advances	E3	**38,495**	40,001
Investments and securities	E4	**86,381**	81,253
Current tax receivable		**103**	138
Trade, other receivables and other assets	F5	**2,890**	3,348
Derivative financial instruments – assets	E6	**1,781**	1,795
Cash and cash equivalents		**3,863**	3,624
Non-current assets held for sale	H2	**42**	22,138
Total assets		**143,497**	162,385
Liabilities			
Long-term business policyholder liabilities	E8	**80,188**	76,350
General insurance liabilities	E8	**346**	325
Third-party interests in consolidated funds		**2,783**	1,893
Borrowed funds	E9	**3,050**	3,656
Provisions	F6	**263**	269
Deferred revenue	F7	**689**	701
Deferred tax liabilities	F8	**400**	504
Current tax payable		**287**	199
Trade, other payables and other liabilities	F9	**4,789**	4,243
Amounts owed to bank depositors	E10	**39,499**	41,215
Derivative financial instruments – liabilities	E6	**1,402**	1,755
Non-current liabilities held for sale	H2	**3**	20,417
Total liabilities		**133,699**	151,527
Net assets		**9,798**	10,858
Shareholders' equity			
Equity attributable to equity holders of the parent	F10	**7,833**	8,488
Non-controlling interests			
Ordinary shares	F11(b)	**1,692**	1,652
Preferred securities	F11(b)	**273**	718
Total non-controlling interests		**1,965**	2,370
Total equity		**9,798**	10,858

The consolidated financial statements on pages 120 to 211 were approved by the Board of directors on 1 March 2013.

Julian Roberts
Group Chief Executive

Philip Broadley
Group Finance Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Cash flows from operating activities – continuing operations		
Profit before tax	**1,395**	994
Non-cash movements in profit before tax	**249**	1,372
Changes in working capital	**1,041**	(1,415)
Taxation paid	**(295)**	(402)
Net cash inflow from operating activities – continuing operations	**2,390**	549
Cash flows from investing activities		
Net (acquisitions)/disposals of financial investments	**(1,531)**	43
Acquisition of investment properties	**(55)**	(57)
Proceeds from disposal of investment properties	**67**	6
Acquisition of property, plant and equipment	**(120)**	(184)
Proceeds from disposal of property, plant and equipment	**7**	43
Acquisition of intangible assets	**(72)**	(91)
Acquisition of interests in subsidiaries, associated undertakings and strategic investments	**(23)**	103
Disposal of interests in subsidiaries, associated undertakings and strategic investments	**1,883**	(329)
Net cash inflow/(outflow) from investing activities – continuing operations	**156**	(466)
Cash flows from financing activities		
Dividends paid to		
Ordinary equity holders of the Company	**(1,172)**	(97)
Non-controlling interests and preferred security interests	**(211)**	(206)
Interest paid (excluding banking interest paid)	**(85)**	(87)
Proceeds from issue of ordinary shares (including by subsidiaries to non-controlling interests)	**35**	10
Net disposal/(acquisition) of treasury shares	**19**	(17)
Issue of subordinated and other debt	**290**	890
Subordinated and other debt repaid	**(1,293)**	(905)
Net cash outflow from investing activities – continuing operations	**(2,417)**	(412)
Net increase/(decrease) in cash and cash equivalents – continuing operations	**129**	(329)
Net (decrease)/increase in cash and cash equivalents – discontinued operations	**(129)**	346
Effects of exchange rate changes on cash and cash equivalents	**(271)**	(594)
Cash and cash equivalents at beginning of the year	**5,055**	5,632
Cash and cash equivalents at end of the year	**4,784**	5,055
Consisting of		
Cash and cash equivalents in the statement of financial position	**3,863**	3,624
Mandatory reserve deposits with central banks	**921**	951
Cash and cash equivalents included in assets held for sale	**–**	480
Total	**4,784**	5,055

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 £921 million (2011: £951 million) and cash and cash equivalents subject to consolidation of funds of £679 million (2011: £756 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 £4,490 million (2011: £4,936 million), dividend income received of £508 million (2011: £371 million) and interest paid (including banking interest) of £2,047 million (2011: £2,143 million).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

Year ended 31 December 2012	Notes	Millions Number of shares issued and fully paid	Share capital	Share premium	Merger reserve	Available-for-sale reserve
Shareholders' equity at beginning of the year		**5,801**	**580**	**805**	**2,532**	**53**
Profit after tax for the financial year		–	–	–	–	–
Other comprehensive income						
Fair value gains/(losses)						
Property revaluation		–	–	–	–	–
Net investment hedge[1]		–	–	–	–	–
Available-for-sale investments						
Fair value gains		–	–	–	–	**33**
Recycled to the income statement		–	–	–	–	**(21)**
Exchange differences recycled to the income statement[1]		–	–	–	–	–
Shadow accounting		–	–	–	–	**6**
Currency translation differences/exchange differences on translating foreign operations		–	–	–	–	–
Other movements		–	–	–	–	–
Income tax relating to components of other comprehensive income	D1(c)	–	–	–	–	**(6)**
Total comprehensive income for the financial year		–	–	–	–	**12**
Dividends for the year	C3	–	–	–	–	–
Other movements in share capital and share-based payment reserve		**27**	**3**	**30**	–	–
Cancellation of treasury shares		**(239)**	**(24)**	–	–	–
Share consolidation		**(697)**	–	–	–	–
Preferred securities purchased		–	–	–	–	–
Merger reserve realised in the period		–	–	–	**(815)**	–
Change in participation in subsidiaries		–	–	–	–	–
Transactions with shareholders		**(909)**	**(21)**	**30**	**(815)**	–
Shareholders' equity at end of the year		**4,892**	**559**	**835**	**1,717**	**65**

[1] Following the sale of the Nordic business on 21 March 2012, foreign exchange translation gains of £350 million relating to the Nordic operations, and foreign exchange hedge losses of £112 million relating to net investment hedges in respect of the Nordic investment were recognised in the income statement. These amounts are included in the £564 million profit on sale.

£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
124	**230**	**5**	**301**	**3,170**	**688**	**8,488**	**2,370**	**10,858**
–	–	–	–	1,141	32	1,173	314	1,487
19	–	–	–	–	–	19	1	20
–	–	–	160	–	–	160	–	160
–	–	–	–	–	–	33	1	34
–	–	–	–	–	–	(21)	–	(21)
–	–	–	(350)	–	–	(350)	–	(350)
–	–	–	–	–	–	6	–	6
–	–	–	(489)	–	–	(489)	(150)	(639)
1	(24)	4	–	(40)	–	(59)	10	(49)
–	–	–	–	–	10	4	–	4
20	(24)	4	(679)	1,101	42	476	176	652
–	–	–	–	(1,172)	(42)	(1,214)	(169)	(1,383)
–	62	–	–	7	–	102	13	115
–	–	24	–	–	–	–	–	–
–	–	–	–	–	–	–	–	–
–	–	–	–	(13)	(6)	(19)	(445)	(464)
–	–	–	–	815	–	–	–	–
–	–	–	–	–	–	–	20	20
–	62	24	–	(363)	(48)	(1,131)	(581)	(1,712)
144	**268**	**33**	**(378)**	**3,908**	**682**	**7,833**	**1,965**	**9,798**

Retained earnings were reduced in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other undertakings at 31 December 2012 by £489 million (2011: £501 million).

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

Year ended 31 December 2011	Notes	Millions Number of shares issued and fully paid	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	C3	–	–	–	–	–
Other movements in share capital and share-based payment reserve		7	–	10	–	–
Merger reserve realised in the year		–	–	–	(313)	–
Change in participation in subsidiaries		–	–	–	–	–
Reclassification of translation differences on non-controlling interests		–	–	–	–	–
Shares issued in lieu of cash dividend		99	10	–	–	–
Transactions with shareholders		106	10	10	(313)	–
Shareholders' equity at end of the year		5,801	580	805	2,532	53

£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

For the year ended 31 December 2012

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 E1(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, being the effective date of the Group's conversion to IFRS, were reset to zero.

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 2012		Year ended 31 December 2011	
	Income statement (average rate)	**Statement of financial position (closing rate)**	Income statement (average rate)	Statement of financial position (closing rate)
Rand	**13.0123**	**13.7696**	11.6445	12.5643
US dollars	**1.5850**	**1.6242**	1.6037	1.5553
Swedish kronor	**10.7363**	**10.5638**	10.4144	10.6801
Euro	**1.2326**	**1.2307**	1.1519	1.1970

Developments during 2012
Other than changes arising from new accounting developments as mentioned in note A5, 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 A6.

These financial statements describe the material accounting policies and those 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 Nordic

As previously reported the Group had agreed at 31 December 2011 to the disposal of its life assurance operations, asset management and banking operations in Sweden, Denmark and Norway to Skandia Liv. Following final regulatory approval on 8 March 2012 and subsequent shareholder approval, the sale was completed on 21 March 2012. The sale represented the Group's exit from the life assurance market in the Nordic region and therefore met the criteria of a discontinued operation. The assets and liabilities of Nordic were classified as non-current assets and liabilities held for sale at 31 December 2011. At 31 December 2012, following the completion of the disposal, there are no assets and liabilities of Nordic remaining in the Statement of Financial Position. For the purposes of adjusted operating profit, Nordic is classified as a non-core operation. Further details of the impact of discontinued operations are provided in note H1.

Special dividend and share consolidation

On 9 March 2012 the Group declared a special dividend of 18p per 10p ordinary share to all holders of those shares on the register at 20 April 2012 and the dividend was subsequently paid on 7 June 2012. A seven-for-eight share consolidation was effected on 23 April 2012 and from that date only new ordinary shares of 11³⁄₇ pence have been in issue. For basic and diluted earnings per share, the weighted average number of shares is adjusted with effect from 23 April 2012. For adjusted operating earnings per share the adjustment of the weighted average number of shares has been made effective 1 January 2012. Consequently the comparative information in the adjusted operating earnings per share note C2(b) has been restated accordingly.

Disposal of Finnish branch in Old Mutual Wealth

On 21 December 2011 the Group announced that it had agreed terms to sell the Finnish branch of Old Mutual Wealth to OP-Pohjola osk. The assets and liabilities of the Finnish branch were classified as non-current assets and liabilities held for sale in the Statement of Financial Position at 31 December 2011. As at 31 December 2012, following the completion of the sale of the business on 31 August 2012, there were no assets and liabilities of the Finland branch remaining in the Statement of Financial Position.

Consolidation of other African businesses

As reported in the Group's 2011 Annual Report and Accounts the Group's operations in Zimbabwe, Kenya, Malawi, Swaziland and Nigeria (the other African businesses), were consolidated effective from 1 January 2011. The net asset value of the underlying businesses on 1 January 2011 was deemed to be the fair value of these operations on that date. As a result of the consolidation of these businesses, the Group recognised a gain on 1 January 2011, which was disclosed as a profit on acquisition of subsidiaries. The results of the other African businesses were included in the comparatives for the year-ended 31 December 2011.

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 agreed indigenous shareholding to be provided. At 31 December 2012 the Group had completed the transfer of the agreed indigenous shareholding to approved indigenisation and economic empowerment trusts, the majority of which remains fully consolidated for the purposes of IFRS reporting.

Reporting of Retail Europe within Old Mutual Wealth

On 24 January 2012 the Group announced that it would combine its Old Mutual Wealth Continental Europe business (France and Italy) with the Skandia Retail Europe business unit (Germany, Austria, Poland and Switzerland). As a result of these operational changes, the businesses previously reported as the Retail Europe segment are now reported within the Old Mutual Wealth segment for the year ended 31 December 2012. The comparative information for the year ended 31 December 2011 has been reclassified where applicable.

Integration of OMAM UK with Skandia Investment Group

On 26 April 2012 the Group announced the integration of Old Mutual Asset Management UK (OMAM UK) with Skandia Investment Group. OMAM UK was previously reported within the US Asset Management segment and Skandia Investment Group is reported within the Old Mutual Wealth segment. Consequently OMAM UK is included within the Old Mutual Wealth segment for the year ended 31 December 2012.

In September 2012 the Group announced the merger of the Skandia businesses (Skandia UK, Skandia International, Old Mutual Global Investors and the Skandia European businesses outside of the Nordic region) into a single business called Old Mutual Wealth. The operational changes are designed to combine asset management capability with UK platform strength and international expertise to grow into a leading provider of wealth management solutions in selected markets. As a result the businesses previously reported as the Retail Europe segment are now reported within the Old Mutual Wealth segment for the year ended 31 December 2012. The comparative information for the year ended 31 December 2011 has been reclassified where applicable.

Cancellation of treasury shares

On 13 January 2012 the Group announced that it had cancelled 239,434,888 ordinary shares of 10p each previously held in treasury.

Repayment of debt

On 18 January 2012, the remaining €200 million of the €750 million subordinated bond was repaid on the first call date.

Following an open market tender offer on 19 July 2012, the Group announced it repurchased £388 million of the £500 million senior bond with a repayment date of 1 August 2012.

On 23 August 2012, the Group announced it had applied to repay the US$750 million subordinated cumulative perpetual notes at their nominal value. The transaction was completed on 24 September 2012.

On 4 December 2012, €5 million of the €500 million perpetual preferred callable securities and on 5 December 2012, £2 million of the £350 million preferred callable securities were acquired, both via open market repurchase.

A: Significant accounting policies continued

A3: Critical accounting estimates and judgements

In the preparation of these financial statements, the Group is required to make estimates and judgements that affect items reported in the consolidated income statement, statement of financial position, other primary statements and related supporting notes.

Critical accounting estimates and judgements are those which involve the most complex or subjective judgements or assessments. Where applicable the Group applies estimation and assumption setting techniques that are aligned with relevant actuarial and accounting guidance based on knowledge of the current situation, and require assumptions and predictions of future events and actions. There have been no significant methodology changes to the critical accounting estimates and judgements that the Group applied at 31 December 2011. The significant accounting policies are described in the relevant notes.

The key areas of the Group's business that typically require such estimates and the relevant accounting policies and notes are as follows:

Area	More detail	Policy note
Financial assets and liabilities	E4	E1
Life assurance contract provisions	E8	E8
Deferred acquisition costs	F4	E8
Intangible assets and goodwill	F1	F1
Tax	D1/F8	A3(c)

Specific areas that have required closer attention in respect of the estimates and judgements during the year ended 31 December 2012 are explained in more detail below:

(a) Loans and advances

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 date. Nedbank actively manages their exposure to loans and advances through robust credit approval processes which contributed to the improved credit loss ratio at 31 December 2012 of 1.05% (2011: 1.13%).

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 macro economic 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 are 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.

(b) Policyholder liabilities

Emerging Markets Financial Soundness Valuation discount rate
The calculation of the Group's South African Life assurance contract provisions is sensitive to the discount rate applied to future liabilities. The methodology applied by the Group requires discount rates to be set according to the Financial Soundness Valuation (FSV) principles as prescribed by the Actuarial Society of South Africa. In line with these principles the reference rate is selected as the Bond Exchange of South Africa (BESA) par bond 10-year yield.

During 2012 the reference discount rate applied to its South African business reduced from 8.2% to 6.9% in line with observable market data. During H1 2012, the discount rate reduced from 8.2% to 7.6%, which resulted in an increase in FSV provisions of £20 million. During H2 2012, the discount rate reduced further from 7.6% to 6.9%, resulting in a further increase to FSV provisions of £15 million.

During the fourth quarter of 2012 a broad duration-based hedge was implemented which partially mitigated the negative impact of the decline in the FSV rate over H2. This hedge remains in place and is expected to reduce the South African business's sensitivity to interest rate movements in future. The Group estimates that a 1% reduction in the discount rate will result in an increase in policyholder liabilities of £39 million (2011: £42 million), allowing for the impact of the duration-based hedge. The growth in the book over 2012 and the fact that a 1% fall now represents a larger proportionate fall in interest rates mean that the sensitivity at the end of 2012 is higher than the actual impact observed over 2012.

Further disclosure of the policyholder sensitivity to interest rates is noted in note E8(g).

Emerging Markets discretionary reserves

Management has discretion in managing exposure to financial options and guarantees, particularly within participating business. As required by applicable Actuarial Society of South Africa guidance, the time value of the financial options and guarantees included in the statutory reserves in the Emerging Markets businesses at 31 December 2012, has been valued using a risk-neutral market consistent asset model and is referred to as the Investment Guarantee Reserve (IGR). This reserve includes a discretionary margin as defined by local guidelines to allow for the sensitivity of the reserve to future interest rate and equity market movements. Further detail is provided in the Old Mutual audited market consistent embedded value (MCEV) supplementary basis information section of the Annual Report.

Old Mutual Bermuda guarantees

Old Mutual Bermuda was closed to new business on 18 March 2009. Management's key priority since the closure to new business has been to de-risk the business. The main risks associated with this business relate to guarantees in the products previously sold by the business. At 31 December 2012 a total of 21,975 (2011: 34,828) contracts remain active, comprising 20,910 variable annuity products (2011: 33,373) and 1,065 deferred and fixed index annuity investments (2011: 1,455). The variable annuity products provided both a guaranteed minimum accumulation benefit (GMAB) and guaranteed minimum death benefit (GMDB).

During 2012 the business experienced significantly higher rates of surrender than assumed, with 12,380 variable annuity contracts surrendering in total (2011: 5,657). The increase in surrender activity was attributable to variable annuity UGO policyholders passing through a top-up process on the fifth anniversary following product inception. At 31 December 2012 approximately 70% of variable annuity UGO policyholders had reached their 5-year top-up. At 31 December 2012, 77% of non-Hong Kong policies and 57% of Hong Kong policies had been surrendered on or after their 5-year anniversary date. The significantly reduced size of the book has meant that associated GMAB reserves have reduced from $1,056 million at 31 December 2011 to $229 million at 31 December 2012 while the associated GMDB reserves reduced from $5 million to $155,677.

The favourable lapse experience has been reflected in surrender assumptions for the remaining policies that are yet to go through their 5-year policy anniversary. These revised assumptions have resulted in further releases of reserves, contributing positively to IFRS and MCEV operating profits for 2012. Policies still in force after the 5-year anniversary are no longer subject to surrender penalties.

The Group continues to operate strong oversight over the business. The key remaining risk relates to the 10-year GMAB top-up process which will commence in 2017.

(c) 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: 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).

A5: Standards, amendments to standards, and interpretations adopted in the 2012 annual financial statements

The following standards, amendments to standards and interpretations, which are relevant to the Group, have been adopted in these financial statements:

- IFRS 7 Disclosures – Transfers of Financial Assets (Amendments to IFRS 7) was issued in October 2010. The amendments to IFRS 7 Financial Instruments: Disclosures require enhancements to the existing disclosures where an asset is transferred but is not derecognised and introduce new disclosures for assets that are derecognised but the entity continues to have a continuing exposure to the asset after the sale. These amendments are effective for annual periods beginning on or after 1 July 2011. Early application of the amendments is permitted. The adoption of this standard had no significant impact on the Group's disclosures.

A: Significant accounting policies continued

A5: Standards, amendments to standards, and interpretations adopted in the 2012 annual financial statements continued

- Amendment to IAS 12 'Deferred Tax: Recovery of Underlying Assets' (effective 1 January 2012) introduced an exception to the 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. The adoption of this amendment allows the Group to measure deferred tax in Investment Property on the assumption that the carrying value will be recovered principally through sale. The adoption of these amendments had no material impact on the Group's financial statements.

A6: Future standards, amendments to standards, and interpretations not early-adopted in the 2012 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.

- IFRS 9 'Financial Instruments' (effective 1 January 2015) 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 Old Mutual Bermuda business' bond portfolios from 'available-for-sale' (fair value changes through other comprehensive income) to amortised cost or fair value through the income statement. Financial liabilities are excluded from the scope of the standard. The Group is currently assessing the full impacts of the standard on its financial statements. The standard has not yet been endorsed by the European Union
- IFRS 10 'Consolidated Financial Statements' (effective 1 January 2014); IFRS 11 'Joint Arrangements' (effective 1 January 2014); IFRS 12 'Disclosures of interests in other entities' (effective 1 January 2014). 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. The Group is currently assessing the full impacts of these standards
- IFRS 13 'Fair Value Measurement' (effective 1 January 2013) is a new standard providing principles on the determination of fair value. The Group is currently assessing the full impact of this standard
- 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 significant 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. The Group is currently assessing the full impact of this amendment.

B: Segment information

B1: Basis of segmentation

The Group's segmental results are analysed and reported on a basis consistent with the way that management and the Board of directors assesses performance and allocates resources. Information is presented to the Board on a consolidated basis in pounds sterling (the presentational currency) and in functional currency of each business.

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 MCEV supplementary information.

A reconciliation between the segment revenues and expenses and the Group's revenues and expenses is shown in note B3. 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 revenues generated in each reported segment can be seen in the analysis of profits and losses in note B3. The segmental information in notes B3 and B4, reflects the adjusted and IFRS measures of profit and loss, assets and liabilities for each operating segment as 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.

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 lines of business from which each operating segment derives its revenues are as follows:

Core operations
Long-Term Savings
Emerging Markets – life assurance and asset management
Old Mutual Wealth – life assurance and asset management

Other core operations
Nedbank – banking and asset management
Mutual & Federal – general insurance
US Asset Management – asset management

Discontinued and non-core operations
Old Mutual Bermuda – life assurance (non-core)
Nordic – life assurance, asset management and banking (discontinued and non-core)

Income statement segmentation
For both reported periods:

- Nordic has been classified as a discontinued operation in the IFRS income statement and its results as non-core in determining the Group's adjusted operating profits; and
- Old Mutual Bermuda has been classified as a continuing operation in the IFRS income statement, but as non-core in determining the Group's adjusted operating profit.

US Life is classified as a discontinued operation in the comparative period.

All other businesses have been classified as continuing operations for both reported periods.

The results of OMAM (UK) (previously included within US Asset Management) and Retail Europe are included within the Old Mutual Wealth segment for the year ended 31 December 2012. Except for OMAM (UK), the income statement segmental presentation for the year ended 31 December 2011 is consistent with the above.

Statement of financial position segmentation
At 31 December 2011, the assets and liabilities of Nordic were classified as non-current assets and liabilities held for sale. Following disposal of the business during 2012, no assets and liabilities remain at 31 December 2012.

The segmental analysis of the statement of financial position at 31 December 2012 and 31 December 2011 discloses Old Mutual Bermuda as non-core.

At 31 December 2011, the assets and liabilities of the Finnish branch were classified as non-current assets and liabilities held for sale. Following disposal of the business during 2012, no assets and liabilities remain at 31 December 2012.

B2: Gross earned premiums and deposits to investment contracts

£m

Year ended 31 December 2012	**Emerging Markets**	**Old Mutual Wealth**	**Long-Term Savings**	**M&F**	**Old Mutual Bermuda**	**Total**
Life assurance – insurance contracts	**1,673**	**362**	**2,035**	**–**	**–**	**2,035**
Life assurance – investment contracts with discretionary participation features	**970**	**–**	**970**	**–**	**–**	**970**
General insurance	**–**	**–**	**–**	**720**	**–**	**720**
Gross earned premiums	**2,643**	**362**	**3,005**	**720**	**–**	**3,725**
Life assurance – other investment contracts recognised as deposits	**2,022**	**5,699**	**7,721**	**–**	**–**	**7,721**

£m

Year ended 31 December 2011	Emerging Markets	Old Mutual Wealth	Long-Term Savings	M&F	Old Mutual Bermuda	Total
Life assurance – insurance contracts	1,567	304	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	304	2,846	736	2	3,584
Life assurance – other investment contracts recognised as deposits	2,088	6,406	8,494	–	–	8,494

B: Segment information continued

B3: Adjusted operating profit statement – segment information year ended 31 December 2012

	Notes	Long-Term Savings		
		Emerging Markets	Old Mutual Wealth	Total Long-Term Savings
Revenue				
Gross earned premiums	B2	2,643	362	3,005
Outward reinsurance		(82)	(87)	(169)
Net earned premiums		2,561	275	2,836
Investment return (non-banking)	D2	5,288	3,806	9,094
Banking interest and similar income	D3	–	–	–
Banking trading, investment and similar income	D4	–	–	–
Fee and commission income, and income from service activities	D5	440	1,199	1,639
Other income		61	26	87
Inter-segment revenues		83	3	86
Total revenues		8,433	5,309	13,742
Expenses				
Claims and benefits (including change in insurance contract provisions)		(4,813)	(387)	(5,200)
Reinsurance recoveries		89	59	148
Net claims and benefits incurred		(4,724)	(328)	(5,052)
Change in investment contract liabilities		(1,756)	(3,605)	(5,361)
Losses on loans and advances		–	–	–
Finance costs (including interest and similar expenses)	D6	–	–	–
Banking interest payable and similar expenses	D7	–	–	–
Fee and commission expenses, and other acquisition costs	D8	(233)	(677)	(910)
Other expenses	D9	(1,066)	(446)	(1,512)
Goodwill impairment	C1(b)	–	–	–
Change in third-party interest in consolidated funds		–	–	–
Income tax attributable to policyholder returns		(49)	(26)	(75)
Inter-segment expenses		(20)	(32)	(52)
Total expenses		(7,848)	(5,114)	(12,962)
Share of associated undertakings' and joint ventures' profit after tax	G5	20	–	20
Loss on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	–	–	–
Adjusted operating profit/(loss) before tax and non-controlling interests		605	195	800
Income tax expense	D1	(164)	(43)	(207)
Non-controlling interests	F11(a)	(9)	–	(9)
Adjusted operating profit/(loss) after tax and non-controlling interests		432	152	584
Adjusting items net of tax and non-controlling interests	C1(a)	(153)	(134)	(287)
Profit/(loss) after tax from continuing operations		279	18	297
Profit from discontinued operations after tax	H1	–	–	–
Profit/(loss) after tax attributable to equity holders of the parent		279	18	297

[1] Non-core operations relates to Old Mutual Bermuda with the exception of £4 million of inter-segment revenue and the profit from discontinued operations after tax, with these reflecting the results of Nordic which has been classified as discontinued operations as detailed in notes A2 and B1. Old Mutual Bermuda profit after tax for the year ended 31 December 2012 was £161 million. Further detail on the results of discontinued operations is provided in note H1.

Of the total revenues, excluding inter company revenues, £4,190 million was generated in the UK (2011: £1,492 million), £1,191 million in the rest of Europe (2011: £81 million), £13,739 million in southern Africa (2011: £11,007 million), £590 million in United States (2011: £201 million) and £83 million relates to other operating segments (2011: £80 million).

