ECONOMIC CAPITAL AND OTHER METRICS

June 2013

INSURANCE | INVESTMENT | SAVINGS | BANKING

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TODAY

Context

Economic Capital & Solvency II – Where are we heading?

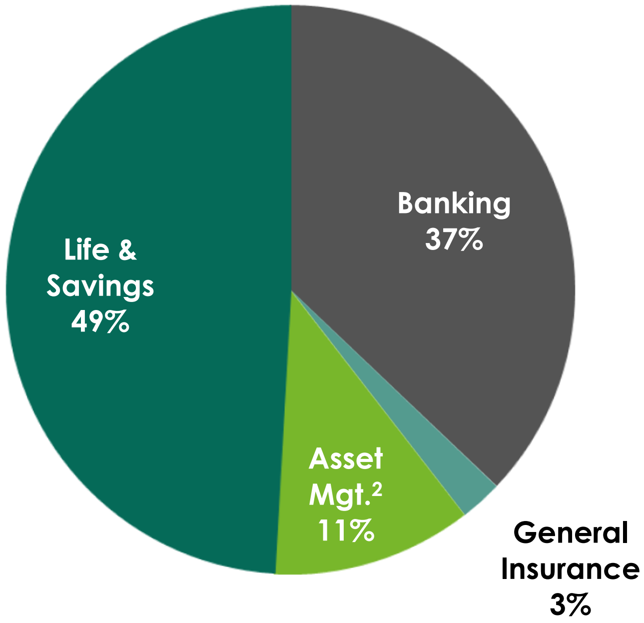
Discussion

CONTEXT

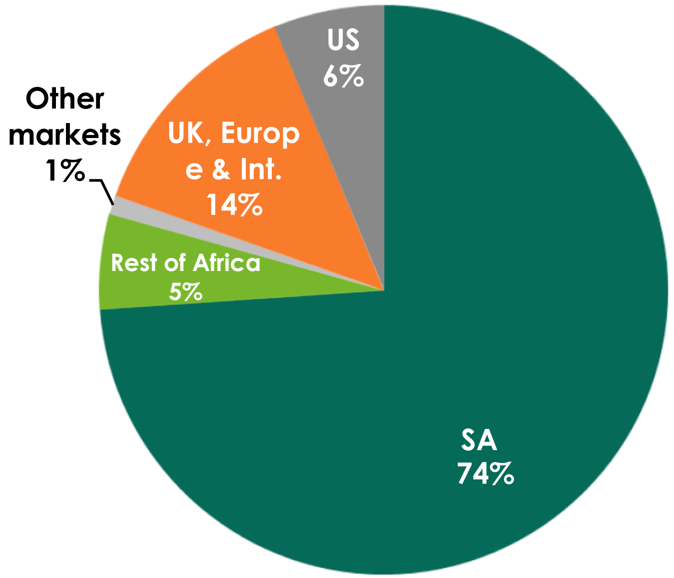
March 2013

EARNINGS BY LINE OF BUSINESS AND GEOGRAPHY[1]