£m

Nedbank	M&F	USAM	Other	Consolidation adjustments	Adjusted operating profit	Adjusting items (note C1)	Discontinued and non-core operations[1]	IFRS Income statement
–	720	–	–	–	3,725	–	–	3,725
–	(153)	–	–	–	(322)	–	–	(322)
–	567	–	–	–	3,403	–	–	3,403
–	44	1	75	366	9,580	(191)	135	9,524
3,431	–	–	–	–	3,431	–	–	3,431
214	–	–	–	–	214	–	–	214
1,084	26	421	–	2	3,172	(76)	–	3,096
23	1	1	–	(1)	111	–	14	125
21	18	–	7	(156)	(24)	–	24	–
4,773	656	423	82	211	19,887	(267)	173	19,793
–	(485)	–	–	–	(5,685)	–	73	(5,612)
–	73	–	–	–	221	–	–	221
–	(412)	–	–	–	(5,464)	–	73	(5,391)
–	–	–	–	–	(5,361)	–	–	(5,361)
(400)	–	–	–	–	(400)	–	–	(400)
–	–	–	(130)	–	(130)	(84)	–	(214)
(1,886)	–	–	–	–	(1,886)	(1)	–	(1,887)
–	(107)	(5)	–	(34)	(1,056)	88	(63)	(1,031)
(1,601)	(82)	(329)	(68)	(5)	(3,597)	(139)	(18)	(3,754)
–	–	–	–	–	–	–	–	–
–	–	–	–	(328)	(328)	–	–	(328)
–	–	–	–	–	(75)	75	–	–
(58)	(14)	–	(32)	156	–	–	–	-
(3,945)	(615)	(334)	(230)	(211)	(18,297)	(61)	(8)	(18,366)
–	2	2	–	–	24	–	–	24
–	–	–	–	–	–	(56)	–	(56)
828	43	91	(148)	–	1,614	(384)	165	1,395
(222)	(9)	(15)	12	–	(441)	(31)	–	(472)
(287)	(8)	–	(27)	–	(331)	17	–	(314)
319	26	76	(163)	–	842	(398)	165	609
16	(15)	(10)	(102)	–	(398)	398	–	–
335	11	66	(265)	–	444	–	165	609
–	–	–	–	–	–	–	564	564
335	11	66	(265)	–	444	–	729	1,173

For the year ended 31 December 2012

B: Segment information continued

B3: Adjusted operating profit statement – segment information year ended 31 December 2011

		Long-Term Savings		
	Notes	Emerging Markets	Old Mutual Wealth	Total Long-Term Savings
Revenue				
Gross earned premiums	B2	2,542	304	2,846
Outward reinsurance		(88)	(88)	(176)
Net earned premiums		2,454	216	2,670
Investment return (non-banking)	D2	2,626	(2,878)	(252)
Banking interest and similar income	D3	–	–	–
Banking trading, investment and similar income	D4	–	–	–
Fee and commission income, and income from service activities	D5	411	1,183	1,594
Other income		68	23	91
Inter-segment revenues		66	11	77
Total revenues		5,625	(1,445)	4,180
Expenses				
Claims and benefits (including change in insurance contract provisions)		(2,854)	(102)	(2,956)
Reinsurance recoveries		73	9	82
Net claims and benefits incurred		(2,781)	(93)	(2,874)
Change in investment contract liabilities		(925)	2,814	1,889
Losses on loans and advances		–	(1)	(1)
Finance costs (including interest and similar expenses)	D6	–	–	–
Banking interest payable and similar expenses	D7	–	–	–
Fee and commission expenses, and other acquisition costs	D8	(223)	(664)	(887)
Other operating and administrative expenses	D9	(1,076)	(404)	(1,480)
Goodwill impairment	C1(b)	–	–	–
Change in third-party interest in consolidated funds		–	–	–
Income tax attributable to policyholder returns		(53)	62	9
Inter-segment expenses		(7)	(46)	(53)
Total expenses		(5,065)	1,668	(3,397)
Share of associated undertakings' and joint ventures' profit after tax	G5	10	–	10
Profit on disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	–	–	–
Adjusted operating profit/(loss) before tax and non-controlling interests		570	223	793
Income tax expense	D1	(120)	(26)	(146)
Non-controlling interests	F11(a)	(3)	–	(3)
Adjusted operating profit/(loss) after tax and non-controlling interests		447	197	644
Adjusting items net of tax and non-controlling interests	C1(a)	126	(87)	39
Profit/(loss) after tax from continuing operations		573	110	683
Profit from discontinued operations after tax	H1	–	–	–
Profit/(loss) after tax attributable to equity holders of the parent		573	110	683

[1] Non-core operations relates to Old Mutual 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. More detail is provided in notes A2 and B1. Old Mutual Bermuda loss after tax for the year ended 31 December 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[1]	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

Financials

For the year ended 31 December 2012

B: Segment information continued

B4: Statement of financial position – segment information at 31 December 2012

	Notes	Long-Term Savings		
		Emerging Markets	Old Mutual Wealth	Total Long-Term Savings
Assets				
Goodwill and other intangible assets	F1	98	1,594	1,692
Mandatory reserve deposits with central banks		–	–	–
Property, plant and equipment	F2	336	13	349
Investment property	F3	1,588	–	1,588
Deferred tax assets	F8	82	44	126
Investments in associated undertakings and joint ventures	G5	57	–	57
Deferred acquisition costs	F4	103	1,159	1,262
Reinsurers' share of policyholder liabilities	E8(a)	55	1,236	1,291
Loans and advances	E3	142	180	322
Investments and securities	E4	31,157	45,402	76,559
Current tax receivable		16	64	80
Trade, other receivables and other assets	F5	697	333	1,030
Derivative financial instruments – assets	E6	612	–	612
Cash and cash equivalents		816	576	1,392
Non-current assets held for sale	H2	–	5	5
Inter-segment assets		562	101	663
Total assets		36,321	50,707	87,028
Liabilities				
Life assurance policyholder liabilities	E8	31,124	46,455	77,579
General insurance liabilities	E8	–	–	–
Third-party interests in consolidated funds		–	–	–
Borrowed funds	E9	218	–	218
Provisions	F6	148	54	202
Deferred revenue	F7	11	667	678
Deferred tax liabilities	F8(b)	122	189	311
Current tax payable		198	39	237
Trade, other payables and other liabilities	F9	2,221	669	2,890
Amounts owed to bank depositors	E10	86	–	86
Derivative financial instruments – liabilities	E6	377	–	377
Non-current liabilities held for sale	H2	–	–	–
Inter-segment liabilities		216	587	803
Total liabilities		34,721	48,660	83,381
Net assets		1,600	2,047	3,647
Equity				
Equity attributable to equity holders of the parent	F10	1,586	2,047	3,633
Non-controlling interests		14	–	14
Ordinary shares	F11(b)	14	–	14
Preferred securities	F11(b)	–	–	–
Total equity		1,600	2,047	3,647

The net assets of Emerging Markets are stated after eliminating investments in Group equity and debt instruments of £364 million (2011: £368 million) held in policyholder funds. These include investments in the Company's ordinary shares and subordinated liabilities and preferred securities issued by the Group's banking subsidiary Nedbank Limited. All Emerging Markets debt relates to life assurance. All other debt relates to other shareholders' net assets.

£m

Nedbank	M&F	USAM	Other	Consolidation adjustments	Non-core operations Old Mutual Bermuda	Total
534	14	816	–	–	–	3,056
921	–	–	–	–	–	921
465	20	13	1	–	–	848
15	–	–	–	343	–	1,946
29	20	162	2	–	1	340
49	2	3	26	–	–	137
–	18	8	–	–	–	1,288
15	100	–	–	–	–	1,406
38,173	–	–	–	–	–	38,495
6,303	397	37	368	1,765	952	86,381
18	5	–	–	–	–	103
674	92	121	62	316	595	2,890
1,003	–	–	97	51	18	1,781
1,049	109	131	379	678	125	3,863
37	–	–	–	–	–	42
111	43	21	1,366	(2,877)	673	–
49,396	820	1,312	2,301	276	2,364	143,497
907	–	–	–	–	1,702	80,188
–	346	–	–	–	–	346
–	–	–	–	2,783	–	2,783
2,163	–	10	659	–	–	3,050
1	30	1	29	–	–	263
1	10	–	–	–	–	689
44	21	–	24	–	–	400
9	–	6	34	–	1	287
1,076	127	203	70	331	92	4,789
39,413	–	–	–	–	–	39,499
977	–	–	8	39	1	1,402
3	–	–	–	–	–	3
596	2	554	922	(2,877)	–	–
45,190	536	774	1,746	276	1,796	133,699
4,206	284	538	555	–	568	9,798
2,309	261	507	555	–	568	7,833
1,897	23	31	–	–	–	1,965
1,624	23	31	–	–	–	1,692
273	–	–	–	–	–	273
4,206	284	538	555	–	568	9,798

For the year ended 31 December 2012

B: Segment information continued

B4: Statement of financial position – segment information at 31 December 2011

	Notes	Long-Term Savings Emerging Markets	Long-Term Savings Old Mutual Wealth	Long-Term Savings Total Long-Term Savings
Assets				
Goodwill and other intangible assets	F1	104	1,756	1,860
Mandatory reserve deposits with central banks		–	–	–
Property, plant and equipment	F2	374	16	390
Investment property	F3	1,666	–	1,666
Deferred tax assets	F8	81	65	146
Investments in associated undertakings and joint ventures	G5	32	–	32
Deferred acquisition costs	F4	113	1,164	1,277
Reinsurers' share of policyholder liabilities	E8(a)	31	844	875
Loans and advances	E3	299	190	489
Investments and securities	E4	30,064	41,508	71,572
Current tax receivable		10	70	80
Trade, other receivables and other assets	F5	711	310	1,021
Derivative financial instruments – assets	E6	298	–	298
Cash and cash equivalents		339	516	855
Non-current assets held for sale	H2	–	1,161	1,161
Inter-segment assets		1,025	138	1,163
Total assets		35,147	47,738	82,885
Liabilities				
Life assurance policyholder liabilities	E8	30,270	42,159	72,429
General insurance liabilities	E8	–	–	–
Third-party interests in consolidated funds		–	–	–
Borrowed funds	E9	239	–	239
Provisions	F6	137	64	201
Deferred revenue	F7	17	673	690
Deferred tax liabilities	F8(b)	185	189	374
Current tax payable		120	39	159
Trade, other payables and other liabilities	F9	1,667	673	2,340
Amounts owed to bank depositors	E10	–	–	–
Derivative financial instruments – liabilities	E6	230	–	230
Non-current liabilities held for sale	H2	–	1,120	1,120
Inter-segment liabilities		141	462	603
Total liabilities		33,006	45,379	78,385
Net assets		2,141	2,359	4,500
Equity				
Equity attributable to equity holders of the parent	F10	2,144	2,359	4,503
Non-controlling interests		(3)	–	(3)
Ordinary shares	F11(b)	(3)	–	(3)
Preferred securities	F11(b)	–	–	–
Total equity		2,141	2,359	4,500

							£m
Nedbank	M&F	USAM	Other	Consolidation adjustments	Non-core operations Old Mutual 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
39,511	1	–	–	–	–	–	40,001
6,403	416	41	216	874	1,731	–	81,253
56	2	–	–	–	–	–	138
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
41,215	–	–	–	–	–	–	41,215
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

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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.

	Notes	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Income/(expense)			
Goodwill impairment and impact of acquisition accounting	C1(b)	**(123)**	(401)
(Loss)/profit on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	**(56)**	251
Short-term fluctuations in investment return	C1(d)	**(78)**	(171)
Investment return adjustment for Group equity and debt instruments held in life funds	C1(e)	**(113)**	(71)
Dividends declared to holders of perpetual preferred callable securities	C1(f)	**42**	44
US Asset Management equity plans and non-controlling interests	C1(g)	**(5)**	(4)
Credit-related fair value losses on Group debt instruments	C1(h)	**(126)**	23
Total adjusting items		**(459)**	(329)
Tax on adjusting items		**44**	108
Non-controlling interest in adjusting items		**17**	19
Total adjusting items after tax and non-controlling interests		**(398)**	(202)

(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 2012	**Emerging Markets**	**Old Mutual Wealth**	**USAM**	**Total**
Amortisation of acquired PVIF	**–**	**(84)**	**–**	**(84)**
Amortisation of acquired deferred costs and revenue	**–**	**12**	**–**	**12**
Amortisation of other acquired intangible assets	**(2)**	**(48)**	**(1)**	**(51)**
Goodwill impairment	**–**	**–**	**–**	**–**
	(2)	**(120)**	**(1)**	**(123)**

£m

Year ended 31 December 2011	Emerging Markets	Old Mutual Wealth	USAM	Total
Amortisation of acquired PVIF	–	(90)	–	(90)
Amortisation of acquired deferred costs and revenue	–	13	–	13
Amortisation of other acquired intangible assets	(2)	(50)	(8)	(60)
Goodwill impairment	–	–	(264)	(264)
	(2)	(127)	(272)	(401)

(c) (Loss)/profit on acquisition/disposal of subsidiaries, associated undertakings and strategic investments

(Loss)/profit on acquisition/disposal of subsidiaries, associated undertakings and strategic investments is analysed below:

		£m
	Year ended 31 December 2012	Year ended 31 December 2011
Emerging Markets	**(15)**	249
Old Mutual Wealth	**(25)**	–
Long-Term Savings	**(40)**	249
USAM	**(16)**	2
(Loss)/profit on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	**(56)**	251

On 20 November 2012, the Emerging Markets segment recognised a profit of £3 million on the acquisition of a strategic investment Curo Fund Services (Pty) Ltd.

During the year ended 31 December 2012 the Group incurred expenses of £18 million as initial costs regarding Zimbabwean indigenisation and Economic Empowerment Schemes. These costs are directly related to the acquisition of the Zimbabwean business. Further detail has been provided in note A2.

On 31 August 2012, Old Mutual Wealth completed the sale of its Finnish branch at a loss of £27 million. A profit of £2 million was recognised on the sale of Skandia Services AG (Switzerland) on 30 June 2012.

On 13 April 2012 USAM, disposed of Old Mutual Capital Inc, a subsidiary, at a profit of £12 million. On 15 May 2012, USAM disposed of Dwight Asset Management Company LLC, a fixed income affiliate, at a profit of £7 million. On 11 October 2012, the Group announced that it has finalised agreements to sell five USAM affiliates at a loss of £32 million. A £3 million loss has been recognised during the year ended 31 December 2012 in relation to disposals of subsidiaries by USAM in previous periods. On 30 December 2011, USAM disposed of Lincluden Management Ltd, a subsidiary, at a profit of £2 million.

In preparing the consolidated financial statements for the year ended 31 December 2011, 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 would be able to extract benefits from its Zimbabwean business, it was consolidated for the first time for the year ended 31 December 2011 together with operations in Kenya, Malawi, Swaziland and Nigeria. The Group recognised a gain of £249 million on acquisition of these businesses for the year ended 31 December 2011.

(d) Short-term fluctuations in investment return

Profit before tax, as disclosed in the IFRS income statement, 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 is referred to as the short-term fluctuation 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 underlying rates are principally derived with reference to 10-year government bond rates, cash and money market rates, and an explicit equity risk premium for South African businesses. The rates set out below reflect the weighting of investments in underlying cash, money market and equity assets. The long-term rates of return are reviewed frequently by the Board, usually annually, for appropriateness. The review of the long-term rates of return seeks to ensure that the 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 Old Mutual Wealth, 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 2012**	Year ended 31 December 2011
Emerging Markets	**9.0**	9.0
Old Mutual Wealth	**1.5-2.0**	2.0-2.1
Mutual & Federal	**8.6**	9.0

Analysis of short-term fluctuations in investment return

						£m
Year ended 31 December 2012	**Emerging Markets**	**Old Mutual Wealth**[1]	**Long-Term Savings**	**M&F**	**Other**	**Total**
Actual shareholder investment return	**81**	**65**	**146**	**34**	**34**	**214**
Less: long-term investment return	**124**	**67**	**191**	**47**	**54**	**292**
Short-term fluctuations in investment return	**(43)**	**(2)**	**(45)**	**(13)**	**(20)**	**(78)**

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For the year ended 31 December 2012

C: Other key performance information continued

C1: Operating profit adjusting items continued

£m

Year ended 31 December 2011	Emerging Markets	Old Mutual Wealth[1]	Long-Term Savings	M&F	Other	Total
Actual shareholder investment return	14	66	80	26	6	112
Less: Long-term investment return	112	80	192	54	37	283
Short-term fluctuations in investment return	(98)	(14)	(112)	(28)	(31)	(171)

1 Old Mutual Wealth long-term investment return includes £59 million (2011: £65 million) in respect of income tax attributable to policyholder returns.

(e) Investment return adjustment for Group equity and debt instruments held in policyholder 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 in the IFRS income statement, but are included in adjusted operating profit. During the year ended 31 December 2012, the investment return adjustment increased adjusted operating profit by £113 million (2011: increase £71 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 £42 million for the year ended 31 December 2012 (2011: £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 the year ended 31 December 2012 was £8 million (2011: loss £6 million).

The Group has issued put options in equities in the affiliates to senior employees as part 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 2012 these instruments were revalued, the impact of which was a profit of £13 million (2011: profit £10 million).

(h) Credit-related fair value gains and losses on Group debt instruments

The narrowing of credit spread of the Group's debt instruments in the market price has resulted in losses in the year ended 31 December 2012 of £54 million in Other operating segments and £1 million in Nedbank (2011: gains of £27 million and losses of £4 million respectively) 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.

On 1 August 2012 the Group redeemed £388 million of the £500 million senior bond due in 2016 at a cash consideration of £459 million. The £71 million excess over the nominal value reflects the price of the respective debt instrument prior to expiration.

C2: 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 period 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 2012	Year ended 31 December 2011
Profit for the financial period attributable to equity holders of the parent from continuing operations	**609**	469
Profit for the financial period attributable to equity holders of the parent from discontinued operations	**564**	198
Profit for the financial period attributable to equity holders of the parent	**1,173**	667
Dividends declared to holders of perpetual preferred callable securities	**(32)**	(32)
Profit attributable to ordinary equity holders	**1,141**	635

Total dividends declared to holders of perpetual preferred callable securities of £32 million in 2012 (2011: £32 million) are stated net of tax credits of £10 million (2011: £12 million).

	Year ended 31 December 2012	Millions Year ended 31 December 2011
Weighted average number of ordinary shares in issue	**5,096**	5,502
Shares held in charitable foundations	**(6)**	(6)
Shares held in ESOP trusts	**(61)**	(61)
Adjusted weighted average number of ordinary shares	**5,029**	5,435
Shares held in life funds	**(181)**	(201)
Shares held in Black Economic Empowerment trusts	**(261)**	(299)
Weighted average number of ordinary shares	**4,587**	4,935
Basic earnings per ordinary share (pence)	**24.9**	12.9

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 2012	Year ended 31 December 2011
Profit attributable to ordinary equity holders (£m)	**1,141**	635
Dilution effect on profit relating to share options issued by subsidiaries (£m)	**(10)**	(8)
Diluted profit attributable to ordinary equity holders (£m)	**1,131**	627
Weighted average number of ordinary shares (millions)	**4,587**	4,935
Adjustments for share options held by ESOP trusts (millions)	**53**	133
Adjustments for shares held in Black Economic Empowerment trusts (millions)	**261**	299
	4,901	5,367
Diluted earnings per ordinary share (pence)	**23.1**	11.7

(b) Adjusted operating earnings per ordinary share

The reconciliation of profit/(loss) for the financial period to adjusted operating profit after tax attributable to ordinary equity holders is as follows:

	Year ended 31 December 2012	£m Year ended 31 December 2011 (restated)
Profit for the financial period attributable to equity holders of the parent	**1,173**	667
Adjusting items	**459**	329
Tax on adjusting items	**(44)**	(108)
Non-core operations	**(165)**	184
Profit from discontinued operations	**(564)**	(198)
Non-controlling interest on adjusting items	**(17)**	(19)
Adjusted operating profit after tax attributable to ordinary equity holders	**842**	855
Adjusted weighted average number of ordinary shares (millions)	**4,818**	4,756
Adjusted operating earnings per ordinary share (pence)	**17.5**	18.0

C: Other key performance information continued

C2: Earnings and earnings per share continued

(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, but it is a commonly used measure of earnings in South Africa.

	Year ended 31 December 2012		Year ended 31 December 2011	£m
	Gross	**Net**	Gross	Net
Profit for the financial period attributable to equity holders of the parent	**1,173**	**1,173**	667	667
Dividends declared to holders of perpetual preferred callable securities	**(32)**	**(32)**	(32)	(32)
Profit attributable to ordinary equity holders	**1,141**	**1,141**	635	635
Adjustments:				
Impairments of goodwill and intangible assets	**–**	**–**	264	264
(Profit)/loss on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	**(183)**	**(173)**	(222)	(228)
Realised gains (including impairments) on available-for-sale financial assets	**(21)**	**(21)**	(144)	(144)
Exchange differences realised on disposal	**(350)**	**(350)**	–	–
Headline earnings	**587**	**597**	533	527
Weighted average number of ordinary shares	**4,587**	**4,587**	4,935	4,935
Diluted weighted average number of ordinary shares	**4,901**	**4,901**	5,367	5,367
Headline earnings per share (pence)	**12.8**	**13.0**	10.8	10.7
Diluted headline earnings per share (pence)	**11.8**	**12.0**	9.8	9.7

C3: Dividends

	Year ended 31 December 2012	Year ended 31 December 2011 £m
2010 Final dividend paid – 2.9p per 10p share	**–**	145
2011 Interim dividend paid – 1.5p per 10p share	**–**	76
2011 Final dividend paid – 3.5p per 10p share	**178**	–
Special dividend – 18.0p per 10p share	**915**	–
2012 Interim dividend paid – 1.75p per 11³⁄₇p share	**79**	
Dividends to ordinary equity holders	**1,172**	221
Dividends declared to holders of perpetual preferred callable securities	**42**	44
Dividend payments for the period	**1,214**	265

Final and interim 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.

Following the disposal of Nordic a special dividend of 18.0 pence per 10p share was recommended by the directors and a seven for eight share consolidation proposed, with the consolidation approved at the Company's general meeting on 14 March 2012. The special dividend was paid on 7 June 2012. Further details of the disposal of the Nordic business unit have been provided in notes A2 and H1.

A final dividend of 5.25 pence (or its equivalent in other applicable currencies) per ordinary share in the Company has been recommended by the directors. The dividend will be paid on 31 May 2013 to shareholders on the register at the close of business on 26 April 2013. The dividend will absorb an estimated £233 million of shareholders' funds. The Company is not planning to offer a scrip dividend alternative.

In March and November 2012, £22 million and £20 million respectively, were declared and paid to holders of perpetual preferred callable securities (March 2011: £22 million; November 2011: £22 million).

D: Other income statement notes

D1: Income tax expense

(a) Analysis of total income tax expense

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Current tax		
United Kingdom	**18**	22
Overseas tax		
– Africa	**513**	390
– United States	**4**	(2)
– Europe	**30**	20
Secondary tax on companies (STC)	**23**	14
Prior year adjustments	**5**	(7)
Total current tax	**593**	437
Deferred tax		
Origination and reversal of temporary differences	**(121)**	(204)
Changes in tax rates/bases	**2**	(8)
Recognition of deferred tax assets	**(2)**	–
Total deferred tax	**(121)**	(212)
Total income tax expense	**472**	225

(b) Reconciliation of total income tax expense

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Profit before tax	**1,395**	994
Tax at standard rate of 24.5% (2011: 26.5%)	**342**	263
Different tax rate or basis on overseas operations	**19**	57
Untaxed and low taxed income	**(58)**	(166)
Disallowable expenses	**48**	93
Net movement on deferred tax assets not recognised	**48**	5
Effect on deferred tax of changes in tax rates	**2**	(8)
STC	**20**	19
Income tax attributable to policyholder returns	**59**	(28)
Other	**(8)**	(10)
Total income tax expense	**472**	225

(c) Income tax relating to components of other comprehensive income

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Preferred perpetual callable securities	**(10)**	(12)
Other	**5**	–
Income tax credit – continuing operations	**(5)**	(12)
Fair value gains	**1**	2
Shadow accounting	**–**	(4)
Income tax expense/(credit) – discontinued operations	**1**	(2)
Income tax credit relating to components of other comprehensive income	**(4)**	(14)

Financials

D: Other income statement notes continued

D1: Income tax expense continued

(d) Reconciliation of income tax expense in the IFRS income statement to income tax on adjusted operating profit

		£m
	Year ended 31 December 2012	Year ended 31 December 2011
Income tax expense	**472**	225
Goodwill impairment and impact of acquisition accounting	**51**	35
Profit on disposal of subsidiaries, associates and strategic investments	**(10)**	6
Short-term fluctuations in investment return	**7**	75
Income tax attributable to policyholders returns	**(75)**	9
Tax on dividends declared to holders of perpetual preferred callable securities recognised in equity	**(10)**	(12)
Fair value gains and losses on Group debt instruments	**–**	2
US Asset Management equity plans	**6**	2
Tax on non-core operations	**–**	(1)
Income tax on adjusted operating profit	**441**	341

D2: Investment return (non-banking)

		£m
	Year ended 31 December 2012	Year ended 31 December 2011
Interest and similar income		
Loans and advances	**35**	8
Investments and securities	**967**	1,151
Cash and cash equivalents	**82**	94
Total interest and similar income	**1,084**	1,253
Dividend income – investments and securities	**500**	431
Fair value gains and losses recognised in income	**7,697**	(2,352)
Rental income from investment property	**176**	180
Investment property gains/(losses) on revaluation	**75**	(78)
Foreign currency losses	**(8)**	(1)
Total investment return recognised in income	**9,524**	(567)
Total interest income for assets not at fair value through income statement	**35**	36
The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:		
Held-for-trading (including derivatives)	**(107)**	25
Designated at fair value through income statement	**7,785**	(2,378)
Available-for-sale financial assets	**19**	1
	7,697	(2,352)

Fair value gains and losses on available-for-sale financial assets for the year of £19 million (2011: £1 million) relate to gains realised on the sale of debt securities held by the Group's Old Mutual Bermuda business.

D3: Banking interest and similar income

£m	Year ended 31 December 2012	Year ended 31 December 2011
Loans and advances	**3,041**	3,300
Mortgage loans	**1,392**	1,577
Finance lease and instalment debtors	**560**	608
Credit cards	**101**	100
Bills and acceptances	**–**	1
Overdrafts	**99**	105
Term loans and other	**889**	909
Investments and securities	**390**	369
Government and government-guaranteed securities	**258**	264
Other debt securities, preference shares and debentures	**132**	105
Total interest and similar income	**3,431**	3,669
Total interest income for assets not at fair value through income statement	**2,948**	3,154
Total interest income on impaired financial assets	**86**	121

D4: Banking trading, investment and similar income

£m	Year ended 31 December 2012	Year ended 31 December 2011
Dividend income – investments and securities	**8**	37
Rental income from investment property	**9**	4
Exchange and other non-interest income	**(1)**	(10)
Net trading income	**198**	186
Total banking trading, investment and similar income	**214**	217

The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:

Held-for-trading (including derivatives)	**(87)**	(41)
Designated at fair value through income statement	**68**	40
	(19)	(1)
Realised fair value loss included in the above	**(19)**	(1)

D5: Fee and commission income, and income from service activities

Year ended 31 December 2012 (£m)	Long-term business	Asset management	Banking	General insurance	Total
Fee and commission income	**920**	**1,108**	**977**	**27**	**3,032**
Transaction and performance fees	**–**	**42**	**–**	**–**	**42**
Change in deferred revenue	**12**	**10**	**1**	**(1)**	**22**
	932	**1,160**	**978**	**26**	**3,096**

Year ended 31 December 2011 (£m)	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

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.

D: Other income statement notes continued

D6: Finance costs

	Note	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Interest payable on borrowed funds		**156**	87
Senior debt and term loans		**99**	37
Subordinated debt		**61**	65
Other		**(4)**	(15)
Fair value gains and losses on borrowed funds		**57**	(32)
Borrowed funds		**77**	11
Derivative instruments		**(20)**	(43)
Foreign currency gains and losses on borrowed funds		**1**	3
Total finance costs excluding banking activities		**214**	58
Finance costs from banking activities	D7	**193**	209
Total interest expense included above for liabilities not at fair value through income statement		**21**	23

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:		
Held-for-trading (including derivatives)	**(9)**	(43)
Designated at fair value through income statement	**66**	11
	57	(32)

D7: Banking interest payable and similar expense

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Amounts owed to bank depositors	**1,739**	1,953
Deposits and loan accounts	**1,082**	1,106
Current and savings accounts	**11**	20
Negotiable certificates of deposit	**451**	614
Banking non-interest credit spreads	**2**	4
Long-term debt instruments	**193**	209
Other liabilities	**148**	142
Total interest payable and similar expenses	**1,887**	2,095
Total interest expense included above for liabilities not at fair value through income statement	**1,147**	1,686

D8: Fee and commission expenses, and other acquisition costs

£m

Year ended 31 December 2012	**Long-term business**	**Asset management**	**General insurance**	**Total**
Fee and commission expenses	**566**	**242**	**110**	**918**
Change in deferred acquisition costs	**51**	**5**	**(3)**	**53**
Other acquisition costs	**60**	**–**	**–**	**60**
	677	**247**	**107**	**1,031**

£m

Year ended 31 December 2011	Long-term business	Asset management	General insurance	Total
Fee and commission expenses	591	243	110	944
Change in deferred acquisition costs	8	(4)	(1)	3
Other acquisition costs	60	–	–	60
	659	239	109	1,007

D9: Other operating and administrative expenses

(a) Other operating and administrative expenses include:

	Note	Year ended 31 December 2012	Year ended 31 December 2011
			£m
Staff costs	D9(b)	**1,919**	1,964
Depreciation	F2	**101**	104
Software costs		**9**	11
Operating lease rentals – banking		**66**	65
Operating lease rentals – non-banking		**32**	29
Amortisation of PVIF and other acquired intangibles		**188**	211

Included within the gain from discontinued operations is an additional amortisation of intangibles charge of £15 million (2011: £74 million).

(b) Staff costs

	Note	Year ended 31 December 2012	Year ended 31 December 2011
			£m
Wages and salaries		**1,215**	1,259
Social security costs		**31**	33
Retirement obligations			
Defined contribution plans		**97**	101
Defined benefit plans		**(4)**	(3)
Other retirement benefits		**12**	10
Bonus and incentive remuneration		**351**	359
Share-based payments			
Cash settled	G2(f)	**64**	37
Equity settled	G2(f)	**14**	24
Other		**139**	144
		1,919	1,964

	Year ended 31 December 2012	Year ended 31 December 2011
		Number
The average number of persons employed by the Group was:		
Long-Term Savings	**21,789**	22,851
Nedbank	**28,767**	28,494
M&F	**2,371**	2,390
USAM	**1,225**	1,564
Other	**179**	210
Non-core operations (Old Mutual Bermuda)	**37**	40
	54,368	55,549
Discontinued operations	**–**	1,881
	54,368	57,430

D: Other income statement notes continued

D9: Other operating and administrative expenses continued

(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 2012	Year ended 31 December 2011
Fees for audit services		
Group	**1.2**	1.4
Subsidiaries	**11.0**	12.1
Pension schemes	**0.2**	0.2
Total audit fees	**12.4**	13.7
Fees for non-audit services		
Audit-related assurance	**2.4**	0.7
Taxation compliance	**1.5**	1.4
Taxation advisory	**0.1**	0.4
Corporate finance transactions	**0.6**	0.2
Other non-audit services	**0.5**	0.7
Total non-audit services	**5.1**	3.4
Total Group auditors' remuneration	**17.5**	17.1

In addition to the above, fees of £4.2 million (2011: £4.4 million) were payable to other auditors in respect of joint audit arrangements of Nedbank, the Group's banking subsidiary in South Africa.

(d) Operating lease payments

		£m
	Year ended 31 December 2012	Year ended 31 December 2011
Banking	**66**	65
Non-banking	**10**	12
	76	77

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.

(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.

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.

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

(d) Hedge accounting continued
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 are 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 are 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(m).

(j) Classification of financial instruments

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 remeasured 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.

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.

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.

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

Financial liabilities (other than investment contracts and derivatives) continued

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.

(k) Reclassifications of financial assets

A non-derivative financial asset that would have met the definition of loans and receivables at initial recognition that was required to be categorised as held-for-trading (on the basis that it was held for the purpose of selling or repurchasing in the near term) may under exceptional circumstances be reclassified out of the fair value through income statement category if the Group intends and is able to hold the financial asset for the foreseeable future or until maturity. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value at the date of reclassification becomes its new cost or amortised cost, as applicable.

Other non-derivative financial assets that were required to be categorised as held-for-trading at initial recognition may be reclassified out of the fair value through income statement category in rare circumstances. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. Measurement of the asset after reclassification depends on the subsequent categorisation.

A non-derivative financial asset that would have met the definition of loans and receivables at initial recognition that was designated as available-for-sale may under exceptional circumstances be reclassified out of the available-for-sale category to the loans and receivables category if it meets the loans and receivables definition at the date of reclassification and if the Group intends and is able to hold the financial asset for the foreseeable future or until maturity. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. The fair value at the date of reclassification becomes its new cost or amortised cost, as applicable. In the case of a financial asset with a fixed maturity, the gain or loss already recognised in the available-for-sale reserve in equity is amortised to profit or loss over the remaining life using the effective interest method together with any difference between the new amortised cost and the maturity amount. In the case of a financial asset that does not have a fixed maturity, the gain or loss already recognised in the available-for-sale reserve in equity is recognised in profit or loss when the financial asset is sold or otherwise disposed.

(l) 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.

(m) 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

At 31 December 2012	Total	Fair value through income statement: Held-for-trading	Fair value through income statement: Designated	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	Financial liabilities amortised cost	Non-financial assets and liabilities
Assets								
Mandatory reserve deposits with central banks	921	–	–	–	–	921	–	–
Reinsurers' share of policyholder liabilities	1,406	–	1,164	–	–	21	–	221
Loans and advances	38,495	2,158	4,068	3	–	32,266	–	–
Investments and securities	86,381	1,245	81,999	899	1,809	429	–	–
Trade, other receivables and other assets	2,890	275	582	–	–	1,661	–	372
Derivative financial instruments – assets	1,781	1,781	–	–	–	–	–	–
Cash and cash equivalents	3,863	–	–	–	–	3,863	–	–
Total financial assets	135,737	5,459	87,813	902	1,809	39,161	–	593
Total non-financial assets	7,760	–	–	–	–	–	–	7,760
Total assets	143,497	5,459	87,813	902	1,809	39,161	–	8,353
Liabilities								
Life assurance policyholder liabilities	80,188	–	59,092	–	–	201	–	20,895
Third-party interest in consolidation of funds	2,783	–	2,783	–	–	–	–	–
Borrowed funds	3,050	–	919	–	–	–	2,131	–
Trade, other payables and other liabilities	4,789	463	373	–	–	–	3,073	880
Amounts owed to bank depositors	39,499	4,060	5,728	–	–	–	29,711	–
Derivative financial instruments – liabilities	1,402	1,402	–	–	–	–	–	–
Total financial liabilities	131,711	5,925	68,895	–	–	201	34,915	21,775
Total non-financial liabilities	1,988	–	–	–	–	–	–	1,988
Total liabilities	133,699	5,925	68,895	–	–	201	34,915	23,763

£m

At 31 December 2011	Total	Fair value through income statement: Held-for-trading	Fair value through income statement: Designated	Available-for-sale financial assets	Held-to-maturity investments	Loans and receivables	Financial liabilities amortised cost	Non-financial assets and liabilities
Assets								
Mandatory reserve deposits with central banks	951	–	–	–	–	951	–	–
Reinsurers' share of policyholder liabilities	989	–	784	–	–	21	–	184
Loans and advances	40,001	1,586	3,970	–	–	34,445	–	–
Investments and securities	81,253	1,155	77,789	988	677	644	–	–
Trade, other receivables and other 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	131,961	5,066	83,371	988	677	41,276	–	583
Total non-financial assets	30,424	–	–	–	–	–	–	30,424
Total assets	162,385	5,066	83,371	988	677	41,276	–	31,007
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	–
Trade, other payables and other liabilities	4,243	547	349	–	–	–	2,434	913
Amounts owed to bank depositors	41,215	3,068	6,870	–	–	237	31,040	–
Derivative financial instruments – liabilities	1,755	1,755	–	–	–	–	–	–
Total financial liabilities	129,112	5,370	65,516	–	28	413	36,059	21,726
Total non-financial liabilities	22,415	–	–	–	–	–	–	22,415
Total liabilities	151,527	5,370	65,516	–	28	413	36,059	44,141

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

(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.

(o) 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 include:

- 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.

(p) 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 variable-rate financial assets and liabilities that re-price as interest rates change, short-term deposits or current assets.

Loans and advances
Loans and advances principally comprise variable rate financial assets and liabilities, which are repriced 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 2013 to 2015 (2011: for periods 2012 to 2014), based on the latest internal data available, is applied to the first three years' projected cash flows. Average PDs and LGDs are applied to the projected cash flows for later years. These results are compared to both regulatory and accounting credit model values. There are no significant variances in the fair value methodology results compared to the carrying values reported in these financial statements.

For impaired advances, the carrying value as determined from the Group's credit models is considered the best estimate of fair value. The Group is satisfied that, after considering the internal credit models together with other assumptions and the variable interest rate exposure, the carrying value of loans and advances measured at amortised cost approximates fair value.

Investments and securities
Investments and securities include government and government-guaranteed securities, listed and unlisted debt securities, preference shares and debentures, listed and unlisted equity securities, listed and unlisted pooled investments (see below), short-term funds and securities treated as investments and certain other securities.

Pooled investments represent the Group's holdings of shares/units in open-ended investment companies, unit trusts, mutual funds and similar investment vehicles. Pooled investments are stated at fair value. The fair values of pooled investments are based on widely published prices that are regularly updated or models based on the market prices of investments held in the underlying pooled investment funds.

Investment contracts
The approach to determining the fair values of investment contracts is set out in the accounting policies section for insurance and investment contract business.

Amounts owed to bank depositors
The fair values of amounts owed to bank depositors corresponds with the carrying amount shown in the statement of financial position, which generally reflects the amount payable on demand.

Borrowed funds
The fair values of amounts included in borrowed funds are based on quoted market prices at the reporting date where applicable, or by reference to quoted prices of similar instruments.

Other financial assets and liabilities
The fair values of other financial assets and liabilities (which comprise 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.

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

Fair value hierarchy continued

The table below analyses the financial assets and liabilities according to fair value hierarchy:

At 31 December 2012	Total	Level 1	Level 2	£m Level 3
Financial assets measured at fair value				
Held-for-trading (fair value through income statement)	5,459	639	4,816	4
Loans and advances	2,158	–	2,158	–
Investments and securities	1,245	361	880	4
Other financial assets	275	275	–	–
Derivative financial instruments – assets	1,781	3	1,778	–
Designated (fair value through income statement)	87,813	68,059	18,694	1,060
Reinsurers' share of policyholder liabilities	1,164	1,164	–	–
Loans and advances	4,068	2	4,057	9
Investments and securities	81,999	66,338	14,610	1,051
Other financial assets	582	555	27	–
Available-for-sale financial assets	902	335	565	2
Loans and advances	3	3	–	–
Investments and securities	899	332	565	2
Total assets measured at fair value	**94,174**	**69,033**	**24,075**	**1,066**
Financial liabilities measured at fair value				
Held-for-trading (fair value through income statement)	5,925	462	5,463	–
Other liabilities	463	459	4	–
Amounts owed to bank depositors	4,060	–	4,060	–
Derivative financial instruments – liabilities	1,402	3	1,399	–
Designated (fair value through income statement)	68,895	42,788	25,627	480
Life assurance policyholder liabilities	59,092	41,879	16,733	480
Third-party interests in consolidated funds	2,783	–	2,783	–
Borrowed funds	919	906	13	–
Other liabilities	373	3	370	–
Amounts owed to bank depositors	5,728	–	5,728	–
Total liabilities measured at fair value	**74,820**	**43,250**	**31,090**	**480**

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 financial 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 financial assets	828	776	52	–
Available-for-sale financial assets	988	459	525	4
Investments and securities	988	459	525	4
Total 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 liabilities measured at fair value	70,886	33,768	36,096	1,022

The best evidence of fair value is a quoted price in an active market. In the event that the market for a financial asset or liability is not active, or quoted prices cannot be obtained without undue effort, a valuation technique is used.

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for them, the derivation of fair value is more judgemental. A financial asset or liability in its entirety is classified as valued using significant unobservable inputs if a significant proportion of that asset or liability's carrying amount is driven by unobservable inputs. In this context, 'unobservable' means that there is little or no current market data available for which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Furthermore, in some cases the majority of the fair value derived from a valuation technique with significant unobservable inputs may be attributable to observable inputs. Consequently, the effect of uncertainty in determining unobservable inputs will generally be restricted to uncertainty about the overall fair value of the asset or liability being measured.

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.

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'.

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

Fair value hierarchy continued

The table below shows the movement in Level 3 assets measured at fair value:

£m

Year ended 31 December 2012	Held-for-trading – Loans and advances	Held-for-trading – Investments and securities	Held-for-trading – Derivatives	Designated fair value through income statement – Loans and advances	Designated fair value through income statement – Investments and securities	Available-for-sale – Investments and securities	Total
Level 3 financial assets							
At beginning of the year	**–**	**6**	**2**	**7**	**994**	**4**	**1,013**
(Losses)/gains recognised in income statement	**–**	**(1)**	**–**	**2**	**46**	**–**	**47**
Purchases and issues	**–**	**–**	**–**	**–**	**108**	**–**	**108**
Sales and settlements	**–**	**–**	**(2)**	**–**	**(54)**	**(2)**	**(58)**
Transfers in	**–**	**–**	**–**	**–**	**54**	**–**	**54**
Transfers out	**–**	**–**	**–**	**–**	**(21)**	**–**	**(21)**
Foreign exchange and other	**–**	**(1)**	**–**	**–**	**(76)**	**–**	**(77)**
Total Level 3 financial assets	**–**	**4**	**–**	**9**	**1,051**	**2**	**1,066**
Losses relating to assets held at 31 December 2012 recognised in:							
– income statement	**–**	**–**	**–**	**–**	**(25)**	**–**	**(25)**
– other comprehensive income	**–**	**–**	**–**	**–**	**–**	**–**	**–**

£m

Year ended 31 December 2011	Held-for-trading – Loans and advances	Held-for-trading – Investments and securities	Held-for-trading – Derivatives	Designated fair value through income statement – Loans and advances	Designated fair value through income statement – Investments and securities	Available-for-sale – Investments and securities	Total
Level 3 financial assets							
At beginning of the year	3	37	–	–	1,430	8	1,478
Gains recognised in income statement	–	2	3	–	79	–	84
Purchases and issues	–	4	–	–	51	4	59
Sales and settlements	(3)	(7)	–	–	(440)	(8)	(458)
Transfers in	–	–	–	7	86	–	93
Transfers out	–	(27)	–	–	(41)	–	(68)
Foreign exchange and other	–	(3)	(1)	–	(171)	–	(175)
Total Level 3 financial assets	–	6	2	7	994	4	1,013
Losses relating to assets held at 31 December 2011 recognised in:							
– income statement	–	–	–	–	(21)	–	(21)
– other comprehensive income	–	–	–	–	–	–	–

The table below shows the movement in Level 3 liabilities measured at fair value:

Year ended 31 December 2012	**Held-for-trading – Derivatives**	**Designated fair value through income statement – Life assurance policyholder liabilities (investment contracts)**	**Total** £m
Level 3 financial liabilities			
At beginning of the year	**1**	**1,021**	**1,022**
Gains recognised in income statement	**–**	**(129)**	**(129)**
Purchases and issues	**–**	**6**	**6**
Sales and settlements	**–**	**(425)**	**(425)**
Transfers in	**–**	**29**	**29**
Transfers out	**–**	**(8)**	**(8)**
Foreign exchange and other	**(1)**	**(14)**	**(15)**
Total level 3 financial liabilities	**–**	**480**	**480**
Gains relating to liabilities held at 31 December 2012 recognised in:			
– income statement	**–**	**(98)**	**(98)**
– other comprehensive income	**–**	**–**	**–**

Year ended 31 December 2011	Held-for-trading – Derivatives	Designated fair value through income statement – Life assurance policyholder liabilities (investment contracts)	Total £m
Level 3 financial liabilities			
At beginning of the year	1	760	761
(Gains)/losses recognised in income statement	(1)	240	239
Gains recognised in other comprehensive income	1	–	1
Sales and settlements	–	(52)	(52)
Transfers in	–	76	76
Transfers out	–	(10)	(10)
Foreign exchange and other	–	7	7
Total level 3 financial liabilities	1	1,021	1,022
Losses relating to liabilities held at 31 December 2011 recognised in:			
– income statement	–	240	240
– other comprehensive income	–	–	–

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 for 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.

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

Analysis of reasonably possible alternative assumptions

The table below shows the effect of reasonably possible alternative assumptions on the fair value of Level 3 financial assets and liabilities:

				£m
	Reflected in income statement		Reflected in other comprehensive income	
Year ended 31 December 2012	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Level 3 financial assets				
Held-for-trading (fair value through income statement)	**1**	**1**	**–**	**–**
Investments and securities	**1**	**1**	**–**	**–**
Designated (fair value through income statement)	**98**	**101**	**–**	**–**
Loans and advances	**1**	**1**	**–**	**–**
Investments and securities	**97**	**100**	**–**	**–**
Total Level 3 financial assets	**99**	**102**	**–**	**–**
Level 3 financial liabilities				
Designated (fair value through income statement)	**64**	**64**	**–**	**–**
Life assurance policyholder liabilities (investment contracts)	**64**	**64**	**–**	**–**
Total Level 3 financial liabilities	**64**	**64**	**–**	**–**

				£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	–	–
Total Level 3 financial assets	121	97	–	–
Level 3 financial 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 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 inputs such as lapses and non-performance risk were also considered.

Financial instruments designated as fair value through income statement
Certain items in the Group's statement of financial position that would otherwise be categorised as loans and receivables under IAS 39 have been designated as fair value through income statement. Information relating to the change in fair value of these items as it relates to credit risk is shown in the table below:

						£m
	At 31 December 2012			At 31 December 2011		
Change in fair value due to change in credit risk	**Maximum exposure to credit risk**	**Current financial year**	**Cumulative**	Maximum exposure to credit risk	Current financial year	Cumulative
Loans and advances	**4,068**	**(2)**	**(2)**	3,970	–	–
Investments and securities	**7,404**	**3**	**(11)**	8,932	1	(17)
Other financial assets	**24**	**–**	**–**	71	–	–
	11,496	**1**	**(13)**	12,973	1	(17)

Certain items in the Group's statement of financial position that would otherwise be categorised as financial liabilities at amortised cost under IAS 39 have been designated as fair value through income statement. Information relating to the change in fair value of these items as it relates to credit risk is shown in the table below:

								£m
	At 31 December 2012				At 31 December 2011			
Change in fair value due to change in credit risk	**Fair value**	**Current financial year**	**Cumulative**	**Contractual maturity amount**	Fair value	Current financial year	Cumulative	Contractual maturity amount
Borrowed funds	**919**	**57**	**(12)**	**887**	1,071	(23)	(69)	1,153
Amounts owed to bank depositors	**5,728**	**2**	**(4)**	**5,718**	6,870	3	(6)	6,859
	6,647	**59**	**(16)**	**6,605**	7,941	(20)	(75)	8,012

The fair values of other categories of financial liabilities designated as fair value through the income statement do not change significantly in respect of credit risk.

The change in fair value due to change in credit risk shown above is determined as the amount of the change in fair value of the instrument that is not attributable to changes in market conditions that give rise to market risk. For loans and receivables that have been designated as at fair value through the income statement, individual credit spreads are determined at inception as the difference between the benchmark interest rate and the interest rate charged to the client. Subsequent changes in the benchmark interest rate and the credit spread give 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.

(q) Risks

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 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 and economical capital reporting processes.

(ii) Insurance operations
For the Group's insurance operations, equity property, volatility and interest rate risk exposure are quantified in accordance with the Group's risk-based capital practices, which require sufficient capital to be held in excess of the statutory minimum. 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 (in line with our Principles and Practices of Financial Management) and hedging.

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

(q) Risks continued

Market risk continued

(ii) Insurance operations continued

For the variable annuity business in Old Mutual Bermuda, market risk to shareholders arises from offering policyholder guaranteed returns. In addition, these guarantees are US dollar denominated and a significant portion of the underlying assets invested in by Old Mutual Bermuda's clients are exposed to currencies other than US dollar. The market and currency risk is dynamically managed, with the overall exposures to changes in markets monitored closely so that timely actions can be taken to re-establish hedging as required.

In Old Mutual Wealth's unit-linked assurance operations, the Group has limited exposure to the volatility from equity markets because, in the main, equity risk is borne by policyholders (subject to the impact on asset-based fees charged on policyholder funds). In respect of Old Mutual Wealth's shareholders' funds, equity risks are addressed in Old Mutual Wealth's investment policy, which provides for very limited opportunity for entities to invest their own capital in equities and equity funds.

In some areas of Old Mutual Wealth's business, most notably its traditional life insurance business, Old Mutual Wealth 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 247 and 248.

(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 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	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Historical VaR (one-day, 99%) by risk type								
Foreign exchange	**0.3**	0.3	**0.1**	0.1	**1.1**	1.1	**0.1**	0.3
Interest rate	**0.6**	0.7	**0.3**	0.4	**1.1**	1.1	**0.4**	0.4
Equity product	**0.3**	0.3	**0.1**	0.2	**0.9**	0.8	**0.2**	0.7
Other	**0.3**	0.2	**0.1**	0.1	**0.5**	0.4	**0.3**	0.3
Diversification	**(0.5)**	(0.5)	**–**	–	**–**	–	**(0.4)**	(0.6)
Total VaR exposure	**1.1**	1.0	**0.5**	0.8	**2.4**	3.4	**0.6**	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 2012 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 £59 million (2011: £67 million).

The table below shows the re-pricing profile of Nedbank's banking book, which highlights the fact that assets re-price quicker than liabilities following derivative hedging activities:

At 31 December 2012	**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	**33,489**	**1,156**	**1,316**	**3,358**	**1,366**	**8,914**	**49,599**
Total liabilities and shareholders' funds	**30,353**	**1,971**	**1,643**	**1,275**	**177**	**14,180**	**49,599**
Interest rate hedging activities	**425**	**1,593**	**959**	**(2,057)**	**(920)**	**–**	**–**
Repricing profile	**3,561**	**778**	**632**	**26**	**269**	**(5,266)**	**–**
Cumulative repricing profile	**3,561**	**4,339**	**4,971**	**4,997**	**5,266**	**–**	**–**
Expressed as a % of total assets	**7.2%**	**8.7%**	**10.0%**	**10.1%**	**10.6%**	**–**	**–**

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)	–	–
Repricing profile	5,131	(171)	(428)	(61)	4	(4,475)	–
Cumulative repricing 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%	–	–

(r) 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 supporting the optimisation of return relative to the risks. 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. The Group's overall capital risk appetite is set with reference to the requirements of the relevant stakeholders and seeks to:

- Maintain sufficient, but not excessive, financial strength to support stakeholder requirements
- Optimise debt to equity structure to enhance shareholder returns
- 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 Annual Report. As at the date of issue of these financial statements the unaudited pro-forma surplus was estimated to be £2.0 billion (2011: £2.2 billion). The FGD position will be submitted to the FSA by 30 April 2013.

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. Further detail on the capital management is included in the Risk and Capital Management section of the Annual Report and Accounts.

(s) Currency translation risk

The Group is exposed, from an earnings and capital perspective, to movements in exchange rates reducing the sterling value of subsidiaries' assets and earnings denominated in foreign currencies. The functional currencies of its principal operations, other than for the UK operations, are South African rand, US dollar, and euro. The Group reduces this risk through the use of currency swaps, currency borrowings and forward foreign exchange contracts. Such risk mitigation techniques are reflected in the currency analyses that follow.

The exposure to currency risk on the policyholder funds is included under market risk as discussed above.

E: Financial assets and liabilities continued

E1: Group statement of financial position continued

(s) Currency translation risk continued

The tables below show the Group's statement of financial position by major currency:

At 31 December 2012	ZAR	POUNDS	USD	EUR	SEK	Other	Total £m
Assets							
Mandatory reserve deposits with central banks	906	–	2	–	–	13	921
Reinsurers' share of policyholder liabilities	147	1,229	–	3	–	27	1,406
Loans and advances	35,572	365	1,495	298	24	741	38,495
Investments and securities	32,261	30,685	10,748	8,675	1,426	2,586	86,381
Trade, other receivables and other assets	1,618	312	758	129	13	60	2,890
Derivative financial instruments – assets	1,609	109	49	6	–	8	1,781
Cash and cash equivalents	1,649	1,223	515	240	1	235	3,863
Total financial assets	73,762	33,923	13,567	9,351	1,464	3,670	135,737
Total non-financial assets	3,013	2,283	1,322	799	–	343	7,760
Total assets	76,775	36,206	14,889	10,150	1,464	4,013	143,497
Liabilities							
Life assurance policyholder liabilities	30,506	30,761	6,486	8,504	1,410	2,521	80,188
Third-party interest in consolidation of funds	1,515	1,257	11	–	–	–	2,783
Borrowed funds	2,381	659	10	–	–	–	3,050
Trade, other payables and other liabilities	3,230	600	486	156	12	305	4,789
Amounts owed to bank depositors	36,704	534	1,136	280	8	837	39,499
Derivative financial instruments – liabilities	1,367	7	27	–	–	1	1,402
Total financial liabilities	75,703	33,818	8,156	8,940	1,430	3,664	131,711
Total non-financial liabilities	851	609	40	348	–	140	1,988
Total liabilities	76,554	34,427	8,196	9,288	1,430	3,804	133,699

At 31 December 2011	ZAR	POUNDS	USD	EUR	SEK	Other	Total £m
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	38,679	154	938	134	10	86	40,001
Investments and securities	31,517	27,624	10,668	7,724	1,231	2,489	81,253
Trade, other receivables and 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	75,908	30,415	13,280	8,134	1,241	2,983	131,961
Total non-financial assets	3,154	2,573	1,464	1,890	20,943	400	30,424
Total assets	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 interest in consolidation of funds	1,024	853	16	–	–	–	1,893
Borrowed funds	2,512	967	11	166	–	–	3,656
Trade, other payables and other liabilities	2,863	616	400	148	12	204	4,243
Amounts owed to bank depositors	40,143	88	736	190	–	58	41,215
Derivative financial instruments – liabilities	1,296	445	73	(59)	–	–	1,755
Total financial liabilities	77,435	30,387	8,370	8,323	1,217	3,380	129,112
Total non-financial liabilities	842	811	35	1,307	19,280	140	22,415
Total liabilities	78,277	31,198	8,405	9,630	20,497	3,520	151,527

The Group's exposure to currency translation risk is predominantly to South African rand, US dollar and EURO. The risk of changes in the value of these currencies in relation to pounds is partially mitigated due to the unit-linked investments and policyholder liabilities absorbing such changes. A 10% reduction in the rates used to translate the major currencies shown above to pounds (as set out in note A1) would result in a reduction in profit after tax of £207 million (2011: £118 million).

The Group reduces the risk to foreign currency fluctuations through the use of currency swaps, currency borrowings and forward foreign exchange contracts (note E6). The Group further reduces its exposure to foreign exchange movements through net investment hedges (note E7). There are no direct exposures to the unit-linked investments and related policyholder liabilities.

E2: Credit risk

Overall exposure to credit risk

The Group is exposed to banking credit risk from lending and other financing activities, through its exposure to Nedbank. Nedbank's lending portfolio forms a substantial part of the Group's loans and advances, as analysed in Note E3. Credit risk represents the most significant risk type facing Nedbank, accounting for 58% of its economic capital requirements. Nedbank's credit risk profile is managed in terms of its credit risk management framework, which encompasses comprehensive credit risk policy, mandate (limits) and governance structures, and is approved by the Nedbank Board.

The Group is also exposed to the risk of credit defaults and to a much lesser extent movements in credit spreads from our insurance businesses. This includes counterparty default risk, which arises mainly from lending activities, and reinsurance and hedging arrangements.

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 the 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, derivative financial instruments and portfolios of debt and similar securities is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies and limits are 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 2012	At 31 December 2011
Mandatory reserve deposits with central banks	**921**	951
Reinsurers' share of policyholder liabilities	**1,406**	989
Loans and advances	**38,495**	40,001
Investments and securities	**20,444**	20,049
Government and government-guaranteed securities	**6,723**	6,476
Other debt securities, preference shares and debentures	**10,713**	10,909
Short-term funds and securities treated as investments	**2,892**	2,536
Other	**116**	128
Other assets	**2,581**	3,050
Derivative financial instruments – assets	**1,781**	1,795
Cash and cash equivalents	**3,863**	3,624
Financial guarantees and other credit-related contingent liabilities	**3,255**	3,030
Loan commitments and other credit-related commitments	**5,532**	5,578
Non-current assets held for sale	**42**	10,852
	78,320	89,919

(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.

E: Financial assets and liabilities continued

E2: Credit risk continued

Overall exposure to credit risk continued

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, E5 and F5.

E3: Loans and advances

(a) Summary

		£m
	At 31 December 2012	At 31 December 2011
Home loans	**9,899**	11,395
Commercial mortgages	**7,098**	7,122
Properties in possession	**42**	49
Credit cards	**727**	690
Overdrafts	**994**	1,047
Policyholder loans	**249**	256
Other loans to clients	**4,945**	5,475
Preference shares and debentures	**1,231**	1,429
Net finance leases and instalment debtors	**5,503**	5,664
Gross investment	**5,761**	5,918
Unearned finance charges	**(258)**	(254)
Factoring accounts	**324**	304
Trade, other bills and bankers' acceptances	**2**	3
Term loans	**6,417**	6,206
Remittances in transit	**14**	16
Deposits placed under reverse purchase agreements	**1,840**	1,260
Gross loans and advances	**39,285**	40,916
Provisions for impairment		
Specific provisions	**(541)**	(696)
Portfolio provision	**(249)**	(219)
Total net loans and advances	**38,495**	40,001

Non-performing loans included above had a book value less impairment provisions of £859 million (2011: £1,096 million).

Of the loans and advances shown above, £13,038 million (2011: £12,471 million) is receivable within one year of the reporting date and is regarded as current. £25,457 million (2011: £27,293 million) is regarded as non-current based on the maturity profile of the assets.

Of the gross loans and advances shown above, £38,963 million (2011: £40,189 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:

		£m
	At 31 December 2012	At 31 December 2011
Neither past due nor impaired	**34,691**	35,699
Past due but not impaired	**3,194**	3,381
Past due but less than 1 month	**2,718**	2,856
Past due, greater than 1 month but less than 3 months	**442**	493
Past due, greater than 3 months but less than 6 months	**7**	2
Past due, greater than 6 months but less than 1 year	**–**	1
Past due more than 1 year	**27**	29
Impaired loans and advances individually impaired	**1,400**	1,836
Gross loans and advances	**39,285**	40,916
Provisions for impairment	**(790)**	(915)
Total net loans and advances	**38,495**	40,001

The neither past due nor impaired loans and advances can be further analysed by credit rating as follows:

	At 31 December 2012				At 31 December 2011			**£m**
	Investment grade	**Sub-investment grade**	**Not rated**	**Total**	Investment grade	Sub-investment grade	Not rated	Total
Home loans	**1,408**	**6,377**	**395**	**8,180**	779	8,019	443	9,241
Commercial mortgages	**2,595**	**4,131**	**86**	**6,812**	2,185	4,412	116	6,713
Credit cards	**25**	**597**	**–**	**622**	111	482	–	593
Overdrafts	**168**	**625**	**102**	**895**	182	671	89	942
Policyholder loans	**173**	**–**	**48**	**221**	192	–	61	253
Other loans to clients	**3,189**	**1,565**	**98**	**4,852**	3,620	1,386	323	5,329
Preference shares and debentures	**1,020**	**185**	**26**	**1,231**	1,210	202	14	1,426
Net finance leases and instalment debtors	**211**	**4,338**	**133**	**4,682**	337	4,125	246	4,708
Factoring accounts	**11**	**306**	**–**	**317**	–	290	–	290
Trade, other bills and bankers' acceptances	**–**	**1**	**1**	**2**	2	1	–	3
Term loans	**4,043**	**929**	**51**	**5,023**	3,995	880	53	4,928
Remittances in transit	**7**	**2**	**5**	**14**	7	–	6	13
Deposits placed under reverse purchase agreements	**1,831**	**9**	**–**	**1,840**	1,257	–	3	1,260
Gross loans and advances	**14,681**	**19,065**	**945**	**34,691**	13,877	20,468	1,354	35,699

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:

	At 31 December 2012			At 31 December 2011		**£m**
	Specific impairment	**Portfolio impairment**	**Total impairment**	Specific impairment	Portfolio impairment	Total impairment
Balance at beginning of the year	**696**	**219**	**915**	886	218	1,104
Acquisitions through business combinations	**–**	**–**	**–**	(3)	(8)	(11)
Income statement charge	**414**	**52**	**466**	463	50	513
Recoveries of amounts previously written off	**(66)**	**–**	**(66)**	(55)	–	(55)
Amounts written off against the provision	**(514)**	**–**	**(514)**	(486)	–	(486)
Foreign exchange and other movements	**11**	**(22)**	**(11)**	(109)	(41)	(150)
Balance at end of the year	**541**	**249**	**790**	696	219	915

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. Given the levels of overall consumer indebtedness, credit risk management remained a strong area of focus. The reduction in specific impairments was driven by a decrease in defaulted advances, while there was further strengthening of the portfolio impairments charge mainly on the performing personal loans, Motor Finance Corporation (MFC) and home loans books. The increased level of portfolio impairments was mainly as a result of further model conservatism and book growth in personal loans, as well as the lengthening of the emergence period in the MFC book. Impairments in Nedbank's Retail division were maintained within target levels, reflecting the effect of asset mix changes as unsecured lending attracts higher levels of impairments than secured lending. Nedbank Wealth's impairment ratios deteriorated mainly due to the impact of a subdued property market. Further detail on Nedbank is available at www.nedbank.co.za.