2012 AOP by line of business (pre-tax, post NCI)

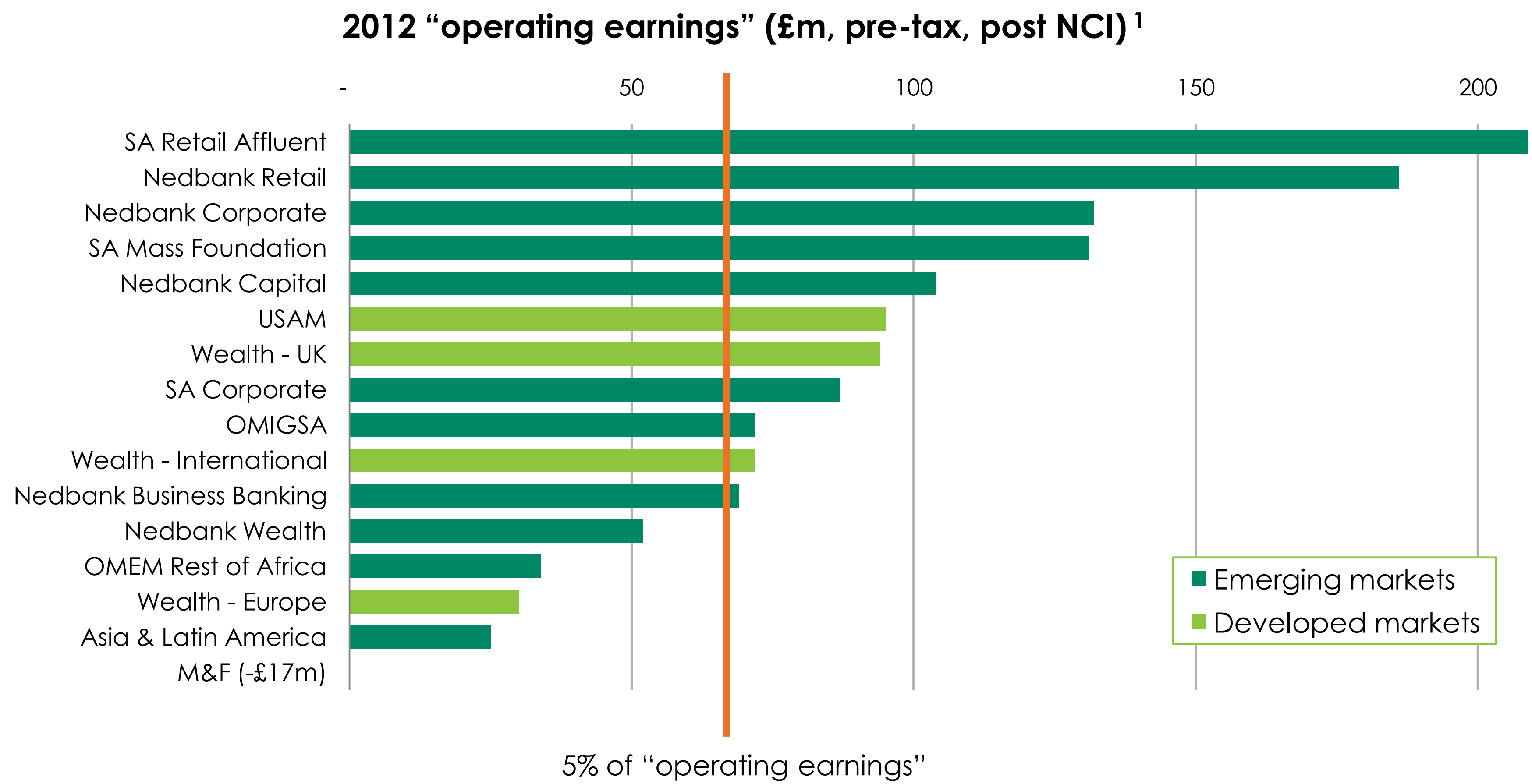


2012 AOP by geography (pre-tax, post NCI)



1. Core continuing operations, excluding GHO net central costs.
2. Includes the results of USAM, OMIGSA and OMGI.

DIVERSITY OF OPERATING EARNINGS

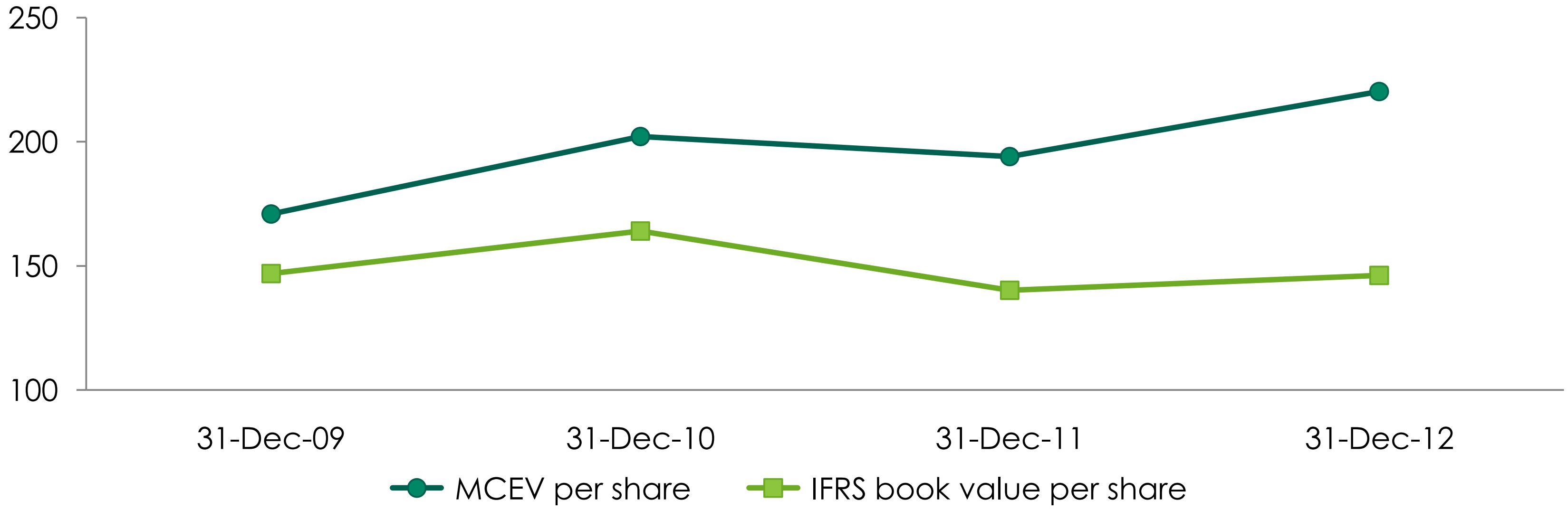


1. "Operating earnings" exclude OMEM central costs, LTIR (OMEM and M&F) and USAM disposed affiliates.