During the year under review, the Group recognised collateral of £42 million (2011: £49 million) in the statement of financial position. These amounts are being included in the loans and advances above as properties in possession.

(b) Finance lease and instalment debtors

	Minimum lease payments receivable		Present value of minimum lease payments receivable	**£m**
Amounts receivable under finance leases – At 31 December	**2012**	2011	**2012**	2011
Within one year	**766**	816	**665**	718
In the second to fifth years inclusive	**3,632**	5,094	**3,476**	4,939
After five years	**1,363**	8	**1,362**	7
	5,761	5,918	**5,503**	5,664
Less: unearned finance income	**(258)**	(254)	**–**	–
Present value of minimum lease payments receivable	**5,503**	5,664	**5,503**	5,664

The accumulated allowance for uncollectable minimum lease payments receivable is £158 million (2011: £190 million).

E: Financial assets and liabilities continued

E4: Investments and securities

	At 31 December 2012	At 31 December 2011
		£m
Government and government-guaranteed securities	**6,723**	6,476
Other debt securities, preference shares and debentures	**10,713**	10,909
Listed	**7,401**	7,059
Unlisted	**3,312**	3,850
Equity securities	**16,382**	17,505
Listed	**15,523**	16,639
Unlisted	**859**	866
Pooled investments	**49,555**	43,699
Listed	**2,479**	7,301
Unlisted	**47,076**	36,398
Short-term funds and securities treated as investments	**2,892**	2,536
Other	**116**	128
Total investments and securities	**86,381**	81,253

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, £50,529 million (2011: £45,131 million) is regarded as current and £35,852 million (2011: £36,122 million) is regarded as non-current.

(a) Debt instruments and similar securities

The following table shows an age analysis of the portfolio of debt instruments and similar securities:

	At 31 December 2012	At 31 December 2011
		£m
Neither past due nor impaired	**20,373**	20,039
Past due but not impaired	**–**	10
Total debt instruments and similar securities	**20,373**	20,049

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.

The neither past due nor impaired loans and advances can be further analysed by credit rating as follows:

	At 31 December 2012				At 31 December 2011			£m
	Investment grade (AAA to BBB)	**Sub-Investment grade (BB and lower)**	**Not rated**	**Total**	Investment grade (AAA to BBB)	Sub-investment grade (BB and lower)	Not rated	Total
Government and government-related securities	**5,665**	**1**	**1,057**	**6,723**	5,395	56	1,025	6,476
Other debt securities, preference shares and debentures	**7,009**	**130**	**3,574**	**10,713**	6,955	176	3,778	10,909
Short-term funds and securities	**1,286**	**–**	**1,606**	**2,892**	926	–	1,610	2,536
Other	**–**	**–**	**45**	**45**	–	–	128	128
	13,960	**131**	**6,282**	**20,373**	13,276	232	6,541	20,049

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:

	£m	
	At 31 December 2012	At 31 December 2011
Amounts lent under securities lending		
Equity	**460**	471
Debt securities	**433**	296
	893	767
Amounts received as collateral for securities lending		
Equity	**883**	695
Debt securities	**85**	72
	968	767

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, £893 million (2011: £767 million) can be sold or repledged and £nil (2011: £nil) has been sold or repledged.

At 31 December 2012, the Group has provided £150 million (2011: £114 million) in debt securities collateral under repurchase arrangements.

At 31 December 2012 and 31 December 2011, the Group has not provided any cash collateral.

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 Group undertakes transactions involving derivative financial instruments with other financial institutions. Management has established limits commensurate with the credit quality of the institutions with whom it deals, and manages the resulting exposures such that a default by any individual counterparty is unlikely to have a materially adverse impact on the Group.

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.

	£m			
	Derivative financial instruments			
	Assets		**Liabilities**	
At 31 December	**2012**	2011	**2012**	2011
Equity derivatives	**54**	37	**41**	46
Exchange rate contracts	**248**	281	**93**	293
Interest rate contracts	**1,415**	1,070	**1,217**	977
Credit derivatives	**13**	19	**11**	19
Other derivatives	**51**	388	**40**	420
Total	**1,781**	1,795	**1,402**	1,755

The contractual maturities of the derivative liabilities held are as follows:

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** (£m)
At 31 December 2012	**1,402**	**74**	**296**	**607**	**522**	**–**	**1,499**
At 31 December 2011	1,755	451	326	515	675	–	1,967

E: Financial assets and liabilities continued

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 (2011: £nil).

						£m
	At 31 December 2012			At 31 December 2011		
	USD	**ZAR**	**SEK**	USD	ZAR	SEK
Open positions						
Forward contracts	**–**	**392**	**–**	–	100	–
Currency swaps	**112**	**–**	**–**	62	–	479
	112	**392**	**–**	62	100	479

		£m
	At 31 December 2012	At 31 December 2011
Fair value of financial instruments designated as net investment hedges		
ZAR forward foreign exchange contracts	**(8)**	(1)
USD cross currency swap	**29**	(1)
£500 million cross currency swap	**–**	64
€200 million cross currency swap	**–**	23
	21	85

The ZAR forwards are designated as hedges against the foreign currency risk in respect of the Group's investment in its South African operations. The USD forwards are designated as hedges against the foreign currency risk in respect of the Group's investment in its US operations.

E8: Insurance and investment contracts

Life assurance

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.

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 participating 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.

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.

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.

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 Standard of Actuarial Practice (SAP) 104 (2012). 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.

E: Financial assets and liabilities continued

E8: Insurance and investment contracts continued

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.

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.

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.

Premiums in 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.

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.

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.

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.

(a) Policyholder liabilities

The Group's insurance and investment contracts are analysed as follows:

£m	**At 31 December 2012**			At 31 December 2011		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Life assurance policyholder liabilities						
Insurance contracts	**14,457**	**(129)**	**14,328**	15,587	(94)	15,493
Investment contracts						
Unit-linked investment contracts and similar contracts	**56,886**	**(1,159)**	**55,727**	52,081	(781)	51,300
Other investment contracts	**937**	**–**	**937**	979	–	979
Discretionary participating investment contracts	**7,710**	**–**	**7,710**	7,475	–	7,475
Outstanding claims	**198**	**(19)**	**179**	228	(16)	212
	80,188	**(1,307)**	**78,881**	76,350	(891)	75,459
General insurance liabilities						
Claims incurred but not reported	**42**	**(3)**	**39**	47	(4)	43
Unearned premiums	**99**	**(45)**	**54**	98	(47)	51
Outstanding claims	**205**	**(51)**	**154**	180	(47)	133
	346	**(99)**	**247**	325	(98)	227
Total policyholder liabilities	**80,534**	**(1,406)**	**79,128**	76,675	(989)	75,686

Of the £1,406 million (2011: £989 million) included in reinsurer's share of life assurance policyholder and general insurance liabilities is an amount of £1,314 million (2011: £925 million) which is classified as current, the remainder being non-current.

(b) Insurance contracts

Movements in the amounts outstanding in respect of life assurance policyholder liabilities, other than outstanding claims, are set out below:

£m	**At 31 December 2012**			At 31 December 2011		
	Gross	**Reinsurance**	**Net**	Gross	Reinsurance	Net
Balance at beginning of the year	**15,587**	**(94)**	**15,493**	19,177	(141)	19,036
Income						
Premium income	**2,035**	**(73)**	**1,962**	2,001	(81)	1,920
Investment income	**1,965**	**–**	**1,965**	682	–	682
Other income	**5**	**–**	**5**	3	–	3
Expenses						
Claims and policy benefits	**(1,965)**	**60**	**(1,905)**	(2,507)	69	(2,438)
Operating expenses	**(500)**	**1**	**(499)**	(516)	–	(516)
Currency translation (gain)/loss	**(1,197)**	**6**	**(1,191)**	(2,620)	10	(2,610)
Other charges and transfers	**(1,162)**	**(13)**	**(1,175)**	(242)	40	(202)
Taxation	**(21)**	**–**	**(21)**	(2)	–	(2)
Transfer to operating profit	**(290)**	**(16)**	**(306)**	(342)	8	(334)
Transfer to non-current liabilities held for sale	**–**	**–**	**–**	(47)	1	(46)
Balance at end of the year	**14,457**	**(129)**	**14,328**	15,587	(94)	15,493

E: Financial assets and liabilities continued

E8: Insurance and investment contracts continued

(c) Unit-linked investment contracts and similar contracts, and other investment contracts

	£m	
	At 31 December 2012	At 31 December 2011
Balance at beginning of the year	**53,060**	70,683
New contributions received	**7,868**	10,086
Maturities	**(401)**	(805)
Withdrawals and surrenders	**(6,452)**	(7,942)
Fair value movements	**5,092**	(3,412)
Foreign exchange and other movements	**(1,344)**	(3,775)
Transfer to non-current liabilities held for sale	**–**	(11,775)
Balance at end of the year	**57,823**	53,060

(d) Discretionary participating investment contracts

	£m	
	At 31 December 2012	At 31 December 2011
Balance at beginning of the year	**7,475**	8,249
Income		
Premium income	**970**	975
Investment income	**1,291**	459
Expenses		
Claims and policy benefits	**(1,000)**	(996)
Operating expenses	**(172)**	(96)
Other charges and transfers	**(31)**	414
Taxation	**(12)**	(6)
Currency translation gain	**(728)**	(1,468)
Transfer to operating profit	**(83)**	(56)
Balance at end of the year	**7,710**	7,475

(e) Contractual maturity analysis

The following table 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.

At 31 December 2012	Carrying amount	Less than 3 months	More than 3 months less than 1 year	Between 1 and 5 years	More than 5 years	Total
		Undiscounted cash flows				£m
Life assurance policyholder liabilities						
Insurance contracts	**14,457**	**1,977**	**1,478**	**6,755**	**19,594**	**29,804**
Investment contracts						
Unit-linked investment contracts and similar contracts	**56,886**	**52,516**	**580**	**1,173**	**2,727**	**56,996**
Other investment contracts	**937**	**716**	**80**	**137**	**20**	**953**
Discretionary participating investment contracts	**7,710**	**7,488**	**–**	**–**	**–**	**7,488**
Outstanding claims	**198**	**194**	**1**	**–**	**–**	**195**
	80,188	**62,891**	**2,139**	**8,065**	**22,341**	**95,436**
General insurance liabilities						
Claims incurred but not reported	**42**	**18**	**14**	**10**	**–**	**42**
Unearned premiums	**99**	**51**	**46**	**1**	**–**	**98**
Outstanding claims	**205**	**65**	**62**	**79**	**–**	**206**
	346	**134**	**122**	**90**	**–**	**346**
Total policyholder liabilities	**80,534**	**63,025**	**2,261**	**8,155**	**22,341**	**95,782**

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
		Undiscounted cash flows				£m
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 premiums	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

(f) Insurance risk

The Group assumes insurance risk by issuing insurance contracts, under which the Group agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. Insurance risk includes mortality and morbidity risk in the case of life assurance or risk of loss (from fire, accident, or other source) in the case of general insurance.

Insurance risk arises through exposure to unfavourable claims experience on life assurance, critical illness and other protection business and exposure to unfavourable operating experience in respect of factors such as persistency levels and management expenses. Uncertainty in persistency, expenses and mortality and morbidity claim rates, relative to the actuarial assumptions made in the pricing process, may prevent the Group 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.

E: Financial assets and liabilities continued

E8: Insurance and investment contracts continued

(f) Insurance risk continued

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, and recovery rates on disability lower than expected. Possible causes are new and unexpected epidemics and widespread changes in lifestyle such as eating, smoking and exercise habits. Higher than expected claims levels will reduce expected emerging profits. For contracts where the insured risk is survival, the most significant factor that is likely to adversely impact the claims experience 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 and morbidity 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 of higher than expected policyholder surrenders, transfers or premium cessation on contracts, leading to a reduction in financial profit.

In order to limit this risk to an acceptable level, products (including charging and commission structures) are designed to limit the risk of direct financial loss on surrender, subject to 'Treating Customers Fairly' principles.

Persistency statistics are monitored monthly and a detailed persistency analysis at a product level is carried out on an annual basis.

Management actions may be triggered if statistics show significant adverse movement or emerging trends in experience.

Expenses
Expense risk is the risk that actual expenses and expense inflation exceed expected levels. 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, resulting in higher taxes reducing profitability or increasing 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.

(g) 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 offset (partial or full) to the bonus stabilisation reserve in the case of smoothed bonus products in South Africa.

The net increase or decrease to insurance contract provisions recorded at 31 December 2012 has been estimated as follows:

	%	£m	£m	£m
Assumption	**Change**	**Emerging Markets**	**Old Mutual Wealth**	**Old Mutual Bermuda**
Mortality and morbidity rates – assurance	**10**	**317**	**2**	**–**
Mortality rates – annuities	**(10)**	**52**	**–**	**–**
Discontinuance rates	**10**	**(16)**	**(2)**	**12**
Expenses (maintenance)	**10**	**64**	**2**	**–**

Emerging Markets
The changes in insurance contract liabilities shown are calculated using the specified increase or decrease to the rates, with no change in charges paid by policyholders.

The insurance contract liabilities recorded for the Emerging Market business are also impacted by the valuation discount rate assumed. Lowering this rate by 1% (with a corresponding reduction in the valuation inflation rate assumption) would result in a net increase to the insurance contract liabilities, and decrease to profit, of £39 million (2011 restated: £42 million).

The 2011 figure is restated to allow for greater consistency as both the valuation discount rate and the valuation inflation rate are now reduced by 1% for this sensitivity (in line with expected practice), where historically only the valuation discount rate was reduced (with the inflation rate unchanged). Consequently, the impact of this sensitivity is reduced as lower future expenses partially offset the increase in liabilities caused by the lower discount rate. This impact is also calculated with no change in charges paid by policyholders.

It should be noted that where the assets and liabilities of a product are closely matched (eg non-profit annuity business) or where the impact of a lower valuation discount rate is hedged or partially hedged, the net effect has been shown since the asset movement fully or partially offsets the liability movement.

Old Mutual Wealth
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 UK business.

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 91% 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 Old Mutual Wealth 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.

Old Mutual Bermuda
Lapses and partial withdrawals have the largest impact where increased activity reduces the guarantee portion of the business since less death and living benefit exposure is expected in the future. Mortality plays a much smaller part in Old Mutual 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 82% of the variable annuity business has both death/ living benefits).

The impact of varying expense (maintenance) assumptions is zero for Old Mutual Bermuda as the deferred acquisition cost balance (on which the sensitivity has an impact) has now been written down to zero.

(h) Sensitivity analysis – general insurance

An increase of 10% in the average cost of claims would require the recognition of an additional loss of £40 million (2011: £36 million) net of reinsurance. Similarly, an increase of 10% in the ultimate number of claims would result in an additional loss of £40 million (2011: £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 general insurance 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.

(i) 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 £134 million of unrated exposures (2011: £104 million). Collateral is not taken against reinsurance assets or deposits held with reinsurers other than in limited circumstances.

E: Financial assets and liabilities continued

E9: Borrowed funds

£m

	Notes	At 31 December 2012 Group excluding Nedbank	At 31 December 2012 Nedbank	At 31 December 2012 Group	At 31 December 2011 Group excluding Nedbank	At 31 December 2011 Nedbank	At 31 December 2011 Group
Senior debt securities and term loans		**122**	**1,363**	**1,485**	507	1,355	1,862
Floating rate notes	E9(a)	**–**	**849**	**849**	–	844	844
Fixed rate notes	E9(b)	**122**	**514**	**636**	507	511	1,018
Mortgage backed securities	E9(d)	**–**	**131**	**131**	–	77	77
Subordinated debt securities (net of Group holdings)	E9(e)	**765**	**669**	**1,434**	876	841	1,717
Borrowed funds		**887**	**2,163**	**3,050**	1,383	2,273	3,656
Other issues treated as equity for accounting purposes							
US$750 million cumulative preference securities[1]	F11(b)	**–**			458		
€495 million perpetual preferred callable securities[2]	F10(b)	**334**			338		
£348 million perpetual preferred callable securities[2]	F10(b)	**348**			350		
Total: Book value		**1,569**			2,529		
Nominal value of the above		**1,590**			2,666		

1 On 24 September 2012, the Group repaid the US$750 million cumulative preference securities at their nominal value.
2 On 4 December 2012, €5 million of the €500 million perpetual preferred callable securities were acquired and on 5 December 2012, £2 million of the £350 million preferred callable securities were acquired, both via open market repurchase.

The table below is a maturity analysis of the liability cash flows based on contractual maturity dates for borrowed funds. Maturity analysis is undiscounted and based on year-end exchange rates.

£m

	At 31 December 2012 Group excluding Nedbank	At 31 December 2012 Nedbank	At 31 December 2012 Group	At 31 December 2011 Group excluding Nedbank	At 31 December 2011 Nedbank	At 31 December 2011 Group
Less than 1 year	**–**	**522**	**522**	272	512	784
Greater than 1 year and less than 5 years	**340**	**1,820**	**2,160**	898	1,936	2,834
Greater than 5 years	**500**	**314**	**814**	998	556	1,554
Total	**840**	**2,656**	**3,496**	2,168	3,004	5,172

Senior notes

(a) Floating rate notes

£m

	Maturity date	At 31 December 2012	At 31 December 2011
Nedbank			
R1,690 million unsecured senior debt at JIBAR + 1.50%	Repaid	**–**	119
R1,044 million unsecured senior debt at JIBAR + 2.20%	September 2015	**76**	84
R1,750 million unsecured senior debt at inflation linked (3.90% real yield)	March 2013	**151**	158
R98 million unsecured senior debt at inflation linked (3.80% real yield)	March 2013	**8**	9
R1,552 million unsecured senior debt at JIBAR + 1.48%	April 2013	**114**	125
R1,027 million unsecured senior debt at JIBAR + 1.75%	April 2015	**76**	83
R80 million unsecured senior debt at JIBAR + 2.15%	April 2020	**6**	6
R988 million unsecured senior debt at JIBAR + 1.05%	March 2014	**71**	79
R677 million unsecured senior debt at JIBAR + 1.25%	March 2016	**49**	54
R500 million unsecured senior debt at JIBAR + 1.00%	April 2014	**33**	40
R1,075 million unsecured senior debt at JIBAR + 0.94%	October 2014	**79**	87
R1,297 million unsecured senior debt at JIBAR + 1.00%	February 2015	**95**	–
R405 million unsecured senior debt at JIBAR + 1.30%	February 2017	**30**	–
R250 million unsecured senior debt at JIBAR + 1.00%	August 2015	**18**	–
R786 million unsecured senior debt at JIBAR + 1.31%	August 2017	**43**	–
Total floating rate notes		**849**	844

All floating rate notes are non-qualifying for the purposes of regulatory tiers of capital.

(b) Fixed rate notes

	Maturity date	At 31 December 2012 £m	At 31 December 2011 £m
Nedbank			
R450 million unsecured senior debt at 8.39%	March 2014	**33**	37
R478 million unsecured senior debt at 9.68%	April 2015	**35**	39
R3,244 million unsecured senior debt at 10.55%	September 2015	**242**	265
R1,137 million unsecured senior debt at 9.36%	March 2016	**85**	93
R1,273 million unsecured senior debt at 11.39%	September 2019	**102**	63
R660 million unsecured senior debt at zero coupon	October 2024	**17**	14
		514	511
Group excluding Nedbank			
£112 million eurobond at 7.125%[1]	October 2016	**112**	496
US$16 million secured senior debt at 5.23%[2]	August 2014	**10**	11
		122	507
Total fixed rate notes		**636**	1,018

1 On 1 August 2012 £388m of the £500m senior bond was redeemed via open market tender.
2 On 1 December 2012 $0.5m of the $16.5m senior bond was repaid.

All fixed rate notes are non-qualifying for the purposes of regulatory tiers of capital.

(c) Revolving credit facilities and irrevocable letters of credit

The Group has access to a £1,200 million five-year multi-currency revolving credit facility (agreed in April 2011). At 31 December 2012, none of this facility was drawn down and there were no irrevocable letters of credit in issue against this facility. At 31 December 2011 the facility was undrawn but letters of credit were held against the facility in relation to the sale of US Life.

(d) Mortgage-backed securities – Nedbank

	Tier	Maturity date	At 31 December 2012 £m	At 31 December 2011 £m
Nedbank				
R1.4 billion (class A2A) at 11.817%	Tier 2	Repaid	**–**	67
R98 million (class B note) at 12.067%	Tier 2	Repaid	**–**	6
R76 million (class C note) at 13.317%	Tier 2	Repaid	**–**	4
R480 (class A1) million at JIBAR + 1.10%	Tier 2	25 October 2039	**32**	–
R336 million (class A2) at JIBAR + 1.25%	Tier 2	25 October 2039	**25**	–
R900 million (class A3) at JIBAR + 1.54%	Tier 2	25 October 2039	**66**	–
R110 (class B) million at JIBAR + 1.90%	Tier 2	25 October 2039	**8**	–
Total mortgage-backed securities			**131**	77

For the year ended 31 December 2012

E: Financial assets and liabilities continued

E9: Borrowed funds continued

Senior notes continued

(e) Subordinated debt securities (net of Group holdings)

	Tier	First call date	Maturity date	£m At 31 December 2012	At 31 December 2011
Nedbank					
R300 million (3 month JIBAR + 2.50%)	Non-core Tier 1	December 2013	December 2013	**11**	12
R1,265 million (JIBAR plus 4.75%)	Non-core Tier 1	November 2018	November 2018	**93**	102
R650 million (9.03%)	Tier 2	Repaid	Repaid	**–**	54
R500 million (3 month JIBAR plus 0.45%)	Tier 2	Repaid	Repaid	**–**	40
R500 million (3 month JIBAR plus 0.70%)	Tier 2	Repaid	Repaid	**–**	40
R120 million (10.38%)	Tier 2	Repaid	Repaid	**–**	10
R1.8 billion (9.84%)	Tier 2	September 2013	September 2018	**137**	153
R1.7 billion (8.90%)	Tier 2	February 2014	February 2019	**132**	144
R1.0 billion (10.54%)	Tier 2	September 2015	September 2020	**81**	87
R2.0 billion (JIBAR plus 0.47%)	Tier 2	July 2017	July 2022	**146**	161
R487 million (15.05%)	Tier 2	November 2018	November 2018	**43**	42
US$100 million (3 month USD LIBOR)	Tier 2 Secondary	March 2017	March 2022	**62**	65
				705	910
Less: banking subordinated debt securities held by other Group companies				**(36)**	(69)
Banking subordinated securities (net of Group holdings)				**669**	841
Group excluding Nedbank					
€200 million (4.50% to January 2012 and 6 month EURIBOR plus 0.96 thereafter)[1]	Lower Tier 2	Repaid	Repaid	**–**	166
R3.0 billion (8.92% to October 2015, 3 month JIBAR plus 1.59% thereafter)	Lower Tier 2	October 2015	October 2020	**218**	239
£500 million (8.00%)[2]	Lower Tier 2	–	June 2021	**547**	471
				765	876
Total subordinated debt securities				**1,434**	1,717

1 The principal and coupon on the bond were swapped at issue equally into sterling and US$ with coupons of 6 month pounds LIBOR plus 0.34% and 6 month USD LIBOR plus 0.31% respectively. During 2011 a €550 million partial repayment, together with settlements of associated currency swaps, was made. On 18 January 2012 the remaining €200 million was repaid on the first call date.

2 The principal and coupon on the bond were initially swapped into floating rate Swedish kroner, at 3 month STIBOR plus 5.46%. Following the Nordic sale, £375 million of the coupon is now swapped into floating rate sterling at 6 month pounds LIBOR plus 4.15% and £125 million of principal and coupon is swapped into US dollars at 6 month USD LIBOR plus 5.49%.

E10: Amounts owed to bank depositors

At 31 December 2012	**Carrying amount**	**Less than 3 months**	**More than 3 months less than 1 year**	**Between 1 and 5 years**	**More than 5 years**	**Total**
						£m
Current accounts	**4,055**	**4,056**	**–**	**–**	**–**	**4,056**
Savings deposits	**1,348**	**1,348**	**–**	**–**	**–**	**1,348**
Other deposits and loan accounts	**27,309**	**19,789**	**3,694**	**3,816**	**299**	**27,598**
Negotiable certificates of deposit	**5,584**	**1,671**	**4,397**	**–**	**–**	**6,068**
Deposits received under repurchase agreements	**1,203**	**1,203**	**–**	**–**	**–**	**1,203**
Amounts owed to bank depositors	**39,499**	**28,067**	**8,091**	**3,816**	**299**	**40,273**

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
						£m
Current accounts	4,117	4,117	–	–	–	4,117
Savings deposits	1,265	1,265	–	–	–	1,265
Other deposits and loan accounts	26,850	21,134	3,242	2,370	299	27,045
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	41,215	30,265	7,428	3,980	300	41,973

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 note E4. The Group's existing revolving credit facility of £1.20 billion (2011: £1.20 billion) does not mature until April 2016 (2011: April 2016). Details, together with information on the Group's borrowed funds, are given in note 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.

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

(a) Goodwill and goodwill impairment

Goodwill arising on the acquisition of a subsidiary undertaking is recognised as an asset at the date that control is achieved (the acquisition date). Goodwill is measured as the excess of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If the Group's interest in the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any), this excess is recognised immediately in the income statement as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least once annually. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On loss of control of a subsidiary undertaking, any attributable goodwill is included in the determination of any profit or loss on disposal.

Goodwill is allocated to one or more cash-generating units (CGUs), being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The directors annually test for impairment of each CGU or group of CGUs containing goodwill and intangible assets with indefinite useful lives, at a level that is no larger than that of the Group's identified operating segments for the purposes of segment reporting. An impairment loss is recognised whenever the carrying amount of an asset or its CGU or group of CGUs exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. Impairment losses relating to goodwill are not reversed.

(b) Present value of acquired in-force for insurance and investment contract business

The present value of acquired in-force for insurance and investment contract business is capitalised in the consolidated statement of financial position as an intangible asset.

The capitalised value is the present value of cash flows anticipated in the future from the relevant book of insurance and investment contract policies acquired. This is calculated by performing a cash flow projection of the associated life assurance fund and book of in-force policies in order to estimate future after tax profits attributable to shareholders. The valuation is based on actuarial principles taking into account future premium income, mortality, disease and surrender probabilities, together with future costs and investment returns on the assets supporting the fund. These profits are discounted at a rate of return allowing for the risk of uncertainty of the future cash flows. The key assumptions impacting the valuation are discount rate, future investment returns and the rate at which policies discontinue.

The asset is amortised over the expected profit recognition period on a systematic basis over the anticipated lives of the related contracts.

The amortisation charge is stated net of any unwind in the discount rate used to calculate the asset.

The recoverable amount of the asset is re-calculated at each reporting date and any impairment losses recognised accordingly.

(c) Other intangible assets acquired as part of a business combination

Contractual banking and asset management customer relationships, relationships with distribution channels and similar intangible assets, acquired as a part of a business combination, are capitalised at their fair value, represented by the estimated net present value of the future cash flows from the relevant relationships acquired at the date of acquisition.

Brands and similar items acquired as part of a business combination are capitalised at their fair value based on a 'relief from royalty' valuation methodology.

Subsequent to initial recognition such acquired intangible assets are amortised on a straight-line basis over their estimated useful lives as set out below:

- Distribution channels 10 years
- Customer relationships 10 years
- Brand 15 – 20 years

The estimated life is re-evaluated on a regular basis.

(d) Internally developed software

Internally developed software is amortised over its estimated useful life. Such assets are stated at cost less accumulated amortisation and impairment losses. Software is recognised in the statement of financial position if, and only if, it is probable that the relevant future economic benefits attributable to the software will flow to the Group and its cost can be measured reliably.

Costs incurred in the research phase are expensed whereas costs incurred in the development phase are capitalised subject to meeting specific criteria, set out in the relevant accounting guidance. The main criteria being that future economic benefits can be identified as a result of the development expenditure. Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of the relevant software, which range between two and five years.

(e) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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.

(f) Analysis of goodwill and other intangibles

£m

	Goodwill		Present value of acquired in-force business development costs		Software development costs		Other intangible assets		Total	
At 31 December	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Cost										
Balance at beginning of the year	**2,882**	3,286	**1,476**	2,704	**699**	766	**580**	896	**5,637**	7,652
Acquisitions through business combinations	**1**	–	**–**	–	**–**	–	**–**	1	**1**	1
Additions	**–**	–	**–**	–	**72**	86	**–**	8	**72**	94
Foreign exchange and other movements	**(126)**	(144)	**(23)**	(44)	**(60)**	(119)	**(9)**	(12)	**(218)**	(319)
Disposals or retirements	**(28)**	–	**–**	–	**(27)**	(9)	**–**	–	**(55)**	(9)
Transfer to non-current assets held for sale	**–**	(260)	**–**	(1,184)	**–**	(25)	**(6)**	(313)	**(6)**	(1,782)
Balance at end of the year	**2,729**	2,882	**1,453**	1,476	**684**	699	**565**	580	**5,431**	5,637
Amortisation and impairment losses										
Balance at beginning of the year	**(665)**	(455)	**(804)**	(1,297)	**(492)**	(523)	**(318)**	(412)	**(2,279)**	(2,687)
Amortisation charge for the year	**–**	–	**(84)**	(138)	**(53)**	(64)	**(51)**	(88)	**(188)**	(290)
Impairment losses	**–**	(264)	**–**	–	**–**	–	**(35)**	–	**(35)**	(264)
Foreign exchange and other movements	**54**	31	**22**	28	**38**	72	**(14)**	20	**100**	151
Disposals or retirements	**–**	–	**–**	–	**27**	2	**–**	–	**27**	2
Transfer to non-current assets held for sale	**–**	23	**–**	603	**–**	21	**–**	162	**–**	809
Accumulated amortisation and impairment losses at end of the year	**(611)**	(665)	**(866)**	(804)	**(480)**	(492)	**(418)**	(318)	**(2,375)**	(2,279)
Carrying amount										
Balance at beginning of the year	**2,217**	2,831	**672**	1,407	**207**	243	**262**	484	**3,358**	4,965
Balance at end of the year	**2,118**	2,217	**587**	672	**204**	207	**147**	262	**3,056**	3,358

The present value of acquired in-force business at the year-end of £587 million (2011: £672 million) relates to the Skandia business acquired during 2006 which is due to be amortised over a further 8 to 13 years.

Of the other intangible assets £130 million (2011: £175 million) relates to distribution channels and £nil (2011: £37 million) brands associated with the Skandia business. The remaining periods over which these are being amortised are 3 years and 8 years respectively.

The acquisitions through business combinations comprises £1 million (2011: £1 million) in respect of an acquisition made by Nedbank.

(g) 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 and Old Mutual Wealth), together with Nedbank and US Asset Management.

£m

	At 31 December 2012	At 31 December 2011
Emerging Markets	**86**	90
Wealth Management	**859**	848
Long-Term Savings	**945**	938
Nedbank	**355**	374
US Asset Management	**814**	881
Other	**4**	24
Goodwill, net of impairment losses	**2,118**	2,217

F: Other statement of financial position notes continued

F1: Goodwill and other intangible assets continued

(h) 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 MCEV principles. The methodology and significant assumptions underlying the determination of embedded value is disclosed in the supplementary information shown on pages 228 to 236. The differences between the key assumptions applied in the current year and in the prior year are disclosed on pages 239 to 243.

The cash flows attributable to the value of new business are determined with reference to latest approved three-year business plans. Projections beyond the plan period are extrapolated using an inflation based growth assumption.

The value-in-use calculations for the asset management 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 Old Mutual Wealth 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 3.7% (2011: 3.4%) to both its life assurance business and asset management business in Mexico and Colombia. Old Mutual Wealth, which incorporates the previously separately reported Retail Europe, applied a weighted average calculation to determine the growth rate of 2.2% (2011: 2.7%)
- 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 13.2% (2011: 13.1%) for Emerging Markets, and 9.3% (2011: 12.7%) for Old Mutual Wealth.

The directors are satisfied that any reasonable change in the assumptions would not cause the recoverable amounts of the Emerging Markets and Old Mutual Wealth 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 11.2% (2011: 12.7%). A 5.5% 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.

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 USAM's CGU has been performed by comparing the CGU's carrying amount to its value-in-use 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 4.0% (2011: 4.0%) 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 12.0% (2011: 12.0%).

During 2011, the Group reduced the long-term growth rate 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 experienced at the time, an impairment charge has been recognised to reflect the reduction in value-in-use for USAM with a charge of £264 million being recognised during the year-ended 31 December 2011. No such impairment was raised during 2012.

(i) Segmental analysis of goodwill and other 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:

£m

At 31 December	Goodwill and intangible assets (carrying amount) 2012	2011	Amortisation 2012	2011	Impairment 2012	2011
Long-Term Savings	**1,692**	1,860	**141**	151	**35**	–
Emerging Markets	**98**	104	**4**	5	**–**	–
Old Mutual Wealth	**1,594**	1,756	**137**	146	**35**	–
Nedbank	**534**	557	**41**	47	**–**	–
US Asset Management	**816**	904	**1**	8	**–**	264
Other	**14**	37	**5**	84	**–**	–
	3,056	3,358	**188**	290	**35**	264

Following the disposal of Nordic and the Group's decision to rebrand the Skandia businesses, impairments of £35 million were raised against the brand assets held by the Skandia businesses. As such, this impairment is not included in the Group continuing operating profit, but is included the expense of discontinued operations.

F2: Property, plant and equipment

£m

At 31 December	Land 2012	2011	Buildings 2012	2011	Plant and equipment 2012	2011	Total 2012	2011
Gross carrying amount								
Balance at beginning of the year	**115**	111	**604**	685	**736**	865	**1,455**	1,661
Additions	**9**	15	**10**	23	**101**	148	**120**	186
Additions from business combinations	**–**	7	**–**	34	**–**	8	**–**	49
Increase arising from revaluation	**4**	8	**18**	31	**–**	–	**22**	39
Disposals	**(3)**	(1)	**(1)**	(19)	**(31)**	(133)	**(35)**	(153)
Foreign exchange and other movements	**(18)**	(25)	**(68)**	(150)	**(71)**	(132)	**(157)**	(307)
Transfer to non-current assets held for sale	**(1)**	–	**(1)**	–	**–**	(20)	**(2)**	(20)
	106	115	**562**	604	**735**	736	**1,403**	1,455
Accumulated depreciation and impairment losses								
Balance at beginning of the year	**–**	–	**(31)**	(50)	**(499)**	(596)	**(530)**	(646)
Depreciation charge for the year	**–**	–	**(11)**	(12)	**(90)**	(95)	**(101)**	(107)
Disposals	**–**	–	**–**	19	**28**	91	**28**	110
Foreign exchange and other movements	**–**	–	**3**	12	**45**	91	**48**	103
Transfer to non-current assets held for sale	**–**	–	**–**	–	**–**	10	**–**	10
Balance at end of the year	**–**	–	**(39)**	(31)	**(516)**	(499)	**(555)**	(530)
Carrying amount								
Balance at beginning of the year	**115**	111	**573**	635	**237**	269	**925**	1,015
Balance at end of the year	**106**	115	**523**	573	**219**	237	**848**	925

The carrying value of property, plant and equipment leased to third parties under operating leases included in the above is £57 million (2011: £91 million) and comprises land of £9 million (2011: £10 million) and buildings of £48 million (2011: £81 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 2012 Long-Term Savings made revaluation gains of £3 million on land (2011: £3 million) and £13 million (2011: £6 million) on buildings, while Nedbank made revaluation gains of £nil on land (2011: £5 million) and £5 million on buildings (2011: £25 million). 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 £32 million (2011: £26 million) and £233 million (2011: £168 million) respectively for Long-Term Savings and £20 million (2011: £22 million) and £136 million (2011: £150 million) for Nedbank respectively.

F: Other statement of financial position notes continued

F3: Investment property

	£m Year ended 31 December 2012	Year ended 31 December 2011
Balance at beginning of the year	**2,064**	2,040
Additions	**55**	57
Additions from business combinations	**–**	290
Disposals	**(67)**	(6)
Net gain/(loss) from fair value adjustments	**84**	(68)
Foreign exchange and other movements	**(159)**	(249)
Transfer to non-current assets held for sale	**(31)**	–
Balance at end of the year	**1,946**	2,064

The additions of £55 million (2011: £57 million) and the net gain from fair value adjustments of £84 million (2011: £68 million loss) are both 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 2012	Year ended 31 December 2011
Freehold	**1,920**	2,051
Leasehold	**26**	13
	1,946	2,064
Rental income from investment property	**172**	184
Direct operating expense arising from investment property that generated rental income	**(18)**	(19)
	154	165

The carrying amount of investment property is the fair value of the property as determined by a registered independent valuer at least every three years, and annually by locally qualified staff, having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued. Fair values are determined having regard to recent market transactions for similar properties in the same location as the Group's investment property. The Group's current lease arrangements, which are entered into on an arm's length basis and which are comparable to those for similar properties in the same location, are taken into account.

Of the total investment property of £1,946 million (2011: £2,064 million), £1,603 million (2011: £1,715 million) is attributable to South Africa and £343 million (2011: £349 million) to Europe.

F4: Deferred acquisition costs

	Insurance contracts		Investment contracts		Asset management		£m Total	
At 31 December	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Balance at beginning of the year	**101**	212	**1,114**	1,187	**136**	135	**1,351**	1,534
New business	**7**	8	**190**	273	**46**	61	**243**	342
Amortisation	**(35)**	(65)	**(187)**	(212)	**(51)**	(57)	**(273)**	(334)
Impairment losses charged for the year	**–**	–	**–**	–	**–**	1	**–**	1
Foreign exchange and other movements	**(19)**	(23)	**(10)**	(45)	**(4)**	(4)	**(33)**	(72)
Transfer to non-current assets held for sale	**–**	(31)	**–**	(89)	**–**	–	**–**	(120)
Balance at end of the year	**54**	101	**1,107**	1,114	**127**	136	**1,288**	1,351

F5: Trade, other receivables and other assets

	At 31 December 2012 £m	At 31 December 2011 £m
Debtors arising from direct insurance operations		
Amounts owed by policyholders	**94**	86
Amounts owed by intermediaries	**67**	76
Other	**79**	41
	240	203
Debtors arising from reinsurance operations	**35**	35
Outstanding settlements	**404**	360
Reinsurance treaties	**545**	754
Other receivables	**717**	801
Accrued interest and rent	**326**	350
Trading securities and spot positions	**275**	530
Prepayments and accrued income	**115**	90
Other assets	**233**	225
Total trade, other receivables and other assets	**2,890**	3,348

Based on the maturity profile of the above assets, £1,527 million (2011: £1,800 million) is regarded as current and £1,363 million (2011: £1,548 million) as non-current. All amounts outstanding are short-term in nature. No significant balances are past due or impaired.

F6: Provisions

£m

Year ended 31 December 2012	**Client compensation**	**Liability for long service leave**	**Restructuring**	**Provision for donations**	**Other**	**Total**
Balance at beginning of the year	**43**	**47**	**37**	**78**	**62**	**267**
Unused amounts reversed	**–**	**–**	**(1)**	**–**	**(4)**	**(5)**
Charge to income statement	**7**	**30**	**7**	**–**	**15**	**59**
Utilised during the year	**(22)**	**(26)**	**(14)**	**7**	**(9)**	**(64)**
Foreign exchange and other movements	**(6)**	**(2)**	**8**	**(7)**	**15**	**8**
Transfer to non-current assets held for sale	**–**	**–**	**–**	**–**	**–**	**–**
	22	**49**	**37**	**78**	**79**	**265**
Post employment benefits					**(2)**	**(2)**
Balance at end of the year	**22**	**49**	**37**	**78**	**77**	**263**

£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

F: Other statement of financial position notes continued

F6: Provisions continued

Provisions in relation to client compensation were £22 million (2011: £43 million), primarily relating to ongoing resolution of claims related to mis-selling of guarantee contracts in Old Mutual Wealth. £nil (2011: £1 million) is estimated to be payable after more than one year.

The liability for long service leave of £49 million (2011: £47 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 (2011: £37 million), primarily in respect of ongoing restructuring of the Old Mutual Wealth business.

The provision for donations is held by Long-Term Savings in respect of commitments made by the South African business to the future funding of charitable donations. 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. £78 million (2011: £78 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, £127 million (2011: £129 million) is estimated to be payable after more than one year.

F7: Deferred revenue

								£m
	Long-term business		**Asset management**		**General insurance**		**Total**	
Year ended 31 December	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Balance at beginning of the year	**590**	621	**102**	98	**9**	11	**701**	730
Fees and commission income deferred	**67**	87	**34**	46	**1**	–	**102**	133
Amortisation	**(64)**	(49)	**(41)**	(41)	**–**	–	**(105)**	(90)
Foreign exchange and other movements	**(7)**	(13)	**(2)**	(1)	**–**	(2)	**(9)**	(16)
Transfer to non-current assets held for sale	**–**	(56)	**–**	–	**–**	–	**–**	(56)
Balance at end of the year	**586**	590	**93**	102	**10**	9	**689**	701

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 2012	**At beginning of the year**	**Income statement (charge)/ credit**	**Charged to equity**	**Acquisition/ disposal of subsidiaries**	**Foreign exchange and other movements**	**At end of the year**
Insurance funds	**(1)**	**1**	**–**	**–**	**–**	**–**
Tax losses carried forward	**164**	**(31)**	**–**	**–**	**(12)**	**121**
Accelerated capital allowances	**1**	**–**	**–**	**–**	**–**	**1**
Other temporary differences	**185**	**39**	**2**	**1**	**153**	**380**
Netted against liabilities	**(176)**	**16**	**(1)**	**–**	**(154)**	**(315)**
Deferred fee income	**166**	**(24)**	**–**	**–**	**11**	**153**
	339	**1**	**1**	**1**	**(2)**	**340**

Year ended 31 December 2011	At beginning of the year	Income statement (charge)/ credit	Charged to equity	Acquisition/ disposal of subsidiaries[1]	Foreign exchange and other movements	At end of the year
						£m
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

[1] Includes transferring Nordic into non-current assets held for sale

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:

	At 31 December 2012		At 31 December 2011	£m
	Gross amount	**Tax**	Gross amount	Tax
Unrelieved tax losses				
Expiring in less than a year	**40**	**3**	49	3
Expiring in the second to fifth years inclusive	**160**	**11**	197	10
Expiring after five years	**1,515**	**323**	1,784	396
	1,715	**337**	2,030	409
Accelerated capital allowances	**139**	**33**	126	31
Other timing differences	**612**	**103**	533	89
	2,466	**473**	2,689	529

(b) Deferred tax liabilities

The movement on the deferred tax liabilities account is as follows:

Year ended 31 December 2012	**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**
						£m
Accelerated tax depreciation	**22**	**12**	**–**	**–**	**9**	**43**
Deferred acquisition costs	**170**	**(21)**	**–**	**–**	**9**	**158**
Leasing	**37**	**(23)**	**–**	**–**	**(13)**	**1**
PVIF	**137**	**(38)**	**–**	**–**	**19**	**118**
Other acquired intangibles	**37**	**(11)**	**–**	**(6)**	**–**	**20**
Available-for-sale securities	**3**	**–**	**4**	**–**	**–**	**7**
Other temporary differences	**162**	**(3)**	**2**	**–**	**155**	**316**
Policyholder tax	**112**	**(54)**	**–**	**–**	**(6)**	**52**
Netted against assets	**(176)**	**16**	**(1)**	**–**	**(154)**	**(315)**
	504	**(122)**	**5**	**(6)**	**19**	**400**

F: Other statement of financial position notes continued

F8: Deferred tax assets and liabilities continued

(b) Deferred tax liabilities continued

£m

Year ended 31 December 2011	At beginning of the year	Income statement (credit)/ charge	Credited to equity	Acquisition/ disposal of subsidiaries[1]	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

[1] Includes transferring Nordic into non-current assets held for sale and consolidation of other African businesses

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 £2.7 billion (2011: £3.0 billion).

F9: Trade, other payables and other liabilities

£m

	At 31 December 2012	At 31 December 2011
Amounts payable on direct insurance business		
Funds held under reinsurance business ceded	**151**	123
Amounts owed to policyholders	**562**	397
Amounts owed to intermediaries	**89**	76
Other direct insurance operation creditors	**65**	70
	867	666
Accounts payable on reinsurance business	**28**	38
Accruals and deferred income	**373**	526
Share-based payments – cash-settled scheme liabilities	**56**	37
Short trading securities, spot positions and other	**456**	931
Trade creditors	**544**	305
Outstanding settlements	**524**	555
Total securities sold under agreements to repurchase	**146**	89
Obligations in relation to collateral holdings	**831**	410
Other liabilities	**964**	686
	4,789	4,243

Included in the amounts shown above are £3,806 million (2011: £3,531 million) that are regarded as current, the remainder as non-current.

F10: Equity

(a) Share capital

	£m	
	At 31 December 2012	At 31 December 2011
Issued ordinary shares of 11³⁄₇p (2011: 10p)	**559**	580

(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 £682 million at 31 December 2012 (2011: £688 million). In accordance with IFRS accounting standards these instruments are classified as equity and disclosed within equity shareholders' funds.

£348 million (2011: £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.

€495 million (2011: €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 is the Group's banking business in South Africa, Nedbank. For the year ended 31 December 2012 the non-controlling interests attributable to ordinary shares was £264 million (2011: £238 million).

(ii) Preferred securities

	£m	
	At 31 December 2012	At 31 December 2011
R2,000 million non-cumulative preference shares	**12**	14
R773 million non-cumulative preference shares	**5**	5
R355 million non-cumulative preference shares	**2**	2
US$750 million cumulative preferred securities	**27**	37
R363 million non-cumulative preference shares	**3**	3
R92 million non-cumulative preference shares	**1**	1
Non-controlling interests – preferred securities	**50**	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 2012**	Year ended 31 December 2011
The non-controlling interests share is analysed as follows:		
Non-controlling interests – ordinary shares	**264**	238
Short-term fluctuations in investment return	**–**	1
Income attributable to Black Economic Empowerment trusts of listed subsidiaries	**25**	22
Fair value gains on Group debt instruments	**–**	1
Income attributable to US Asset Management non-controlling interests	**(8)**	(5)
Non-controlling interests share of adjusted operating profit	**281**	257

F: Other statement of financial position notes continued

F11: Non-controlling interests continued

(a) Income statement continued

(iii) Non-controlling interests – adjusted operating profit continued

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 business. This reflects the legal ownership of this business 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 2012 the increase in adjusted operating profit attributable to non-controlling interests as a result of this was £25 million (2011: £22 million).

(b) Statement of financial position

(i) Ordinary shares

Reconciliation of movements in non-controlling interests	**At 31 December 2012** £m	At 31 December 2011 £m
Balance at beginning of the year	**1,652**	1,763
Non-controlling interests' share of profit	**264**	238
Non-controlling interests' share of dividends paid	**(119)**	(100)
Net disposal of interests	**20**	61
Foreign exchange and other movements	**(125)**	(310)
Balance at end of the year	**1,692**	1,652

(ii) Preferred securities

	At 31 December 2012 £m	At 31 December 2011 £m
Nedbank		
R2,000 million non-cumulative preference shares[1]	**140**	140
R773 million non-cumulative preference shares[2]	**71**	71
R355 million non-cumulative preference shares[3]	**25**	25
R363 million non-cumulative preference shares[4]	**29**	29
R92 million non-cumulative preference shares[5]	**8**	8
	273	273
Group excluding Nedbank		
US$750 million cumulative preferred securities[6]	**–**	458
Unamortised issue costs	**–**	(13)
Total in issue at 31 December	**273**	718

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. 35 million R10 preference shares issued on 16 April 2007 at R10.27 per share by Nedbank on the same terms as the securities described in (1) above.
4. 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.
5. 9.2 million R10 preference shares issued by Nedbank on 11 March 2010 on the same terms as the securities described in (1) above.
6. 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. The securities are perpetual, but may be redeemed at the discretion of the Group from 22 December 2008. On 24 September 2012, the Group repaid the US$750 million cumulative preference securities at their nominal value.

G: Other notes

G1: Post employment benefits

The Group operates a number of pension schemes around the world. These schemes have been designed and are administered in accordance with local conditions and practices in the countries concerned and include both defined contribution and defined benefit schemes. The assets of these schemes are held in separate trustee administered funds. Pension costs and contributions relating to defined benefit schemes are assessed in accordance with the advice of qualified actuaries. Actuarial advice confirms that the current level of contributions payable to each pension scheme, together with existing assets, are adequate to secure members' benefits over the remaining service lives of participating employees. The schemes are reviewed at least on a triennial basis or in accordance with local practice and regulations. In the intervening years the actuary reviews the continuing appropriateness of the assumptions applied. The actuarial assumptions used to calculate the projected benefit obligations of the Group's pension schemes vary according to the economic conditions of the countries in which they operate.

(a) Liability for defined benefit obligations

				£m
	Pension plans		**Other post-retirement benefit schemes**	
Year ended 31 December	**2012**	2011	**2012**	2011
Changes in projected benefit obligation				
Projected benefit obligation at beginning of the year	**546**	977	**245**	270
Benefits earned during the year	**5**	7	**7**	7
Interest cost on benefit obligation	**34**	39	**19**	18
Actuarial loss/(gain)	**41**	14	**(23)**	14
Benefits paid	**(25)**	(29)	**(8)**	(7)
Transfer to held for sale	**–**	(388)	**–**	–
Foreign exchange and other movements	**(34)**	(74)	**(19)**	(56)
Projected benefit obligation at end of the year	**567**	546	**221**	246
Change in plan assets				
Plan assets at fair value at beginning of the year	**594**	1,119	**178**	218
Actual return on plan assets	**67**	57	**17**	13
Company contributions	**9**	13	**(1)**	(3)
Employee contributions	**1**	1	**–**	–
Benefits paid	**(25)**	(27)	**(8)**	(7)
Transfer to held for sale	**–**	(463)	**–**	–
Foreign exchange and other movements	**(40)**	(106)	**(13)**	(43)
Plan assets at fair value at end of the year	**606**	594	**173**	178
Net (asset)/liability recognised in statement of financial position				
Funded status of plan	**(39)**	(48)	**48**	68
Unrecognised assets	**1**	4	**(17)**	(22)
Other amounts recognised in statement of financial position	**–**	–	**–**	1
Unrecognised actuarial (losses)/gains	**(24)**	(10)	**29**	9
Net amount recognised in statement of financial position	**(62)**	(54)	**60**	56

(b) Expense/(income) recognised in the income statement

				£m
	Pension plans		**Other post-retirement benefit schemes**	
Year ended 31 December	**2012**	2011	**2012**	2011
Current service costs	**3**	4	**7**	7
Interest cost	**25**	28	**19**	18
Expected return on plan assets	**(33)**	(38)	**(14)**	(15)
Net actuarial losses recognised in the year	**1**	3	**(1)**	–
Other post retirement plan costs	**–**	–	**1**	–
Total (included in staff costs)	**(4)**	(3)	**12**	10

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.

G: Other notes continued

G1: Post employment benefits continued

(b) Expense/(income) recognised in the income statement continued

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 £17 million and decrease of £14 million (2011: increase of £19 million and decrease of £15 million) respectively.

The detailed actuarial assumptions can be viewed on the Group's website at www.oldmutual.com

(c) Plan asset allocation

				£m
	Pension plans		Other post-retirement benefit schemes	
At 31 December	**2012**	2011	**2012**	2011
Equity securities	**31.3**	32.2	**34.0**	35.3
Debt securities	**42.7**	42.4	**26.7**	26.3
Property	**3.6**	4.1	**4.3**	4.7
Cash	**1.5**	2.0	**24.1**	23.5
Annuities and other	**20.9**	19.3	**10.9**	10.2
	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 (2011: £nil).

(d) Summary of Group pension plans

					£m
At 31 December	**2012**	2011	2010	2009	2008
Present value of defined benefit obligations	**(567)**	(546)	(977)	(815)	(778)
Fair value of plan assets	**606**	594	1,119	953	828
Surplus	**39**	48	142	138	50
Experience losses arising on defined benefit plan liabilities:					
Amount	**(2)**	11	(4)	8	2
As a percentage of plan liabilities	**0.4%**	(2.0%)	0.4%	(1.0%)	(0.3%)
Experience gains arising on defined benefit plan assets:					
Amount	**(2)**	(11)	(11)	(8)	(69)
As a percentage of plan assets	**(0.3%)**	(1.9%)	(1.0%)	(0.8%)	(8.3%)

Total contributions expected to be paid to the Group pension plans for the year ending 31 December 2013 are £9 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 2012, 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 2012		Year ended 31 December 2011	
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	**52,061,951**	**£0.53**	63,745,407	£0.61
Granted during the year	**3,471,696**	**£1.28**	1,742,700	£1.10
Forfeited during the year	**(212)**	**£0.90**	(1,424,629)	£0.47
Exercised during the year	**(35,910,754)**	**£0.51**	(4,444,580)	£0.89
Expired during the year	**(1,491,088)**	**£0.62**	(7,556,947)	£1.05
Outstanding at end of the year	**18,131,593**	**£0.72**	52,061,951	£0.53
Exercisable at 31 December	**2,030,072**	**£0.57**	1,722,807	£0.74

The options outstanding at 31 December 2012 have an exercise price in the range of £0.35 to £1.31 (2011: £0.35 to £1.53) and a weighted average remaining contractual life of 0.8 years (2011: 0.7 years). The weighted average share price at date of exercise for options exercised during the year was £1.54 (2011: £1.28).

Options over shares in Old Mutual plc (Johannesburg Stock Exchange)	**Year ended 31 December 2012** Number of options	**Year ended 31 December 2012** Weighted average exercise price	Year ended 31 December 2011 Number of options	Year ended 31 December 2011 Weighted average exercise price
Outstanding at beginning of the year	**64,825,574**	**R11.30**	73,997,737	R11.57
Granted during the year	**–**	**R0.00**	16,000,162	R15.78
Forfeited during the year	**(2,730,167)**	**R12.69**	(13,107,564)	R17.51
Exercised during the year	**(25,955,199)**	**R8.25**	(10,093,503)	R12.03
Expired during the year	**(2,188,324)**	**R9.12**	(1,971,258)	R13.77
Outstanding at end of the year	**33,951,884**	**R13.67**	64,825,574	R11.41
Exercisable at 31 December	**5,714,061**	**R8.17**	2,277,440	R11.52

The options outstanding at 31 December 2012 have an exercise price in the range of R6.55 to R15.80 (2011: R1.45 to R19.10) and a weighted average remaining contractual life of 3.6 years (2011: 4.1 years). The weighted average share price at date of exercise for options exercised during the year was R19.70 (2011: R14.34).

Options over shares in Nedbank Group Ltd	**Year ended 31 December 2012** Number of options	**Year ended 31 December 2012** Weighted average exercise price	Year ended 31 December 2011 Number of options	Year ended 31 December 2011 Weighted average exercise price
Outstanding at beginning of the year	**14,036,842**	**R149.94**	25,879,278	R126.71
Granted during the year	**456,467**	**R167.15**	921,526	R132.06
Forfeited during the year	**(402,035)**	**R119.79**	(508,771)	R113.07
Exercised during the year	**(1,097,859)**	**R103.74**	(12,205,562)	R101.09
Expired during the year	**(151,348)**	**R95.35**	(49,629)	R118.56
Outstanding at end of the year	**12,842,067**	**R156.12**	14,036,842	R149.94
Exercisable at 31 December	**397,776**	**R124.99**	865,712	R98.92

The options outstanding at 31 December 2012 have an exercise price in the range of R112.49 to R282.58 (2011: R108.00 to R282.58) and a weighted average remaining contractual life of 3.0 years (2011: 3.7 years). The weighted average share price at date of exercise for options exercised during the year was R175.65 (2011: R129.61).

(b) Measurements and assumptions

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of share options granted is measured using a Black-Scholes option pricing model.

Share options are granted under a service and non-market based performance condition. Such conditions are not taken into account in the grant date fair value measurement of the share options granted. There are no market conditions associated with the share option grants.

The grant date for the UK and 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 2013 which will have an IFRS 2 grant date of 1 January 2012, 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 2012, US Asset Management had the following share based payment arrangements:

Acadian Asset Management (AAM)
Class B equity interests in AAM acquired by employees during 2007 entitled the participating employees to 28.57% of the earnings of AAM in excess of $120 million, and to a liquidation preference proportionate to their shareholding. In consideration for the equity acquired, the participating employees agreed to forego a portion of existing long-term incentive payments owed. The difference between the carrying amount of this consideration and the fair value of the interest acquired was treated as share-based compensation expense in 2007. Fair value was determined based on the discounted projected future cash flows of AAM.

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 the time of modification, and the vested portion of $11 million is recognised as compensation expense during 2012. As the AAM plan conforms to the form and operation of the 'OMAM Affiliate Equity Plans' described below, new purchases and grants are classified to that category of arrangement from 2011 onwards.

G: Other notes continued

G2: Share-based payments continued

(c) Share-based payment arrangements relating to US Asset Management continued

IPO Incentive Plan

During 2011, a stock-based compensation plan was implemented for certain key employees of US Asset Management in connection with the stated intention of exploring a potential initial public offering (IPO) of the business. The plan is designed to reward participants for achievement of strategic objectives and metrics and value creation over the period leading up to an initial public offering, 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 rateably over 3 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 vary until an IPO is completed or the plan is terminated, depending on the achievement of performance objectives, financial targets and potential IPO proceeds. Accordingly, the awards are currently accounted for as a share-based payment liability, recognized over the vesting period and revalued at each period end for projected results of the performance conditions, with fair value-measured using a monte-carlo simulation. The expense recognised during 2012 in relation to this plan was $2.3 million (2011: $1.3 million).

OMAM Affiliate Equity Plans

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 fair value of 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
Percentage of affiliate equity	**2012**	**0.01%**	**1.97%**	**(0.23)%**	**1.75%**
	2011	0.07%	3.88%	(0.11)%	3.84%
Fair value of instruments[1]	**2012**	**–**	**$11.5m**	**–**	**$11.5m**
	2011	–	$31m	–	$31m

[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 2013 in respect of the 2012 financial year has been determined to commence from 1 January 2012.

It is anticipated that instruments with a fair value of US$11.1 million (2011: US$15.8 million and 2010: US$7.9 million) will be granted during 2013 to firms participating in the OMAM Affiliate Equity Plan based on 2012 financial performance.

(d) Restricted share grants

The following summarises the fair value of restricted shares granted by the Group during the year:

Instruments granted and purchased during the year		Number granted	Weighted average fair value
Shares in Old Mutual plc (London Stock Exchange)	**2012**	**12,351,453**	**£1.57**
	2011	13,429,616	£1.44
Shares in Old Mutual plc (Johannesburg Stock Exchange)	**2012**	**22,703,982**	**R19.35**
	2011	24,108,524	R15.16
Shares in Nedbank Ltd	**2012**	**4,467,742**	**R158.11**
	2011	4,806,015	R134.64

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.

(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 (2011: nil) and 9,337,461 restricted shares (2011: 15,983,524). 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 R24.49 (2011: R17.04).

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 2012		Year ended 31 December 2011	
	Total fair value, £m	**Vesting period**	Total fair value, £m	Vesting period
Old Mutual plc performance share plans – restricted shares	**15**	**4.2 years**	12	4.2 years

(f) Financial impact

	£m	
	Year ended 31 December 2012	Year ended 31 December 2011
Expense arising from equity settled share and share option plans	**14**	24
Expense arising from cash settled share and share option plans	**64**	37
	78	61
Closing balance of liability for cash settled share awards	**56**	37

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 99 to 116.