MCEV

	31 Dec 2011	**31 Dec 2012**
Adjusted Group MCEV (£bn)	10.8	**10.8**
Adjusted Group MCEV per share (pence)	194.1	**220.3**

Pence per share



FGD RESILIENCE[1]

Coverage ratio	FGD surplus (£bn)	Risk event covered
158%	2.0	1 in 400
150%[3]	1.8	1 in 200
140%[3]	1.4	1 in 130
130%[3]	1.1	1 in 70
113%[3]	0.4	1 in 10

- Economic capital solvency ratio in excess of 160%[2]

1. Based on capital requirements at 31 Dec 2012.
2. Estimated unaudited figure covering a 7 in 10,000 risk event.
3. Implied FGD surplus shown for given risk events.

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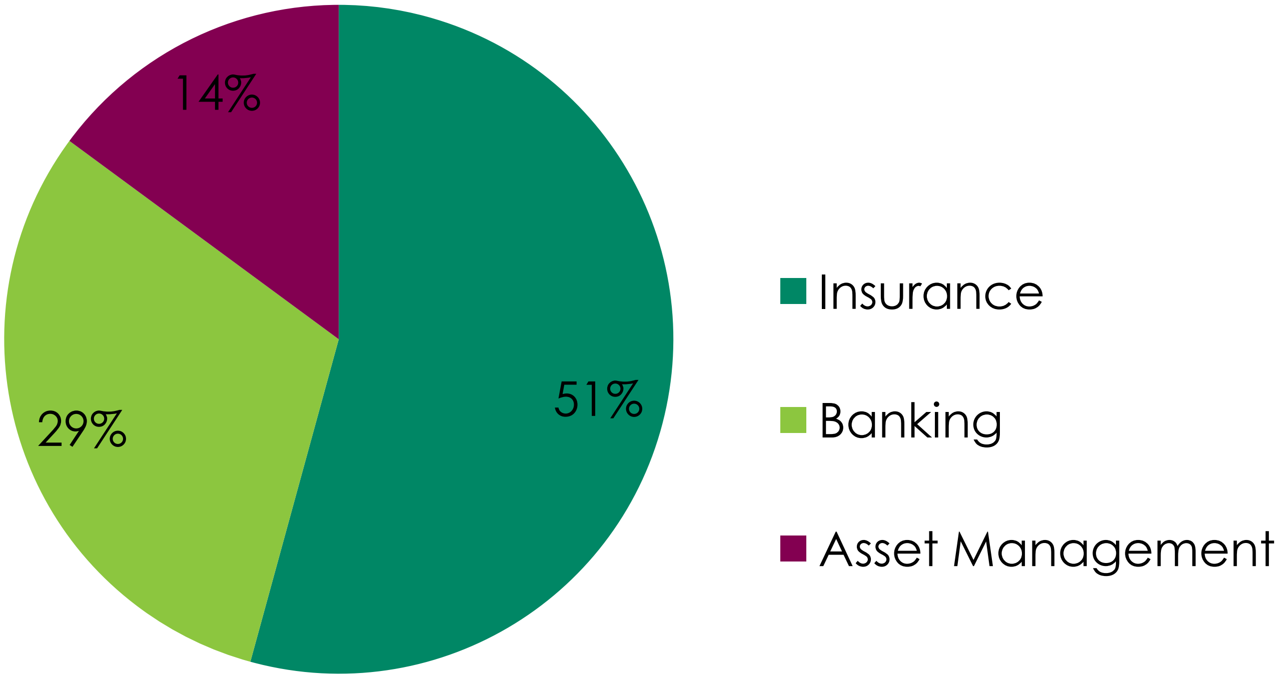
VIRTUALLY HALF OF OUR MCEV IS NON-COVERED BUSINESS



Non-covered portion is growing

ECONOMIC CAPITAL & SOLVENCY II – WHERE ARE WE HEADING?

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WHAT IS THE MOST APPROPRIATE FORM OF DISCLOSING SHAREHOLDER VALUE?

- Has Embedded Value reporting had its day?
  - If so, when will it go?
- The push for economic capital disclosures – will we get consistency across the industry?
- Many firms beginning to disclose solvency coverage – with varying levels of explanation and context.
- Can the market cope with the increased volatility?
- New Business Metrics – what does the market want?

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ECONOMIC CAPITAL – WHY?