(b) Key management personnel remuneration and other compensation

	Year ended 31 December 2012		Year ended 31 December 2011	
	Number of personnel	**Value £000s**	Number of personnel	Value £000s
Directors' fees	**10**	**1,418**	12	1,638
Remuneration		**24,140**		25,176
Cash remuneration	**18**	**5,837**	17	5,969
Short-term employee benefits	**18**	**6,779**	17	8,751
Long-term employee benefits	**18**	**781**	16	1,308
Share-based payments	**13**	**10,743**	13	9,148
		25,558		26,814

Share options	**Year ended 31 December 2012**		Year ended 31 December 2011	
	Number of personnel	**Number of options/shares '000s**	Number of personnel	Number of options/shares '000s
Outstanding at beginning of the year	**11**	**11,482**	13	14,499
New appointments	**1**	**697**	1	274
Granted during the year		**–**		193
Exercised during the year		**(8,340)**		(2,079)
Lapsed during the year		**(2,095)**		(1,405)
Outstanding at end of the year	**4**	**1,744**	11	11,482

G: Other notes continued

G3: Related parties continued

(b) Key management personnel remuneration and other compensation continued

Restricted shares	Year ended 31 December 2012 Number of personnel	Year ended 31 December 2012 Number of options/shares '000s	Year ended 31 December 2011 Number of personnel	Year ended 31 December 2011 Number of options/shares '000s
Outstanding at beginning of the year	**14**	**21,652**	14	19,142
New appointments	**4**	**2,041**	2	1,580
Granted during the year		**5,898**		7,111
Exercised during the year		**(1,398)**		(2,911)
Vested during the year		**(4,617)**		(3,270)
Effect of share consolidation		**(1,248)**		–
Outstanding at end of the year	**14**	**22,328**	14	21,652

(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 2012 Number of personnel	Year ended 31 December 2012 Value £000s	Year ended 31 December 2011 Number of personnel	Year ended 31 December 2011 Value £000s
Current accounts				
Balance at beginning of the year	**5**	**324**	8	672
Net movement during the year		**880**		(348)
Balance at end of the year	**4**	**1,204**	5	324
Credit cards				
Balance at beginning of the year	**5**	**26**	5	29
Net movement during the year		**(8)**		(3)
Balance at end of the year	**4**	**18**	5	26
Mortgages				
Balance at beginning of the year	**4**	**621**	5	1,791
Net movement during the year		**44**		(627)
Interest charged		**31**		49
Less repayments		**(522)**		(778)
Foreign exchange movements		**45**		186
Balance at end of the year	**2**	**219**	4	621
General insurance contracts				
Total premium paid during the year	**3**	**13**	3	15
Claims paid during the year	**1**	**3**	1	1
Life insurance products				
Total sum assured/value of investment at end of the year	**12**	**18,524**	10	16,029
Pensions, termination benefits paid				
Termination benefits paid	**4**	**2,736**	3	1,625
Value of pension plans as at end of the year	**10**	**4,379**	10	5,700

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.

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
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
Rogge Global Partners plc	Asset management	81	England and Wales
OM Group (UK) Ltd	Holding company	100	England and Wales
Old Mutual Wealth Management Limited	Holding Co	100	England and Wales
Skandia Europe and Latin America (Holdings) Ltd	Holding company	100	England and Wales
Skandia Life Assurance Company Ltd	Life assurance	100	England and Wales
Old Mutual (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(c).

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.

G5: Investments in associated undertakings and joint ventures

(a) Investments in associated undertakings and joint ventures

The Group's investments in associated undertakings and joint ventures accounted for under the equity method are as follows:

£m

At 31 December 2012	**Country of operation**	**Percentage interest held**	**Carrying value**	**Group share of profit/(loss)**
Billion Property Developments (Pty) Ltd	Republic of South Africa	**20%**	**10**	**–**
Odyssey Developments (Pty) Ltd	Republic of South Africa	**49%**	**7**	**–**
Old Mutual Finance (Pty) Ltd	Republic of South Africa	**50%**	**14**	**8**
Curo Fund Services	Republic of South Africa	**50%**	**8**	**3**
African Infrastructure Investment Managers (Pty) Ltd	Republic of South Africa	**50%**	**6**	**6**
Kotak Mahindra Old Mutual Life Insurance Ltd	India	**26%**	**26**	**5**
Old Mutual-Guodian Life Insurance Company Ltd	China	**50%**	**18**	**(5)**
All other associated undertakings			**48**	**7**
			137	**24**

£m

At 31 December 2011	Country of operation	Percentage interest held	Carrying value	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

G: Other notes continued

G5: Investments in associated undertakings and joint ventures continued

(b) Aggregate financial information of investments in associated undertakings and joint ventures

The aggregate financial information for all investments in associated undertakings and joint ventures is as follows:

		£m
	Year ended 31 December 2012	Year ended 31 December 2011
Total assets	**2,083**	2,172
Total liabilities	**(1,872)**	1,947
Total revenues	**463**	607
Net profit after tax	**24**	10

(c) Aggregate Group investment in associated undertakings and joint ventures

The aggregate amounts for the Group's investment in associated undertakings and joint ventures are as follows:

		£m
	Year ended 31 December 2012	Year ended 31 December 2011
Balance at beginning of the year	**111**	162
Net additions/(disposals) of investment in associated undertakings and joint ventures	**27**	(7)
Share of profit after tax	**24**	10
Dividends paid	**(2)**	(4)
Foreign exchange and other movements	**(23)**	(50)
Balance at end of the year	**137**	111

The Group has no significant investments in which it owns less than 20% of the ordinary share capital that it accounts for using the equity method.

(d) Contingent liabilities

At 31 December 2012 and 31 December 2011, the Group had no contingent liabilities relating to investments in associated undertakings and joint ventures.

(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 2012	At 31 December 2011
Guarantees and assets pledged as collateral security	**2,521**	2,251
Irrevocable letters of credit	**177**	193
Secured lending	**492**	515
Other contingent liabilities	**57**	72

The Group, through its South African banking business, has pledged debt securities amounting to £1,203 million (2011: £1,196 million) as collateral for deposits received under re-purchase agreements. These amounts represent assets that have been transferred but do not qualify for derecognition under IAS 39. These transactions are entered into under terms and conditions that are standard industry practice to securities borrowing and lending activities.

Contingent liabilities – tax
The Revenue authorities in the principal jurisdictions in which the Group operates (South Africa and the United Kingdom) routinely review historic transactions undertaken and tax law interpretations made by the Group. The financial statements accordingly include provisions that reflect the Group's assessment of liabilities which might reasonably be expected to materialise.

Nedbank structured financing
Historically the Group's South African banking business entered into structured-finance transactions with third parties using their tax bases. In 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 rested in the first instance with the Group. It would only be in limited cases, for example, where the credit quality of a client became doubtful, or where the client specifically contracted out of the repricing of additional taxes, that the recovery from a client could be less than the liability arising on assessment, in which case provisions would be raised.

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. In early 2013 one of the claims by one of the shareholders, Property Promotions and Management (Pty) Ltd, for an amount of R147 million was dismissed by the North Gauteng High Court in Pretoria. Nedbank and its legal advisers remain of the opinion that the remaining claims are ambitious, and that the remaining 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 restructured in November 2012.

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.

Within GreenHouse Series 1, R2.0 billion of home loans originated by Nedbank, was securitised in 2007. The notes issued to finance the purchase of the home loan portfolio were assigned credit ratings by both Fitch and Moody's and listed on JSE Limited. During 2010 Fitch placed the GreenHouse notes on rating watch negative as a result of changes in its rating criteria for SA RMBS transactions. On 22 May 2012 Fitch affirmed the rating of the notes, with a stable outlook, and withdrew the rating of the subordinated loan.

GreenHouse was restructured and refinanced on 19 November 2012 as a static amortising structure. The proceeds from the refinance of this transaction, through the issuance of new notes and subordinated loans, was utilised to repay the R1.3 billion existing notes and subordinated loans upon their scheduled maturity, and to acquire additional home loans of approximately R795 million. The newly issued senior notes, which have been rated by Fitch and listed on the JSE Limited, were placed with third-party investors and the junior notes and subordinated loans retained by the Group. The home loans transferred to GreenHouse have continued to be recognised as financial assets. GreenHouse will direct all capital repayments received on the home loan portfolio to the noteholders.

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:[1]

	Carrying amount of assets		Associated liabilities	
At 31 December	**2012**	2011	**2012**	2011
Loans and advances to customers				
Residential mortgage loans[2]	**96**	116	**161**	132
Other financial assets				
Corporate and bank paper	**155**	116	**–**	–
Other securities	**189**	199	**–**	–
Commercial paper	**–**	–	**345**	320
Total	**440**	431	**506**	452

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.

1 The value of any derivative instruments taken out to hedge any financial asset or liability is adjusted against such instrument in this disclosure.
2 The balance at 31 December 2012 represents residential mortgages ceded to GreenHouse at 31 December 2012. It excludes funds of approximately £58 million held in a warehouse facility available for transfer once the remaining acquired residential mortgages have been ceded.

G: Other notes continued

G7: Commitments

Capital commitments

The Group's capital commitments are detailed in the table below. The Group's management is confident that future net revenues and funding will be sufficient to cover these commitments.

	At 31 December 2012 £m	At 31 December 2011 £m
Investment property	**63**	85
Property, plant and equipment	**50**	70

Commitments to extend credit to customers

The following table presents the contractual amounts of the Group's financial instruments not included in the statement of financial position that commit it to extend credit to customers.

	At 31 December 2012 £m	At 31 December 2011 £m
Original term to maturity of one year or less	**2,199**	2,057
Original term to maturity of more than one year	**1,569**	1,396
Other commitments, note issuance facilities and revolving underwriting facilities	**1,898**	2,093

Assets are pledged as collateral under repurchase agreements with other banks and for security deposits relating to local futures, options and stock exchange memberships. Mandatory reserve deposits are also held with local Central Banks in accordance with statutory requirements. These deposits are not available to finance the Group's day-to-day operations.

Commitments under the Group's operating lease arrangements are described in note G8.

G8: Operating lease arrangements

(a) The Group as lessee

						£m
	At 31 December 2012			At 31 December 2011		
Outstanding commitments under non-cancellable operating leases, fall due as follows:	**Banking**	**Non-banking**	**Total**	Banking	Non-banking	Total
Within one year	**64**	**21**	**85**	67	15	82
In the second to fifth years inclusive	**213**	**39**	**252**	173	52	225
After five years	**196**	**35**	**231**	210	39	249
	473	**95**	**568**	450	106	556

(b) The Group as lessor

Assets subject to operating leases	**At 31 December 2012** £m	At 31 December 2011 £m
Land	**9**	10
Buildings	**48**	81
Investment property	**1,946**	2,064
	2,003	2,155

Future minimum lease payments of contracts with tenants	At 31 December 2012 £m	At 31 December 2011 £m
Within one year	**58**	61
In the second to fifth years inclusive	**167**	159
After five years	**52**	90
	277	310

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

In January 2013, the Group completed the acquisition of a majority stake ownership in AIVA Business Platforms (AIVA), a Uruguay-based strategic distribution business. The Group will consolidate the financial results of AIVA in its 2013 consolidated financial statements.

H: Discontinued operations and disposal groups held for sale

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. The disposal of Nordic was completed on 21 March 2012 following shareholder and regulatory approval, and has been reported up until that date. The disposal of US Life was completed on 7 April 2011 following regulatory approval, and has been reported up until that date. Further detail is provided in note A2.

(a) Income statement from discontinued operations

£m

	Year ended 31 December 2012			Year ended 31 December 2011		
	Nordic	**US Life**	**Total**	Nordic	US Life	Total
Revenue	**842**	**–**	**842**	(421)	342	(79)
Expenses	**(866)**	**–**	**(866)**	541	(330)	211
Profit before tax from discontinued operations	**(24)**	**–**	**(24)**	120	12	132
Profit/(loss) on disposal	**239**	**–**	**239**	–	(29)	(29)
Realised available-for-sale investment gains and exchange differences on disposal	**350**	**–**	**350**	–	133	133
Profit before tax	**565**	**–**	**565**	120	116	236
Income tax (charge)/credit	**(1)**	**–**	**(1)**	(52)	14	(38)
Profit from discontinued operations after tax	**564**	**–**	**564**	68	130	198

(b) Statement of comprehensive income from discontinued operations

£m

	Year ended 31 December 2012			Year ended 31 December 2011		
	Nordic	**US Life**	**Total**	Nordic	US Life	Total
Profit from discontinued operations after tax	**564**	**–**	**564**	68	130	198
Other comprehensive income for the financial period						
Fair value gains/(losses)						
Available-for-sale investments						
Fair value gains	**4**	**–**	**4**	3	48	51
Recycled to the income statement	**–**	**–**	**–**	–	(5)	(5)
Realised on disposal	**–**	**–**	**–**	–	(157)	(157)
Exchange differences realised on disposal	**(350)**	**–**	**(350)**	–	24	24
Shadow accounting	**–**	**–**	**–**	–	(43)	(43)
Currency translation differences/exchange differences on translating foreign operations	**2**	**–**	**2**	(43)	–	(43)
Other movements	**(3)**	**–**	**(3)**	10	–	10
Aggregate tax on transfers from equity	**(1)**	**–**	**(1)**	(1)	3	2
Total other comprehensive loss from discontinued operations	**(348)**	**–**	**(348)**	(31)	(130)	(161)
Total comprehensive income for the financial period from discontinued operations	**216**	**–**	**216**	37	–	37
Attributable to						
Equity holders of the parent	**216**	**–**	**216**	37	–	37

Profit before tax from the Nordic discontinued operation includes trading revenues and expenses up to the completion date, 21 March 2012. Also included in the expenses is an impairment of brand assets of £35 million.

Profit on disposal of the Nordic business is calculated after taking into account the net sales proceeds of £2,095 million, net assets of the business of £1,744 million and net investment currency hedge losses of £112 million, previously included in equity translation reserves.

Cumulative foreign exchange translation gains of £350 million, previously included in equity translation reserves, are realised on the disposal of the Nordic business.

(c) Net cash flows from discontinued operations

£m

	Year ended 31 December 2012			Year ended 31 December 2011		
	Nordic	**US Life**	**Total**	Nordic	US Life	Total
Operating activities	**(8)**	**–**	**(8)**	1,609	2	1,611
Investing activities	**(121)**	**–**	**(121)**	(1,411)	146	(1,265)
Net cash flows from discontinuing operations	**(129)**	**–**	**(129)**	198	148	346

H2: Disposal groups held for sale

At 31 December 2011 the assets and liabilities of the Group's Nordic business were shown as held for sale in the financial statements, being £20,960 million and £19,289 million respectively. At 31 December 2011 the assets and liabilities of the Group's Finnish branch were also shown as held for sale in the financial statements, being £1,156 million and £1,119 million respectively. The disposals of both of these businesses were completed during the year and therefore no assets or liabilities are shown as held for sale at 31 December 2012.

In addition to the disposal groups held for sale, the Group also had additional non-current assets for sale of £42 million (2011: £22 million) and non-current liabilities of £3 million (2011: £9 million).

H3: Contingent liabilities in respect of the disposal of US Life

Following its disposal in April 2011 of US Life to the Harbinger group (Harbinger), the Group has retained certain residual commitments and contingent liabilities relating to that business. These arise from sale warranties and indemnities that are typical in transactions of this nature, including in respect of certain litigation (including class actions) and regulatory enforcement actions arising from events that occurred before completion of the sale. The residual commitments are in effect for varying periods of time.

The sale agreement contemplated that Harbinger would establish certain internal reinsurance arrangements after completion, which were subject to regulatory approval. If such regulatory approval was not forthcoming, there was potential for a reduction in the purchase price of US Life of up to a maximum of US$50 million. In July 2012, Harbinger filed a lawsuit against the Group, claiming payment of a purchase price adjustment of US$50 million. The Group has filed its defence and is vigorously defending this claim. In view of the ongoing uncertainty and the Group's current assessment of this claim, the Group has not raised a provision against this exposure.

COMPANY STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	Notes	At 31 December 2012 £m	At 31 December 2011 £m
Assets			
Investments in Group subsidiaries	8	**8,151**	7,805
Non-current assets held for sale	13	**128**	2,084
Investments and securities	10	**167**	–
Investments in associated undertakings and joint ventures	9	**26**	26
Trade, other receivables and other assets	4	**2,235**	2,254
Derivative financial instruments – assets	2	**96**	86
Cash and cash equivalents		**313**	441
Total assets		**11,116**	12,696
Liabilities			
Borrowed funds	3	**659**	1,140
Provisions	6	**9**	12
Trade, other payables and other liabilities	5	**4,376**	5,384
Derivative financial instruments – liabilities	2	**8**	3
Total liabilities		**5,052**	6,539
Net assets		**6,064**	6,157
Equity			
Equity attributable to equity holders of the parent		**6,064**	6,157
Total equity		**6,064**	6,157

The Company's financial statements on pages 212 to 220 were approved by the Board of directors on 1 March 2013.

Julian Roberts
Group Chief Executive

Philip Broadley
Group Finance Director

COMPANY STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
			£m
Profit before tax		**454**	804
Fair value on derivatives and borrowed funds		**149**	(62)
Foreign exchange on assets and liabilities		**(11)**	44
Non-cash movements in profit before tax		**138**	(18)
Other operating assets and liabilities		**(236)**	(123)
Changes in working capital		**(236)**	(123)
Net cash inflow from operating activities		**356**	663
Acquisition of interests in subsidiaries, associates and strategic investments		**(515)**	(12)
Disposal of interests in subsidiaries, associates and joint ventures		**2,084**	22
Other investing cash flows		**(162)**	2
Net cash inflow from investing activities		**1,407**	12
External interest received		**43**	81
External interest paid		**(89)**	(144)
Inter-company interest paid		**(28)**	(37)
Dividends paid to:			
Ordinary shareholders of the Company		**(554)**	(58)
Equity minority interests and preferred shares		**(42)**	(44)
Net proceeds from issue of ordinary shares		**33**	10
Net purchase of treasury shares		**(19)**	(17)
Subordinated and other debt repaid		**(640)**	(339)
Loan financing received from Group companies		**(595)**	(125)
Net cash outflow from financing activities		**(1,891)**	(673)
Net (decrease)/increase in cash and cash equivalents		**(128)**	2
Effects of exchange rate changes on cash and cash equivalents		**–**	1
Cash and cash equivalents at beginning of the period		**441**	438
Cash and cash equivalents at end of the year		**313**	441

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

		Millions						£m
Year ended 31 December 2012	Notes	**Number of shares issued and fully paid**	**Share capital**	**Share premium**	**Other reserves**	**Retained earnings[1]**	**Perpetual preferred callable securities**	**Total**
Attributable to equity holders of the Company at beginning of the year		**5,801**	**580**	**805**	**2,591**	**1,493**	**688**	**6,157**
Profit for the year		**–**	**–**	**–**	**–**	**480**	**42**	**522**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**480**	**42**	**522**
Dividends for the year		**–**	**–**	**–**	**–**	**(596)**	**(42)**	**(638)**
Merger reserve realised		**–**	**–**	**–**	**(815)**	**815**	**–**	**–**
Net purchase of treasury shares		**(239)**	**(24)**	**–**	**24**	**(19)**	**(6)**	**(25)**
Share consolidation		**(697)**	**–**	**–**	**–**	**–**	**–**	**–**
Other movements in share capital and share-based payment reserve		**27**	**3**	**30**	**–**	**–**	**–**	**33**
Fair value of equity-settled share options		**–**	**–**	**–**	**15**	**–**	**–**	**15**
Attributable to equity holders of the Company at end of the year		**4,892**	**559**	**835**	**1,815**	**2,173**	**682**	**6,064**

		Millions						£m
Year ended 31 December 2011	Notes	Number of shares issued and fully paid	Share capital	Share premium	Other Reserves	Retained earnings	Perpetual preferred callable securities	Total
Attributable to equity holders of the Company at beginning of the year		5,695	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		–	–	–	(129)	129	–	–
Shares issued in lieu of cash dividends		99	10	–	–	114	–	124
Net purchase of treasury shares		–	–	–	–	(17)	–	(17)
Other movements in share capital and share-based payment reserve		7	–	10	–	–	–	10
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

1 Included within retained earnings of £2,173 million (2011: £ 1,493 million) are distributable reserves of £2,137 million (2011: £1,398 million).

		£m
Other reserves	**At 31 December 2012**	At 31 December 2011
Merger reserve	**1,717**	2,532
Share-based payment reserve	**74**	59
Cancellation of treasury shares	**24**	–
Attributable to equity holders of Company at end of the year	**1,815**	2,591

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, note E1. 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 loan and receivables, borrowed funds of which £547 million is designated as fair value through the income statement and £113 million at amortised cost (2011: £637 million and £503 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 the Group Financial Statements, note E1(b)) 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. The principal foreign currency risk arises from the fact that the Company's functional currency is pounds, 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(d). 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 would result in an increase in the Company's equity holders' funds of £31 million (2011: decrease of £297 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 the impact of changes in the fair values of its borrowed funds. Details of the arrangements in place are shown in the Group Financial Statements 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 assets of £460 million (2011: £1,554 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 is presented to the Company's Board of directors on a regular basis.

Further information on liquidity and the Company's cash flows is contained in other sections of this Annual Report, for example the business review and Group Finance Director's statement.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2012

2 Derivative financial instruments

The following tables provide a detailed breakdown of the contractual or notional amounts and the fair values of the Company's derivative financial instruments outstanding at the year-end. These instruments allow the Company to transfer, modify or reduce 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 December 2012		At December 2011	
	Fair values		Fair values	
	Assets	**Liabilities**	Assets	Liabilities
Exchange rate contracts				
Swaps	**10**	**–**	30	–
Forwards	**–**	**8**	–	3
	10	**8**	30	3
Interest rate contracts				
Swaps	**86**	**–**	56	–
Total	**96**	**8**	86	3

The contractual maturities of the derivative liabilities held are as follows:

							£m
At 31 December 2012	**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	**8**	**8**	**–**	**–**	**–**	**–**	**8**
At 31 December 2011							
Derivative financial liabilities	3	3	–	–	–	–	3

3 Borrowed funds

		£m
	At 31 December 2012	At 31 December 2011
Senior debt securities and term loans	**112**	503
Subordinated debt securities	**547**	637
Total borrowed funds	**659**	1,140

		£m
	At 31 December 2012	At 31 December 2011
Fair valued through income statement	**547**	637
Amortised cost	**112**	503
Total borrowed funds	**659**	1,140

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.

	At 31 December 2012	At 31 December 2011 £m
Less than 1 year	**–**	167
Greater than 1 year and less than 5 years	**112**	503
Greater than 5 years	**500**	470
Borrowed funds	**612**	1,140

Additional details of these borrowings and undrawn facilities are included in Group consolidated financial statements in note E9.

4 Other assets

	At 31 December 2012	At 31 December 2011 £m
Other receivables	**27**	31
Corporation tax	**7**	179
Accrued interest and rent	**4**	12
Other prepayments and accrued income	**4**	6
Amounts owed by Group undertakings:		
Amounts falling due within one year	**524**	405
Amounts falling after one year	**1,669**	1,621
Total other assets	**2,235**	2,254

5 Other liabilities

	At 31 December 2012	At 31 December 2011 £m
Accruals and deferred income	**20**	28
Amounts owed to Group undertakings:		
Amounts falling due within one year	**654**	2,711
Amounts falling due after one year	**3,702**	2,645
Total other liabilities	**4,376**	5,384

6 Provisions

	Notes	**At 31 December 2012**	At 31 December 2011 £m
Post-employment benefits	7	**9**	11
Other		**–**	1
Total provisions		**9**	12

For the year ended 31 December 2012

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 (2011: 2) were directly employed by the Company. The costs for these directors and ex-directors are disclosed within the Remuneration Report on pages 99 to 116.

		£m
	Pension plans	
Liability for defined benefit obligations	**Year ended 31 December 2012**	Year ended 31 December 2011
Change in projected benefit obligations		
Projected benefit obligation at beginning of the year	**65**	62
Interest cost on benefit obligations	**3**	3
Benefits paid	**1**	1
Actuarial (losses)	**(1)**	(1)
Projected benefit obligations at end of the year	**68**	65
Change in plan assets		
Plan assets at fair value at beginning of the year	**55**	47
Actual return on plan assets	**3**	5
Benefits paid	**(2)**	(1)
Company contributions	**4**	4
Plan assets at fair value at end of the year	**60**	55
Net liability recognised in balance sheet		
Funded status of plan	**8**	10
Recognised actuarial – gain	**1**	1
Net amount recognised in balance sheet	**9**	11

		£m
	Pension plans	
Expense recognised in the income statement	**Year ended 31 December 2012**	Year ended 31 December 2011
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	**At 31 December 2012**	At 31 December 2011
Equity securities	**40**	35
Debt securities	**58**	63
Other investments	**2**	2

8 Principal subsidiaries

	At 31 December 2012 £m	At 31 December 2011 £m
Balance at beginning of the year	**7,805**	9,373
Acquisitions	**515**	12
Additions	**2,220**	2,501
Disposals	**(160)**	(22)
Impairments	**(2,101)**	(1,975)
Transfer to non-current assets held for sale	**(128)**	(2,084)
Balance at end of the year	**8,151**	7,805

On 17 February 2012, the Company purchased 10,000,000 ordinary "B" shares of USD 1 each of capital in Millpencil Limited for a consideration of $10 million.

On 12 April 2012, the Company purchased 820,000,000 ordinary shares of USD 1 each in Old Mutual Holdings (Bahamas) Limited for consideration of $820 million.

On 16 May 2012, the Company purchased 600,000 ordinary shares of USD 1 each in Old Mutual Reassurance (Ireland) Limited for consideration of $16 million.

On 21 June 2012, the Company received the investment in Old Mutual Finance (IOM) of £1,844 million as a dividend in specie from Skandia UK Limited. On the same date, the Company impaired its investment in Skandia UK Limited by £1,801 million.

On 6 July 2012, the Company completed the sale of Millpencil Limited for consideration of $202 million to OM Group (UK) Limited.

On 20 August 2012, the Company increased its investment in the ordinary share capital of Constantia by £1 million.

On 19 September 2012, the Company increased its investment in Old Mutual Europe GMBH by €429 million.

During December 2012, the Company impaired the investments in Skandia Europe Latin America Holdings by £300 million.

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 2012	Country of incorporation	Class of shares	% interest held
Old Mutual Finance (IOM)	Isle of Man	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
Old Mutual plc Brands AB	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	At 31 December 2012 £m	At 31 December 2011 £m
Kotak Mahindra Old Mutual Life Insurance Limited	India	26	**26**	26

10 Investments and securities

	£m At 31 December 2012	At 31 December 2011
Government and government-guaranteed securities	**167**	–
Total investments and securities	**167**	–

The government and government-guaranteed securities above are all rated AAA. The intention is to hold these investments to maturity.

11 Commitments, guarantees and contingent liabilities

	£m At 31 December 2012	At 31 December 2011
Commitments	**–**	498

The commitments related to letters of credit issued in support of the operations of a subsidiary company. These commitments were cancelled on 5 October 2012.

In February 2008, the Company issued a guarantee to a third-party over a subsidiary's (Old Mutual Bermuda) obligations under the reinsurance contracts relating to the offshore investment products sold by a third-party. The maximum payment under this guarantee is $250 million. This guarantee is accounted for as an insurance contract and payments will only arise should Old Mutual Bermuda be unable to meet its obligations under the relevant reinsurance contracts as they fall due.

12 Related parties

Old Mutual plc enters into transactions with its subsidiaries in the normal course of business. These are principally related to funding of the Group's businesses and head office functions. Details of loans, including balances due from/to the Company 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.

There are no transactions entered into by the Company with associated undertakings.

	£m At 31 December 2012	At 31 December 2011
Balances due from subsidiaries	**2,190**	2,025
Balances due to subsidiaries	**(4,355)**	(5,357)
Balances due from other related parties – Fairbairn Trust Company Limited	**2**	2

Income statement information

	Year ended 31 December 2012			Year ended 31 December 2011		
	Interest paid	**Ordinary dividends received[1]**	**Other amounts paid**	Interest paid	Ordinary dividends received	Other amounts paid
Subsidiaries	**(99)**	**2,873**	**(76)**	(66)	2,911	(76)

1 Dividends received during the year included £1,844 million from Skandia (UK) Limited, being the payment of a dividend in specie of its investment in OMF (IOM) to the Company.

13 Non-current assets held for sale

The Company has entered into a contract to sell Skandia Europe Latin and America Holdings to Old Mutual (South Africa) (Proprietary) Limited. The agreed consideration is R1,784,000,000. As a result of this, the investment Skandia Europe Latin and America Holdings has been classified as held for sale in the statement of financial position for the current year in accordance with IFRS 5.

MCEV

Index to MCEV For the year ended 31 December 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 2012 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 228
- 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

Philip Broadley
Group Finance Director

1 March 2013

MCEV INDEPENDENT AUDITORS' REPORT

to Old Mutual plc on the Market Consistent Embedded Value basis supplementary information

We have audited the Market Consistent Embedded Value (MCEV) basis supplementary information (the supplementary information) of Old Mutual plc (the Company) for the year ended 31 December 2012 set out on pages 224 to 248. 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) using the methodology and assumptions set out on pages 228 to 236. The supplementary information should be read in conjunction with the Group financial statements which are on pages 120 to 211.

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 222, the directors have accepted responsibility for the preparation of 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 in accordance with 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 sufficient to give reasonable assurance that the supplementary information is free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the supplementary information.

In addition we read all the financial and non-financial information in the Old Mutual plc Annual Report to identify material inconsistencies with the audited supplementary information. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the supplementary information

In our opinion, the MCEV basis supplementary information of the Company for the year ended 31 December 2012 has been properly prepared, in all material respects, in accordance with the MCEV Principles using the methodology and assumptions set out on page 228.

Philip Smart
for and on behalf of KPMG Audit Plc
Chartered Accountants
15 Canada Square
London E14 5GL

1 March 2013

ADJUSTED GROUP MCEV BY LINE OF BUSINESS

At 31 December 2012

	Notes	At 31 December 2012	At 31 December 2011
			£m
MCEV of the core covered business (Long-Term Savings)	B3	**5,740**	5,713
Adjusted net worth[1]		**2,284**	2,204
Value of in-force business		**3,456**	3,509
MCEV of the non-core covered business (Old Mutual Bermuda)	B3	**625**	66
Adjusted net worth		**680**	187
Value of in-force business		**(55)**	(121)
MCEV of the discontinued covered business (Nordic)[2]	B3	**–**	1,433
Adjusted net worth		**–**	285
Value of in-force business		**–**	1,148
Adjusted net worth of asset management and other businesses		**1,772**	1,955
Emerging Markets		**444**	499
Old Mutual Wealth		**225**	179
US Asset Management		**1,103**	1,270
Nordic[2]		**–**	7
Value of the banking business		**3,574**	3,286
Nedbank (market value)		**3,527**	2,935
Emerging Markets (adjusted net worth)		**47**	29
Nordic (adjusted net worth)[2]		**–**	322
Value of the general insurance business			
Mutual & Federal (adjusted net worth)		**261**	294
Net other business[3]		**45**	175
Adjustment for present value of Black Economic Empowerment scheme deferred consideration		**245**	270
Adjustment for value of own shares in ESOP schemes[4]		**126**	117
Market value of perpetual preferred securities[5]		**–**	(465)
Market value of perpetual preferred callable securities		**(686)**	(605)
Market value of subordinated debt		**(921)**	(1,445)
Adjusted Group MCEV		**10,781**	10,794
Adjusted Group MCEV per share (pence)		**220.3**	194.1
Number of shares in issue at the end of the financial period less treasury shares – millions[6]		**4,893**	5,562

1 Adjusted net worth is after the elimination of inter-company loans.
2 The sale of the Nordic business unit was completed 21 March 2012.
3 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 inter-company transactions and debt and Old Mutual Bermuda asset management.
4 Includes adjustment for value of excess own shares in employee share scheme trusts.
5 On 24 September 2012, the Group repaid the US$750 million cumulative preference securities at their nominal value.
6 The Group cancelled 239 million treasury shares on 13 January 2012. As part of the disposal of the Nordic business unit, a seven for eight share consolidation was proposed and approved. For adjusted Group MCEV per share, the weighted average number of shares is effective from 23 April 2012.

MCEV

ADJUSTED OPERATING GROUP MCEV STATEMENT OF EARNINGS

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012	£m Year ended 31 December 2011
Long-Term Savings			
Covered business	B2	**454**	714
Asset management and other business		**125**	123
Banking		**15**	15
		594	852
Nedbank			
Banking		**828**	755
Mutual & Federal			
General insurance		**43**	89
US Asset Management			
Asset management		**91**	67
Other operating segments			
Finance costs[1]		**(148)**	(155)
Corporate costs[2]		**(40)**	(43)
Other shareholders' income/(expenses)		**–**	(18)
Adjusted operating Group MCEV earnings before tax from core operations		**1,368**	1,547

1 This includes interest payable from Old Mutual plc to non-core operations of £18 million for the year ended 31 December 2012 (December 2011: £27 million).
2 Central costs of £14 million are allocated to the covered business and provisioned in the VIF (December 2011: £14 million). Hence net corporate costs under MCEV of £40 million (December 2011: £43 million) differ from the IFRS amount of £54 million (December 2011: £57 million).

Significant corporate activities and business changes

Disposal of Nordic business

As previously reported, the Group had agreed at 31 December 2011 to dispose of its life assurance, asset management and banking operations in Sweden, Denmark and Norway to Skandia Liv. Following final regulatory approval, on 8 March 2012, and subsequent shareholder approval, the sale was completed on 21 March 2012. The MCEV earnings of the Nordic business have been categorised as discontinued within the MCEV results and the comparative information has been restated where applicable to reflect this. Nordic has been treated as non-modeled for 2012 reporting purposes with earnings for the period to 21 March 2012 reported on an IFRS basis.

The transaction has resulted in an uplift of £201 million to the adjusted Group MCEV, based on the differences between the purchase price of £2,118 million, the removal of the MCEV balances for the Nordic business unit (VIF: £1,148 million, ANW: £286 million and other non-covered business: £330 million) and further IFRS adjustments of £153 million.

Reporting of Retail Europe within Old Mutual Wealth

On 24 January 2012 the Group announced that it will combine its Old Mutual Wealth Continental Europe business (France and Italy) with the Skandia Retail Europe business unit (Germany, Austria, Poland and Switzerland), for reporting purposes only. As a result the Retail Europe segment is reported as part of the Old Mutual Wealth segment for the year ended 31 December 2012. The comparative information for the year ended 31 December 2011 has been reclassified where applicable to reflect this.

Further, in September 2012, the Group announced the merger of the Skandia businesses (Skandia UK, Skandia International, Old Mutual Global Investors and the Skandia European businesses outside of the Nordic region) into a single business called Old Mutual Wealth.

Old Mutual Bermuda capital resources and requirements

The Bermuda Monetary Authority (BMA) enacted its new Class E Prudential rules in December 2011. In July 2012, it was agreed with the BMA that the Old Mutual Bermuda business should now directly hold capital resources comparable to those we expect to be required under Solvency II, as calculated by the Group's existing internal capital model, which were previously held centrally. The capital requirements have been kept constant since July 2012.

In order to address the increased capital requirements, an injection of £352 million into Old Mutual Bermuda was made on 23 July 2012, comprising £154 million plc loan notes, the transfer of ownership of seed capital in the US asset management business of £161 million and an injection of £37 million cash to purchase US treasuries.

MCEV
ADJUSTED OPERATING GROUP MCEV EARNINGS PER SHARE

For the year ended 31 December 2012

£m

Year ended 31 December 2012	Notes	Core continuing operations	Non-core continuing operations	Discontinued operations	Total
Adjusted operating Group MCEV earnings before tax		**1,368**	**99**	**28**	**1,495**
Covered business	B2	**454**	**99**	**18**	**571**
Other business		**914**	**–**	**10**	**924**
Tax on adjusted operating Group MCEV earnings		**(376)**	**–**	**(3)**	**(379)**
Covered business	B2	**(118)**	**–**	**–**	**(118)**
Other business		**(258)**	**–**	**(3)**	**(261)**
Adjusted operating Group MCEV earnings after tax		**992**	**99**	**25**	**1,116**
Non-controlling interests					
Ordinary shares		**(277)**	**–**	**–**	**(277)**
Preferred securities		**(50)**	**–**	**–**	**(50)**
Adjusted operating MCEV earnings after tax attributable to equity holders		**665**	**99**	**25**	**789**
Adjusted operating Group MCEV earnings per share[1]		**13.2**	**2.0**	**0.5**	**15.7**
Adjusted weighted average number of shares – millions					**5,029**

£m

Year ended 31 December 2011	Notes	Core continuing operations	Non-core continuing operations	Discontinued operations	Total
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[1]		15.9	0.9	2.6	19.4
Adjusted weighted average number of shares – millions					5,435

[1] 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.

MCEV

GROUP MARKET CONSISTENT EMBEDDED VALUE STATEMENT OF EARNINGS

For the year ended 31 December 2012

	Notes	**Year ended 31 December 2012** £m	Year ended 31 December 2011 £m
Adjusted operating Group MCEV earnings before tax from core operations		**1,368**	1,547
Adjusted operating Group MCEV earnings before tax from Old Mutual Bermuda non-core operations		**99**	48
Adjusted operating Group MCEV earnings before tax from continuing operations[1]		**1,467**	1,595
Adjusting items from continuing operations	C2	**486**	(437)
Total Group MCEV earnings before tax from continuing operations		**1,953**	1,158
Income tax attributable to shareholders		**(490)**	(168)
Total Group MCEV earnings after tax from continuing operations		**1,463**	990
Total Group MCEV earnings after tax from discontinued operations		**600**	(15)
MCEV earnings after tax from discontinued operations[2]		**6**	(15)
Group MCEV uplift from sale of Nordic		**201**	–
Other Group adjustments related to the Nordic disposal[3]		**393**	–
Total Group MCEV earnings after tax for the financial year		**2,063**	975
Total Group MCEV earnings for the financial period attributable to:			
Equity holders of the parent		**1,749**	674
Non-controlling interests			
Ordinary shares		**264**	239
Preferred securities		**50**	62
Total Group MCEV earnings after tax for the financial year		**2,063**	975
Basic total Group MCEV earnings per ordinary share (pence)		**36.7**	13.1
Weighted average number of shares – millions		**4,768**	5,136

1 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.

2 For Nordic, these are composed of earnings before tax of £28 million (2011: £173 million), adjusting items of £(20) million (2011: £(161) million) and tax of £(2) million (2011: £(27) million).

3 Included in Other Group adjustments related to the Nordic disposal is £350 million related to the realisation of foreign exchange reserve on disposal. This was previously included in equity translation reserves.

Reconciliation of movements in Group and Adjusted Group MCEV (after tax)

£m

	Notes	**Year ended 31 December 2012**			Year ended 31 December 2011		
		Covered business MCEV	**Non-covered business IFRS**	**Total Group MCEV**	Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Opening Group MCEV		**7,212**	**2,516**	**9,728**	7,515	2,386	9,901
Adjusted operating MCEV earnings	B4	**453**	**336**	**789**	727	328	1,055
Non-operating MCEV earnings		**473**	**487**	**960**	(331)	(50)	(381)
Total Group MCEV earnings		**926**	**823**	**1,749**	396	278	674
Other movements in IFRS net equity	C3	**(1,773)**	**(512)**	**(2,285)**	(699)	(148)	(847)
Closing Group MCEV		**6,365**	**2,827**	**9,192**	7,212	2,516	9,728
Adjustments to bring Group investments to market value	B1	**–**	**1,589**	**1,589**	–	1,066	1,066
Adjusted Group MCEV		**6,365**	**4,416**	**10,781**	7,212	3,582	10,794

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2012

A: MCEV policies

A1: Basis of preparation

The Market Consistent Embedded Value methodology (referred to herein and in the supplementary statements on pages 224 to 248 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 Principles have been materially complied with for all businesses at 31 December 2012. The detailed methodology and assumptions made in presenting this supplementary information are set out in notes A2 and A3.

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
- 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.

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 is the market value of shareholders' assets held in respect of the covered business after allowance for the liabilities 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, ie expected future profit for this business is not capitalised for MCEV reporting purposes.

For December 2011 comparatives, the covered business does not include any business written in Skandia Liv, a mutual life insurance company then part of the Group.

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. 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, ie 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 and Old Mutual Wealth, capital determined with reference to internal management objectives is the most onerous and is he capital measure used, whilst for Nordic the regulatory capital requirement was the most onerous in 31 December 2011 comparatives. For Old Mutual Bermuda the required capital is equal to regulatory capital, which is a change from December 2011, where internal capital (ie the adjusted net worth) was used.

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.

The table below shows the level of required capital expressed as a percentage of the minimum local regulatory capital requirements.

							£m
		At 31 December 2012			At 31 December 2011		
	Notes	**Required capital (a)**	**Regulatory capital (b)**	**Ratio (a/b)**	Required capital (a)	Regulatory capital (b)	Ratio (a/b)
Emerging Markets	B3	**1,312**	**923**	**1.4**	1,368	1,012	1.4
Old Mutual Wealth[1]	B3	**294**	**212**	**1.4**	314	241	1.3
Old Mutual Bermuda[2]	B3	**433**	**433**	**1.0**	187	77	2.4
Nordic	B3	**n/a**	**n/a**	**n/a**	127	127	1.0
Total		**2,039**	**1,568**	**1.3**	1,996	1,457	1.4

1 Local regulators within many of the Old Mutual Wealth 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.

2 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 transition period for the new capital requirement (50% for financial year 2011). The required capital calculated on this statutory basis was approximately £77 million at 31 December 2011. In July 2012 it was agreed with the BMA that Old Mutual Bermuda business should hold capital resources of £433 million, comparable to those expected to be required under Solvency II, as calculated by the Group's existing internal capital model. The capital requirement is held at a fixed amount between statutory filing dates and the July 2012 requirement has therefore been kept constant for 31 December 2012.

A: MCEV policies continued

A2: Methodology continued

(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. This is also known as a deterministic certainty equivalent valuation of future distributable earnings, and 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 (ie asymmetric impact), on future shareholder cash flows of policyholder financial options and guarantees within the in-force covered business.

The time value of financial options and guarantees describes that part of the value of financial options and guarantees that arises from the variability of future investment returns on assets to the extent that it is not already included in the statutory reserves. The calculations are based on market consistent stochastic modeling techniques where the actual assets held at the valuation date are used as the starting point for the valuation of such financial options and guarantees. Projected cash flows are valued using economic assumptions such that they are valued in line with the price of similar cash flows that are traded in the capital markets. The time value represents the difference between the average value of shareholder cash flows under many generated economic scenarios and the deterministic shareholder value under the best estimate assumptions for the equivalent business. Closed form solutions are also applied in Europe, provided the nature of any guarantees is not complex.

The time value of financial options and guarantees also includes allowance for potential burn-through costs on participating business, ie the extent to which shareholders are unable to recover a loan made to participating funds to meet either regulatory or internal capital management requirements or the extent to which reserves are inadequate to meet benefit payments during periods of severely adverse experience.

In the generated economic scenarios allowance is made, where appropriate, for the effect of dynamic management and/or policyholder actions in different circumstances:

- Management has some discretion in managing exposure to financial options and guarantees, particularly within participating business. Such dynamic management actions are reflected in the valuation of financial options and guarantees provided that such discretion is consistent with established and justifiable practice taking into account policyholders' reasonable expectations (eg with due consideration of the Principles and Practices of Financial Management (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 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
- Modeled dynamic management and policyholders' actions include the following:
  - changes in future bonus 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 Old Mutual Bermuda business, 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, an appropriate number of simulations are run to ensure that a reasonable degree of convergence of results has been obtained.

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 at 31 December 2012 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.

Old Mutual 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 entities within the Group. Where material, an allowance has been made for the frictional costs in respect of the taxation on investment return (income and capital gains) and investment costs on the assets backing the required capital for covered business. The allowance for taxation is based on the taxation rates applicable to investment earnings on assets backing the required capital, although such tax rates are reduced, where applicable, to allow for interest paid on debt which is used partly to finance the required capital.

The run-off pattern of the required capital is projected on an approximate basis over the lifetime of the underlying risks in line with drivers of the capital requirement. The same drivers are used to split the total required capital between existing business and new business.

The allowance for frictional costs is independent of the allowance for the cost of residual non-hedgeable risks as described below.

(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 modeling of some non-hedgeable non-financial risks is incorporated as part of the calculation of the PVFP (eg to the extent that expected operational losses are incorporated in the maintenance expense assumptions) or the time value of financial options and guarantees (eg dynamic policyholder behaviour such as the interaction of the investment scenario and the persistency rates). Residual non-financial risks include, for example, liability risks such as mortality, longevity and morbidity risks; business risks such as persistency, expense and reinsurance credit risks; and operational risk.

For Old Mutual Bermuda, in addition to the allowance for residual non-hedgeable risks, CNHR includes an allowance for hedge ineffectiveness risk and credit spread risk, which are not modeled in the PVFP or TVOG calculations.

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, ie commensurate upside and downside impacts, with the exception of operational risk.

The CNHR is calculated using a cost of capital approach, ie it is determined as the present value of capital charges for all future non-hedgeable risk capital requirements until the liabilities have run off. The capital charge in each year is the product of the projected expected non-hedgeable risk capital held after allowance for some diversification benefits and the cost of capital 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 capital model based on appropriate shock scenarios consistent with a 99.5% confidence level over a one-year time horizon, using the same approach when calculating economic capital at a 99.93% confidence level. The internal capital model makes allowance for certain management actions, such as reductions in bonus rates, where deemed appropriate. The residual non-hedgeable risk capital makes an allowance for non-linearities between financial and non-hedgeable risks.

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.

A cost of capital charge 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 rate is derived by considering a market-based view of required return on equity for the covered business, and then deducting risk-free investment returns, frictional costs and an allowance for franchise value. This translates into an equivalent cost of capital rate of approximately 2.4% being applied to the Group diversified capital required in respect of such non-hedgeable risks.

A: MCEV policies continued

A2: Methodology continued

(j) Participating business
For participating business in Emerging Markets and Old Mutual Bermuda, the method of valuation makes assumptions about future bonus 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 pay-out 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) 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.

(l) Asset mix
The time value of financial options and guarantees and PVFP (where relevant) is 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.

(m) 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.

(n) Look through principle
PVFP and value of new business cash flow projections look through and include the profits/losses of owned service companies, eg distribution and administration, related to the management of the covered business. Any profit margins that are included in investment management fees payable by the life assurance companies to the asset management subsidiaries have not been included in the value of in-force business or the value of new business on the grounds of materiality.

(o) 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.

United Kingdom
The Emergency Budget that was held in June 2010 stated that the UK's mainstream corporation tax rate would be reduced from its current level of 28% down to 24% in annual 1% steps. Following that, there were further announcements for additional reductions (down to 22%), and accelerations of these reductions. The reduction to 25%, effective from April 2012, has been allowed for in the December 2011 results. The December 2012 results allow for an additional 1% reduction to 24%, effective from April 2012 and the further 1% reduction to 23%, effective from April 2013. This additional 2% reduction amounts to £8 million in the December 2012 results. The impact of the remaining reduction from 23% down to 21%, applicable from April 2014, is expected to be £7 million.

South Africa
A new dividend withholding tax system (replacing the current Secondary Tax on Companies (STC) system) was introduced in South Africa effective from 1 April 2012. This was reflected in the results at 31 December 2011, ie no allowance was made for future dividend withholding tax in the MCEV, with the exception of dividend withholding tax on the remittance of dividends to Old Mutual plc, as the actual level of taxation would depend on the legal status of each shareholder.

Allowance has now been made for dividend withholding tax on dividends earned in the policyholder funds as well as allowing for the increase in capital gains tax in policyholder funds. The average effective tax rate remains unchanged at 28%.

(p) 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 IFRS value of total debt is £1,570 million (2011: £2,539 million) and MCEV value is £1,607million (2011: £2,515 million). $750 million perpetual preferred securities were repaid in 2012.

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 £96 million (2011: £86 million) has not been included in the value of debt; however, it is included in the Net other business value of £45 million (2011: £175 million) (Adjusted Group MCEV by line of business). Further information relating to the debt securities can be found in Note E1 in the Notes to the Consolidated Financial Statements.

(q) 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 predefined and is reasonably predictable, and changes to existing contracts where there are not variations allowed for in the PVFP. Non-contractual increments are treated similarly where the volume of such increments is reasonably predictable or likely (eg where premiums are expected to increase in line with salary or price inflation).

Any variations in premiums on renewal of in-force business from that previously anticipated, including deviations in non-contractual increases, deviations in recurrent single premiums and repricing 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 products where point of sale assumptions are used
- 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 stand-alone 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. Strategic business development expenses are excluded
- 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.

(r) 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 include the release of required capital and modeled 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

For the year ended 31 December 2012

A: MCEV policies continued

A2: Methodology continued

(r) Analysis of MCEV earnings continued

- Operating experience variances reflect the impact of deviations of the actual operational experience during the reporting period from the expected operational experience. It is analysed before operating assumption changes, ie such variances are assessed against opening operating assumptions, and reflects the total impact of in-force and new business variances
- Operating assumption changes incorporate the impact of changes to operating assumptions from those assumed at the beginning of the reporting period to those assumed at the end of the reporting period. As VNB is calculated using operating assumptions at the end of the reporting period, this impact only relates to the value of in-force business at the end of the reporting period that was also in-force at the beginning of the reporting period
- Other operating variances include model improvements, changes in methodology and the impact of certain management actions, such as a change in the asset allocation backing required capital
- Total MCEV earnings also include economic variances and other non-operating variances:
  - Economic variances incorporate the impact of changes in economic assumptions from the beginning of the reporting period to the end of the reporting period (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.

Return on MCEV for covered business is calculated as the operating MCEV earnings after tax divided by opening MCEV in local currency, except for Old Mutual Wealth, core covered business 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 2012 (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 for comparability against current year earnings, the average exchange rates over 2012 are used. Therefore the expected existing business contribution for the financial year ending 31 December 2013 ultimately reflected in the 2013 financial statements may differ from these results.

(s) Group MCEV presentation

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 US Asset Management that is valued at IFRS NAV, allowing for the value of the loan note held with Old Mutual plc. A mark to market adjustment is not performed for external borrowings and other items not on a mark to market basis under IFRS relating to non-covered business.

A3: Assumptions

Non-economic assumptions

The appropriate non-economic projection assumptions for future experience (eg mortality, persistency and expenses), are determined using best estimate assumptions of each component of future cash flows, are specific to the entity concerned and have regard to past, current and expected future experience where sufficient evidence exists (eg longevity improvements and AIDS-related claims), as derived from both entity-specific and industry data where deemed appropriate. Material assumptions are actively reviewed by means of detailed experience investigations and updated, as deemed appropriate, at least annually.

These assumptions are based on the covered business being part of a going concern, although favourable changes in maintenance expenses such as productivity improvements are generally not included beyond what has been achieved by the end of the reporting period, apart from certain development expenses (described below). Expense assumptions for run-off businesses consider cost reductions in future in line with management actions that would be taken as in-force volumes decrease.

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
- MCEV makes provision for future development costs and one-off expenses relating to covered business that are known with sufficient certainty, based on three-year business plans. The provision is reduced to the extent that projects have associated benefits that are directly quantifiable and are considered to emerge within a reasonable timeframe (eg over the business plan period)
- Unallocated Group holding company expenses have been included to the extent that they are allocated to the covered business. The table below shows the future expenses attributable to the long-term business. The allocation of these expenses is based on the proportion that the management expenses incurred by the covered businesses bears to the total management expenses incurred by the Group.

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 incurred in any year. As such, in the 31 December 2011 VIF calculation, Skandia Leben (Germany) made allowance for the acquisition expenses in relation to the new business written over the next three years when setting the best estimate assumptions for the profit to be shared with policyholders in future years. As the business has been placed in run-off during 2012, acquisition expenses have not been incorporated into profit-sharing assumptions at 31 December 2012.

Proportion of Group holding company expenses attributable to long-term business	**At 31 December 2012**	At 31 December 2011
		%
Emerging Markets	**18**	17
Old Mutual Wealth	**9**	8
Old Mutual Bermuda[1]	**n/a**	n/a
Nordic	**n/a**	3
Total	**27**	28

[1] Based on materiality, no Group holding expenses are allocated to Old Mutual Bermuda.

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 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 Old Mutual 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 it is checked for reasonability relative to the Bloomberg swap yield curve.

At 31 December 2012, 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 businesses. 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 2012 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 2012 by adding 50bps of liquidity premium for this business (2011: 50bps) to the swap rates used for setting investment return and discounting assumptions. For OMLAC(SA)'s fixed bond products 45bps of liquidity premium was added to the swap rates (2011: 50bps). 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 premiums at 31 December 2012, we compared the yields of similar durations on South African government bonds and bonds issued by state-owned enterprises. At those durations where swap yields are not available, eg due to lack of a sufficiently liquid or deep swap market, the swap curve is extended using appropriate interpolation or extrapolation techniques.

The risk-free reference spot yields (excluding any applicable liquidity adjustments) 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.

Expense inflation rates have been derived by comparing real rates of return against nominal risk-free rates for each territory, with adjustments for higher business unit specific inflation where applicable.

For the year ended 31 December 2012

A: MCEV policies continued

A3: Assumptions continued

Risk-free reference spot yields (excluding any applicable liquidity adjustments)

	POUNDS	EUR	USD	ZAR	SEK %
At 31 December 2012					
1 year	**0.7**	**0.3**	**0.3**	**5.1**	**n/a**
5 years	**1.0**	**0.8**	**0.9**	**6.0**	**n/a**
10 years	**1.9**	**1.6**	**1.9**	**7.1**	**n/a**
20 years	**2.9**	**2.2**	**2.8**	**7.5**	**n/a**
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

(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 Old Mutual Bermuda, implied volatilities and correlations are determined for each global equity and bond index modeled.

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.

(c) Exchange rates
All MCEV figures are calculated in local currency and translated to pounds using the appropriate exchange rates as detailed in Note A1 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 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 3.7% for Africa (2011: 3.5%) and 3% for Europe
- The cash return equals the one year risk free reference rate for all regions
- The property risk premium is 1.5% in Africa and 2% in Europe
- Returns on corporate bonds reference actual yields from assets held
- No risk premium is assumed for Old Mutual Bermuda's variable annuity policyholder asset portfolios.

B: Segment information

B1: Components of Group MCEV and Adjusted Group MCEV

	Notes	At 31 December 2012 £m	At 31 December 2011 £m
Adjusted net worth attributable to ordinary equity holders of the parent		**5,791**	5,193
Equity		**7,833**	8,488
Adjustment to IFRS net asset value	C4	**(1,360)**	(2,607)
Adjustment to remove perpetual preferred callable securities		**(682)**	(688)
Value of in-force business	B3	**3,401**	4,535
Present value of future profits		**3,946**	5,248
Additional time value of financial options and guarantees		**(53)**	(136)
Frictional costs		**(221)**	(243)
Cost of residual non-hedgeable risks		**(271)**	(334)
Group MCEV		**9,192**	9,728
Adjustments to bring Group investments to market value			
Adjustment to bring listed subsidiary (Nedbank) to market value		**1,255**	655
Adjustment for value of own shares in ESOP schemes[1]		**126**	117
Adjustment for present value of Black Economic Empowerment scheme deferred consideration		**245**	270
Adjustment to bring external debt to market value		**(37)**	24
Adjusted Group MCEV		**10,781**	10,794
Group MCEV value per share (pence)		**187.9**	174.9
Adjusted Group MCEV per share (pence)		**220.3**	194.1
Number of shares in issue at the end of the financial period less treasury shares – millions		**4,893**	5,562
Return on Group MCEV (RoEV) per annum from core operations		**6.8%**	8.8%
Return on Group MCEV (RoEV) per annum from continuing non-core operations		**1.0%**	0.5%
Return on Group MCEV (RoEV) per annum from discontinued operations		**0.3%**	1.4%
Return on Group MCEV (RoEV[2]) per annum		**8.1%**	10.7%

1 Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2011 and 31 December 2012 is the net effect of the increase in the Old Mutual plc share price, the reduction in excess own shares following employee share grants during the period 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.
2 The RoEV is calculated as the adjusted operating Group MCEV earnings after tax and non-controlling interests of £789 million (2011: £1,055 million) divided by the opening Group MCEV.

For the year ended 31 December 2012

B: Segment information continued

B2: Adjusted operating MCEV earnings for the covered business

£m

Year ended 31 December 2012	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Adjusted operating Group MCEV earnings before tax	**571**	**454**	**459**	**(5)**	**99**	**18**
Tax on adjusted operating Group MCEV earnings	**(118)**	**(118)**	**(131)**	**13**	**–**	**–**
Adjusted operating Group MCEV earnings after tax	**453**	**336**	**328**	**8**	**99**	**18**

£m

Year ended 31 December 2011	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Adjusted operating Group MCEV earnings before tax	918	714	468	246	48	156
Tax on adjusted operating Group MCEV earnings	(191)	(162)	(119)	(43)	(1)	(28)
Adjusted operating Group MCEV earnings after tax	727	552	349	203	47	128

B3: Components of MCEV of the covered business

£m

At 31 December 2012	Total covered business	Core covered business	Emerging Markets[1]	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Adjusted net worth	**2,964**	**2,284**	**1,818**	**466**	**680**	**–**
Free surplus	**925**	**678**	**506**	**172**	**247**	**–**
Required capital	**2,039**	**1,606**	**1,312**	**294**	**433**	**–**
Value of in-force	**3,401**	**3,456**	**1,478**	**1,978**	**(55)**	**–**
Present value of future profits	**3,946**	**3,950**	**1,828**	**2,122**	**(4)**	**–**
Additional time value of financial options and guarantees	**(53)**	**(14)**	**–**	**(14)**	**(39)**	**–**
Frictional costs	**(221)**	**(220)**	**(207)**	**(13)**	**(1)**	**–**
Cost of residual non-hedgeable risks	**(271)**	**(260)**	**(143)**	**(117)**	**(11)**	**–**
MCEV	**6,365**	**5,740**	**3,296**	**2,444**	**625**	**–**

£m

At 31 December 2011	Total covered business	Core covered business	Emerging Markets[1]	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Adjusted net worth	2,676	2,204	1,768	436	187	285
Free surplus	680	522	400	122	–	158
Required capital	1,996	1,682	1,368	314	187	127
Value of in-force	4,536	3,509	1,399	2,110	(121)	1,148
Present value of future profits	5,248	4,001	1,740	2,261	36	1,211
Additional time value of financial options and guarantees	(136)	(14)	–	(14)	(122)	–
Frictional costs	(243)	(236)	(218)	(18)	(2)	(5)
Cost of residual non-hedgeable risks	(333)	(242)	(123)	(119)	(33)	(58)
MCEV	7,212	5,713	3,167	2,546	66	1,433

[1] 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.

B4: Analysis of covered business MCEV earnings (after tax)

£m

Total covered business	Year ended 31 December 2012 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2011 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**680**	**1,996**	**2,676**	**4,536**	**7,212**	507	2,844	3,351	4,164	7,515
New business value	**(293)**	**163**	**(130)**	**327**	**197**	(444)	187	(257)	490	233
Expected existing business contribution (reference rate)	**20**	**71**	**91**	**156**	**247**	17	65	82	179	261
Expected existing business contribution (in excess of reference rate)	**3**	**29**	**32**	**49**	**81**	7	34	41	87	128
Transfers from VIF and required capital to free surplus	**695**	**(216)**	**479**	**(479)**	**–**	943	(236)	707	(707)	–
Experience variances	**(14)**	**17**	**3**	**6**	**9**	10	30	40	111	151
Assumption changes	**34**	**(7)**	**27**	**7**	**34**	23	4	27	1	28
Other operating variance	**(26)**	**18**	**(8)**	**(107)**	**(115)**	188	(205)	(17)	(57)	(74)
Operating MCEV earnings	**419**	**75**	**494**	**(41)**	**453**	744	(121)	623	104	727
Economic variances	**258**	**3**	**261**	**259**	**520**	(221)	(22)	(243)	(214)	(457)
Other non-operating variance	**(284)**	**240**	**(44)**	**(3)**	**(47)**	32	1	33	93	126
Total MCEV earnings	**393**	**318**	**711**	**215**	**926**	555	(142)	413	(17)	396
Closing adjustments	**(148)**	**(275)**	**(423)**	**(1,350)**	**(1,773)**	(382)	(706)	(1,088)	389	(699)
Capital and dividend flows	**26**	**(3)**	**23**	**1**	**24**	(243)	55	(188)	–	(188)
Foreign exchange variance	**(54)**	**(145)**	**(199)**	**(139)**	**(338)**	(75)	(312)	(387)	(306)	(693)
MCEV of sold business	**(120)**	**(127)**	**(247)**	**(1,212)**	**(1,459)**	(64)	(449)	(513)	695	182
Closing MCEV	**925**	**2,039**	**2,964**	**3,401**	**6,365**	680	1,996	2,676	4,536	7,212
Return on MCEV (RoEV)% per annum					**6.3%**					9.7%

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 2012 Adjusted net worth	Value of in-force	MCEV	Year ended 31 December 2011 Adjusted net worth	Value of in-force	MCEV
Experience variances	**3**	**6**	**9**	40	111	151
Persistency	**51**	**10**	**61**	20	84	104
Risk	**52**	**–**	**52**	43	4	47
Expenses	**(91)**	**11**	**(80)**	(44)	13	(31)
Other	**(9)**	**(15)**	**(24)**	21	10	31
Assumption changes	**27**	**7**	**34**	27	1	28
Persistency	**12**	**(25)**	**(13)**	21	40	61
Risk	**13**	**37**	**50**	–	8	8
Expenses	**12**	**(3)**	**9**	(7)	(99)	(106)
Other	**(10)**	**(2)**	**(12)**	13	52	65

£m

	Year ended 31 December 2013 Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	**17**	**55**	**72**	**143**	**215**
Expected existing business contribution (in excess of reference rate)	**5**	**25**	**30**	**45**	**75**

B: Segment information continued

B5: Analysis per business unit

£m

	Year ended 31 December 2012					
	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Opening MCEV	**7,212**	**5,713**	**3,167**	**2,546**	**66**	**1,433**
New business value	197	197	135	62	–	–
Expected existing business contribution (reference rate)	247	239	193	46	8	–
Expected existing business contribution (in excess of reference rate)	81	55	32	23	26	–
Experience variances	9	(48)	(29)	(19)	39	18
Assumption changes	34	5	34	(29)	29	–
Other operating variance	(115)	(112)	(37)	(75)	(3)	–
Operating MCEV earnings	**453**	**336**	**328**	**8**	**99**	**18**
Economic variances	520	403	281	122	117	–
Other non-operating variance	(47)	(29)	(26)	(3)	–	(18)
Total MCEV earnings	**926**	**710**	**583**	**127**	**216**	**–**
Closing adjustments	(1,773)	(683)	(454)	(229)	343	(1,433)
Capital and dividend flows	24	(336)	(147)	(189)	360	–
Foreign exchange variance	(338)	(322)	(307)	(15)	(17)	1
MCEV of acquired/sold business	(1,459)	(25)	–	(25)	–	(1,434)
Closing MCEV	**6,365**	**5,740**	**3,296**	**2,444**	**625**	**–**
Return on MCEV (RoEV)% per annum	**6.3%**	**5.9%**	**10.7%**	**0.3%**	**154.0%**	**1.3%**

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV. This is calculated in local currency, apart from total covered and core covered business, which are calculated in sterling. Discontinued covered business relates to Nordic.

Transfers from VIF and required capital to free surplus

£m

Year ended 31 December 2012	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Transfer from value of in-force	(479)	(540)	(220)	(320)	61	–
Transfer from required capital	(216)	(190)	(153)	(37)	(26)	–
Transfer to free surplus	695	730	373	357	(35)	–

£m

Year ended 31 December 2012	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Experience variances	9	(48)	(29)	(19)	39	18
Persistency	61	22	(1)	23	39	–
Risk	52	52	46	6	–	–
Expenses	(80)	(82)	(41)	(41)	2	–
Other	(24)	(40)	(33)	(7)	(2)	18
Assumption changes	34	5	34	(29)	29	–
Persistency	(13)	(32)	(6)	(26)	19	–
Risk	50	50	49	1	–	–
Expenses	9	(11)	(9)	(2)	20	–
Other	(12)	(2)	–	(2)	(10)	–

£m

	Year ended 31 December 2011					
	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Opening MCEV	7,515	5,913	3,313	2,600	287	1,315
New business value	233	177	99	78	–	56
Expected existing business contribution (reference rate)	261	211	174	37	8	42
Expected existing business contribution (in excess of reference rate)	128	57	30	27	38	33
Experience variances	151	130	102	28	24	(3)
Assumption changes	28	40	6	34	(8)	(4)
Other operating variance	(74)	(63)	(62)	(1)	(15)	4
Operating MCEV earnings	727	552	349	203	47	128
Economic variances	(457)	(7)	32	(39)	(261)	(189)
Other non-operating variance	126	89	93	(4)	–	37
Total MCEV earnings	396	634	474	160	(214)	(24)
Closing adjustments	(699)	(834)	(620)	(214)	(7)	142
Capital and dividend flows	(188)	(177)	12	(189)	–	(11)
Foreign exchange variance	(693)	(657)	(632)	(25)	(7)	(29)
MCEV of acquired/sold business	182	–	–	–	–	182
Closing MCEV	7,212	5,713	3,167	2,546	66	1,433
Return on MCEV (RoEV)% per annum	9.7%	9.3%	11.9%	7.8%	17.0%	8.5%

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV. This is calculated in local currency, apart from total covered and core covered business, which are calculated in sterling. Discontinued covered business RoEV relates to Nordic.

Transfers from VIF and required capital to free surplus

£m

Year ended 31 December 2011	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Transfer from value of in-force	(707)	(569)	(209)	(360)	(9)	(129)
Transfer from required capital	(236)	(179)	(150)	(29)	(57)	–
Transfer to free surplus	943	748	359	389	66	129

£m

Year ended 31 December 2011	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Experience Variances	151	130	102	28	24	(3)
Persistency	104	79	56	23	22	3
Risk	47	46	38	8	–	1
Expenses	(31)	(24)	(9)	(15)	3	(10)
Other	31	29	17	12	(1)	3
Assumption changes	28	40	6	34	(8)	(4)
Persistency	61	47	55	(8)	20	(6)
Risk	8	8	–	8	–	–
Expenses	(106)	(80)	(49)	(31)	(26)	–
Other	65	65	–	65	(2)	2

B: Segment information continued

B5: Analysis per business unit continued

Results highlights

Core covered business

- Strong value of new business growth in Emerging Markets due to good volumes and an improvement in the mix of business leading to higher margins
- A significant portion of expense losses include one-off non-development costs of £(44) million incurred in Emerging Markets and Old Mutual Wealth
- Favourable equity and bond market performance has led to positive economic variances in Emerging Markets and Old Mutual Wealth
- The 10% depreciation of the rand against sterling over 2012 has led to foreign exchange translation losses in MCEV closing adjustments
- A significant portion of the continental European business has now closed to new business, with resulting changes to expense, lapse and profit-sharing assumptions (German PHP business) reducing the MCEV now recognised for these businesses.

Non-core covered business (Old Mutual Bermuda)

- Very favourable persistency experience on the Old Mutual Bermuda variable annuity book of business, leading to positive assumption changes
- Capital has been transferred to Old Mutual Bermuda to meet the enhanced capital requirements of the Bermuda Monetary Authority (BMA)
- The expiration of the five-year guarantees, higher than expected lapses, lapse assumption changes and favourable market performance has led to a significant reduction in variable annuity guarantee reserves.

New business

Emerging Markets: VNB increased by 36% due to higher volumes and margins (mix of business, repricing of certain products and favourable assumption changes), partially offset by the rand depreciation over 2012. There have been strong recurring premium sales in Mass Foundation Cluster and single premium annuity sales in Corporate segment. However, covered single premium savings sales in Retail Affluent and Corporate segment have lagged in 2012 although non-covered single premium savings sales have improved significantly.

Old Mutual Wealth: Following the cessation of significant parts of uneconomic product lines as a result of business restructuring initiatives, there have been lower covered sales in the UK. International sales were affected by regulatory changes that were overcome in the fourth quarter of 2012.

Transfers from the value of in-force business

Old Mutual Wealth: Lower expected transfers in 2012 are mainly as a result of the run-off of closed books and the sale of the Finnish business.

Non-core covered (Old Mutual Bermuda): The large negative expected transfer in 2012 is a result of the anticipated loss in fee income from the significant number of variable annuity surrenders post the five-year guarantee top-up point and the anticipated amortisation of deferred acquisition costs resulting from the business run-off.

Experience variances and operating assumption changes

Emerging Markets: Positive risk experience from Retail Affluent and Mass Foundation Cluster products continued in 2012, with positive assumption changes of £49 million reflecting some of this experience. Other experience losses mainly relate to higher than anticipated taxation in 2012. Experience variances also include an investment of £18 million in the development of our franchise in African countries and Mexico, as well as the development cost of new strategic capabilities, and also expenses of a one-off nature (including IT project expenditure) of £28 million.

Old Mutual Wealth: The positive persistency experience is mainly a result of a lower than anticipated number of surrenders in the UK Legacy savings business in the run-up to the Retail Distribution Review (RDR). Negative persistency assumption changes relate mainly to a reduction in anticipated lapses on protection products at later durations of £(11) million and the anticipated increase in surrenders of products in Germany and Austria of £(7) million, consistent with recent experience. Expense losses include one-off restructuring costs of £16 million as well as investments of £19 million in development initiatives in Platform and International businesses.

Non-core covered (Old Mutual Bermuda): Positive persistency profits reflect better than expected 5-year anniversary surrender experience on variable annuity products. Non-Hong Kong Universal Guarantee Option (UGO) business experienced a 79% surrender rate and the Hong Kong UGO business experienced a 63% lapse rate since these businesses entered the top-up period. In light of this experience, surrender assumptions have been increased for policies that are yet to reach their five-year anniversary (£20 million impact). Positive expense assumption changes of £19 million reflect reduced aggregate expenses needed to meet the remaining obligations of the business. Other assumption changes of £(10) million are mainly driven by a reduction in rebate income as underlying client portfolios reach sub-scale levels.

Discontinued (Nordic): Experience variances reflect accrued IFRS profits during the year prior to the sale of the business.

Other operating variances
Emerging Markets: Other operating variances mainly reflect the impact of a management decision to utilise the future profit stream arising from unclaimed benefits to fund an advisor training academy, and to enhance the surrender values on old generation reversionary bonus policies.

Old Mutual Wealth: Other operating variances include the £(73) million impact of the management action to place the German and Austrian businesses into run-off. Setting expense assumptions on a run-off basis for these businesses reduced MCEV by £(26) million and a change in profit-sharing assumptions for the German PHP business reduced MCEV by £(47)million. Variances also include the release of development provisions of £17 million (change in methodology to recognise project benefits as well as costs where benefits are directly quantifiable and emerge within a reasonable timeframe) and CNHR modeling changes.

Economic variances
Emerging Markets: Significant positive economic variances have emerged from better than expected investment returns (favourable equity, bond and credit market performance), together with the reduction in the swap yield curve, which has increased the VIF.

Old Mutual Wealth: Significantly positive economic variances have emerged from better than expected policyholder fund performance over 2012 due to better than expected equity and bond market returns.

Non-core covered (Old Mutual Bermuda): The positive variance resulting in significantly lower variable annuity guarantee reserves is mainly due to positive equity market performance, and reduced volatilities, partially offset by lower short- to medium-term interest rates.

Other non-operating variances
Emerging Markets: Other non-operating variances consist mainly of modeling changes to incorporate the new South African dividend withholding tax regime, and higher capital gains tax, in the calculation of policyholder investment returns in MCEV models.

Closing adjustments
Emerging Markets: Capital and dividend flows include the net impact of dividends paid of £(130) million, the purchase of Africa operations from Old Mutual plc of £(92) million, the transfer of net asset value of the Zimbabwe and Namibian holding companies from non-covered business of £135 million and the Zimbabwe indigenisation costs of £(34) million. The negative foreign exchange variance reflects the 10% depreciation of the rand over the period (pounds/ZAR exchange rate increased from 12.56 at 31 December 2011 to 13.77 at 31 December 2012).

Old Mutual Wealth: Closing adjustments include the impact of the sale of the Finnish business £(25) million.

Non-core covered (Old Mutual Bermuda): The positive capital and dividend flows of £360 million include £352 million relating to the transfer of capital to this business (in the form of additional Old Mutual plc loan notes and other assets) to enable it to meet the new enhanced capital requirements of the Bermuda Monetary Authority (BMA).

NOTES TO THE MCEV BASIS SUPPLEMENTARY INFORMATION

For the year ended 31 December 2012

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. Old Mutual Bermuda is excluded from the tables below as it is closed to new business.

£m

Year ended 31 December 2012	Annualised recurring premiums	Single premiums	PVNBP	PVNBP capitalisation factors[1]	APE	VNB	PVNBP margin	APE margin
Core covered business	**517**	**5,953**	**8,665**	**5.2**	**1,112**	**197**	**2.3%**	**18%**
Emerging Markets	**370**	**1,321**	**3,331**	**5.4**	**502**	**135**	**4.1%**	**27%**
Old Mutual Wealth	**147**	**4,632**	**5,334**	**4.8**	**610**	**62**	**1.2%**	**10%**
Discontinued covered business	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Total covered business	**517**	**5,953**	**8,665**	**5.2**	**1,112**	**197**	**2.3%**	**18%**

£m

Year ended 31 December 2011	Annualised recurring premiums	Single premiums	PVNBP	PVNBP capitalisation factors[1]	APE	VNB	PVNBP margin	APE margin
Core covered business	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%
Old Mutual Wealth	206	4,770	5,818	5.1	683	78	1.3%	11%
Discontinued covered business	153	753	1,347	3.9	229	56	4.2%	25%
Total covered business	722	6,964	10,460	4.8	1,418	233	2.2%	16%

[1] The PVNBP capitalisation factors are calculated as follows: (PVNBP – single premiums)/annualised recurring premiums.

The VNB for Old Mutual Wealth in December 2012 has been calculated after the reallocation of certain development costs from acquisition expenses to expense variances. If December 2011 VNB was calculated on the same basis, it would have been £85 million.

Additional new business written in the Group

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 £1,093 million (2011: £884 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 Old Mutual Wealth of £736 million (2011: £704 million) is excluded as this is more appropriately classified as unit trust business.

New business single premiums of £37 million (2011: £31 million), annualised recurring premiums of £17 million (2011: £14 million), and APE of £21 million (2011: £17 million), in respect of the life business in Kenya, Malawi, Nigeria, Swaziland and Zimbabwe, have been excluded from the above tables, as no VNB and PVNBP calculations have been performed for these businesses.

C2: Adjustments applied in determining total Group MCEV earnings before tax

£m

	Year ended 31 December 2012			Year ended 31 December 2011		
	Covered business MCEV	**Non-covered business IFRS**	**Total Group MCEV**	Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Income/(expense)						
Goodwill impairment and amortisation of non-covered business acquired intangible assets and impact of acquisition accounting	**–**	**(7)**	**(7)**	–	(283)	(283)
Economic variances	**657**	**(25)**	**632**	(554)	(28)	(582)
Other non-operating variances	**(56)**	**–**	**(56)**	22	–	22
Acquired/divested business[1]	**–**	**(12)**	**(12)**	–	182	182
Other Group adjustments related to Nordic disposal	**(14)**	**414**	**400**	–	–	–
Adjusted Group MCEV uplift from sale of Nordic	**–**	**201**	**201**	–	–	–
Dividends declared to holders of perpetual preferred callable securities	**–**	**42**	**42**	–	44	44
Premium paid on early repayment of senior debt	**–**	**(71)**	**(71)**	–	–	–
Adjusting items relating to US Asset Management equity plans and non-controlling interests	**–**	**(5)**	**(5)**	–	(3)	(3)
Fair value (losses)/gains on Group debt instruments	**–**	**(57)**	**(57)**	–	22	22
Adjusting items	**587**	**480**	**1,067**	(532)	(66)	(598)
Adjusting items from continuing operations	**605**	**(119)**	**486**	(378)	(59)	(437)
Adjusting items from discontinued operations	**(18)**	**599**	**581**	(154)	(7)	(161)
Total MCEV adjusting items	**587**	**480**	**1,067**	(532)	(66)	(598)

1 In December 2011, this related to the non-covered businesses in Kenya, Malawi, Nigeria, Swaziland and Zimbabwe that were included for the first time.

C3: Other movements in IFRS net equity impacting Group MCEV

£m

	Year ended 31 December 2012			Year ended 31 December 2011		
	Covered business MCEV	**Non-covered business IFRS**	**Total Group MCEV**	Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Fair value movements[1]	**–**	**(328)**	**(328)**	–	24	24
Net investment hedge	**–**	**160**	**160**	–	28	28
Currency translation differences/exchange differences on translating foreign operations	**(338)**	**(677)**	**(1,015)**	(693)	(498)	(1,191)
Aggregate tax effects of items taken directly to or transferred from equity	**–**	**9**	**9**	–	11	11
Other movements[2]	**(1,459)**	**1,459**	**–**	182	128	310
Net income recognised directly into equity	**(1,797)**	**623**	**(1,174)**	(511)	(307)	(818)
Capital and dividend flows for the year[3]	**24**	**(1,238)**	**(1,214)**	(257)	(8)	(265)
Inclusion of other African life businesses	**–**	**–**	**–**	69	–	69
Net purchase of treasury shares	**–**	**8**	**8**	–	(17)	(17)
Shares issued in lieu of cash dividends	**–**	**–**	**–**	–	124	124
Other shares issued	**–**	**33**	**33**	–	10	10
Change in share-based payment reserve	**–**	**62**	**62**	–	50	50
Other movements in net equity	**(1,773)**	**(512)**	**(2,285)**	(699)	(148)	(847)

1 Fair value movements include realisation of foreign exchange reserve on disposal of £(350) million and a fair value movement of £22 million.
2 The December 2012 amount relates to the transfer of Nordic covered MCEV balance on disposal and the sale of Finnish branch in Old Mutual Wealth. December 2011 reflects movements in respect of the disposal of US Life.
3 December 2012 capital and dividend flows from the covered business include the purchase of the Rest of Africa businesses by Emerging Markets from Old Mutual plc and the capital injection of £352 million into Old Mutual Bermuda. The special dividend of £915 million, paid on 7 June 2012, is included in non-covered business.

C: Other key performance information continued

C4: 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 2012	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
IFRS net asset value[1]	4,288	3,580	1,275	2,305	708	–
Adjustment to include long-term business on a statutory solvency basis	(926)	(898)	187	(1,085)	(28)	–
Inclusion of Group equity and debt instruments held in life funds[2]	367	367	364	3	–	–
Goodwill	(765)	(765)	(8)	(757)	–	–
Adjusted net worth attributable to ordinary equity holders of the parent	2,964	2,284	1,818	466	680	–

£m

At 31 December 2011	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
IFRS net asset value[1]	5,214	3,744	1,230	2,514	201	1,269
Adjustment to include long-term business on a statutory solvency basis	(1,905)	(1,108)	182	(1,290)	(14)	(783)
Inclusion of Group equity and debt instruments held in life funds[2]	365	365	365	–	–	–
Goodwill	(998)	(797)	(9)	(788)	–	(201)
Adjusted net worth attributable to ordinary equity holders of the parent	2,676	2,204	1,768	436	187	285

1 IFRS net asset value is after elimination of inter-company loans.
2 A further £(36) million (2011: £(69) million) relates to the non-covered business. This brings the total adjustment to IFRS net asset value to £1,360 million (2011: £2,607 million).

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 Old Mutual 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 Old Mutual Bermuda business, VIF reflects the impact of amortising DAC allowed under the ANW at 31 December 2011. DAC has been completely written off at 31 December 2012.

D1: Sensitivity tests

The tables below show the sensitivity of the MCEV, value of in-force business at 31 December 2012 and the value of new business for the year ended 31 December 2012 to the following:

- **Economic assumptions 100 bps increase/decrease:** Increasing/decreasing all pre-tax investment and economic assumptions (projected investment returns and inflation) by 100 bps, with credited rates and discount rates changing commensurately
- **Equity/property market value 10% increase/decrease:** Equity and property market value increasing/decreasing by 10%, with all pre-tax investment and economic assumptions unchanged
- **10 bps increase of liquidity spreads:** Recognising the present value of an additional 10 bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately
- **25% increase in equity/property and swaption implied volatilities:** 25% multiplicative increase in implied volatilities
- **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
- **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. Modeling 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 Investment Guarantee Reserves (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.

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.

At 31 December 2011, Nordic was included in all sensitivities.

D1: Sensitivity tests continued

Sensitivity tests: MCEV

£m

	At 31 December 2012			At 31 December 2011		
	MCEV	**Value of in-force business**	**Value of new business**	MCEV	Value of in-force business	Value of new business
Central assumptions	**6,365**	**3,401**	**197**	7,212	4,536	233
MCEV, VIF & VNB given changes in:						
Economic assumption 100 bps increase	**6,253**	**3,285**	**180**	7,103	4,384	215
Economic assumption 100 bps decrease	**6,471**	**3,505**	**215**	7,315	4,673	250
Equity/property market value 10% increase	**6,647**	**3,632**	**206**	7,585	4,790	244
Equity/property market value 10% decrease	**6,169**	**3,248**	**192**	6,869	4,283	223
10bps increase of liquidity spreads	**6,374**	**3,410**	**198**	7,221	4,545	234
50bps contraction on corporate bond spreads	**6,380**	**3,402**	**197**	7,232	4,540	233
25% increase in equity/property implied volatilities	**6,311**	**3,358**	**197**	7,124	4,513	232
25% increase in swaption implied volatilities	**6,353**	**3,389**	**197**	7,198	4,521	233
10% decrease in discontinuance rates	**6,519**	**3,568**	**237**	7,405	4,749	280
10% decrease in maintenance expense	**6,580**	**3,616**	**216**	7,471	4,795	255
5% decrease in mortality/morbidity rates	**6,495**	**3,531**	**214**	7,333	4,657	247
5% decrease in annuitant mortality assumption	**6,358**	**3,394**	**197**	7,190	4,514	233
Minimum capital requirement	**6,421**	**3,457**	**202**	7,267	4,590	238
NHR capital diversification	**6,408**	**3,444**	**201**	7,282	4,606	239
99.93% confidence level NHR capital	**6,306**	**3,342**	**192**	7,155	4,478	227

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 in 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 ordinary shares of 11³⁄₇p each is GB00B77J0862.

The high and low closing prices of the Company's shares on the two main markets on which they were listed during 2012 and 2011 were as follows:

	2012 High	**2012 Low**	2011 High	2011 Low
London Stock Exchange	**179.6p**	**137.8p**	144.8p	98.1p
JSE	**R24.87**	**R17.53**	R17.25	R12.34

At 31 December 2012, the geographical analysis and shareholder profile of the Company's share register were as follows:

Register	Total shares	% of whole	Number of holders
UK	2,298,597,919	46.98	10,579
South Africa	2,522,575,355	51.55	29,189
Zimbabwe	54,733,929	1.12	30,107
Namibia	12,608,493	0.26	532
Malawi	4,614,238	0.09	4,586
Total	**4,893,129,934**	**100**	**74,993**

Source: Computershare Investor Services

Size of holding	Total shares	% of whole	Number of holders
1-1,000	20,315,005	0.41	64,791
1,001-10,000	22,149,577	0.45	8,623
10,001-100,000	29,230,791	0.60	1,018
100,001-250,000	27,205,559	0.56	171
250,001+	4,794,229,002	97.98	390
Total	**4,893,129,934**	**100**	**74,993**

Source: Computershare Investor Services

Note
The registered shareholdings on the South African branch register included PLC Nominees (Pty) Limited, which held a total of 2,188,531,094 shares, including 314,329,195 shares held for the Company's sponsored nominee, Old Mutual (South Africa) Nominees (Pty) Limited, for the benefit of 410,309 underlying beneficial owners. The registered shareholdings on the Zimbabwe branch register included Old Mutual Zimbabwe Nominees (Pvt) Limited, which held a total of 682,719 shares as nominee for 3,486 underlying beneficial owners. The registered shareholdings on the Namibian section of the principal register included Old Mutual (Namibia) Nominees (Pty) Limited, which held a total of 5,994,010 shares as nominee for 6,891 underlying beneficial owners. The registered shareholdings on the Malawi branch register included Old Mutual (Blantyre) Nominees Limited, which held a total of 55,179 shares as nominee for 136 underlying beneficial owners.

Registrars

The Company's share register is administered by Computershare Investor Services in conjunction with local representatives in various jurisdictions. The following are their 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

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Business Centre and Office Complex
Financial Management Services Department
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Namibia

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Fax: +263 (0)4 752629
email: *enquiries@corpserve.co.zw*

Share-dealing services

Details of various share-dealing services in the UK, South Africa and Namibia that are available through the Company's share registrars, Computershare Investor Services, can be found in the Shareholder Information section of the Company's website.

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.

Electronic communications and electronic proxy appointment

The Company wrote to shareholders on its South African branch register and on the principal and Namibian sections of its UK register in November 2012 to inform them that it was moving to e-comms as the default form of communication, in line with provisions in the UK Companies Act 2006 and the Company's Articles of Association. Shareholders who wished to continue to receive physical copies of shareholder communications, rather than accessing these from the Company's website, were required to notify the Company's registrars of their election to do so by 4 January 2013. For the time being, these arrangements have not been extended to apply to shareholders on the Malawi and Zimbabwe branch registers, but the Company plans to keep the possibility of doing so under review.

If you are currently still receiving documents by post, but 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 Communications' 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. 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.

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.

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 2012 and timetable for its payment

The Board is recommending a final dividend (the 'Final Dividend') for the year ended 31 December 2012 of 5.25p per share, which will be paid on 31 May 2013, subject to being approved by shareholders at the Company's 2013 Annual General Meeting. Based on this recommendation, the full-year ordinary dividend would be 7.0p, up 23% in cash terms in sterling. Shareholders on the South African, Zimbabwe and Malawi branch registers and the Namibian section of the principal register will be paid their local currency cash equivalents of the Final 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 the Final Dividend in Swedish kronor. Local currency cash equivalents of the Final Dividend for all five territories will be determined by the Company using exchange rates prevailing at the close of business on 11 April 2013 and will be announced by the Company on 12 April 2013.

A scrip dividend alternative is not being made available in relation to the Final Dividend.

The full timetable for the Final Dividend is set out below.

Currency conversion date	closing rates on Thursday, 11 April 2013
Exchange rates announced	Friday, 12 April 2013
Last day to trade cum dividend for shareholders on the branch register in Malawi	Wednesday, 17 April 2013
Ex-dividend date for shareholders on the branch register in Malawi	Thursday, 18 April 2013
Last day to trade cum dividend for shareholders on the branch registers in South Africa and Zimbabwe and on the Namibian section of the principal register	Friday, 19 April 2013
Ex-dividend date for shareholders on the branch registers in South Africa and Zimbabwe and on the Namibian section of the principal register	Monday, 22 April 2013
Trading suspended between registers	opening of business on Monday, 22 April 2013
Last day to trade cum dividend for shareholders on the UK register	Tuesday, 23 April 2013
Ex-dividend date for shareholders on the UK register	Wednesday, 24 April 2013
Record date (all locations)	close of business on Friday, 26 April 2013
Trading between registers recommences	opening of business on Monday, 29 April 2013
Annual General Meeting	Thursday, 9 May 2013
Final Dividend Payment Date	Friday, 31 May 2013

Share certificates for shareholders on the South African register may not be dematerialised or rematerialised between 22 and 26 April 2013, both dates inclusive, and transfers between the registers may not take place during that period.

Special Dividend paid in 2012

A Special Dividend of 18p per share (or its equivalent in other applicable currencies), amounting to approximately £1 billion in aggregate, was paid to shareholders on 7 June 2012. This Special Dividend was paid by reference to the Company's shares in issue before the 7-for-8 share consolidation that took effect on 23 April 2012.

Financial calendar for the rest of 2013

The Company's financial calendar for the rest of 2013 is as follows:

Annual General Meeting and First Quarter Interim Management Statement	9 May 2013
Interim results	7 August 2013
Third Quarter Interim Management Statement	6 November 2013
Interim dividend payment date	29 November 2013
Final results for 2013	End of February 2014

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

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