- Enables the development of consistent risk metrics across financial services conglomerates which include banking, life and non-life insurance and asset management.
- Provides a transparent view of risks across an organisation and allows for correlations between and across risks.
- Enables effective testing of business initiatives from a risk management perspective.
- Needs to feed into incentive arrangements so that risk based decisions are promoted.

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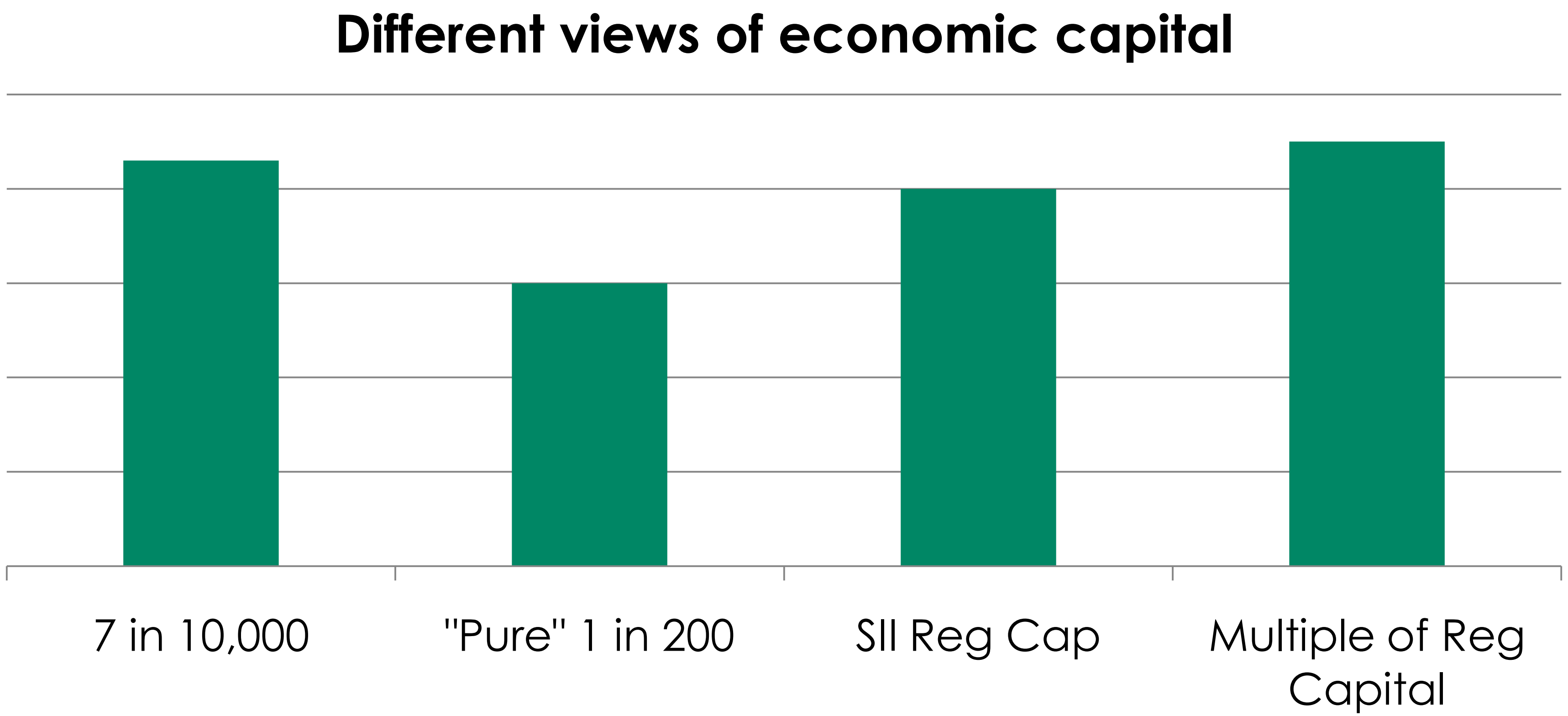
IMPACT OF SOLVENCY II



RISK METRIC DEFINITIONS

Metric	Definition
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).
SCR*	The reduction in post-tax market value balance sheet (MVBS) over a one-year forward-looking time horizon that should only be exceeded 1-in-200 years (99.5%). This reflects the Solvency II regulatory position calculated using the Partial Internal Model (combination of Internal Model and Standard Formula entities).
FGD CaR	The reduction in FGD surplus at the reporting date that should only be exceeded 1-in-10 and 1-in-200 years
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).
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).
Op Risk	The reduction in pre-tax economic value due to one in 10 year unexpected operational loss events (90% confidence level).
Own Funds	The Group Own Funds have been prepared using the Solvency II Own Funds position as determined by the Market Value Balance sheets of the in-scope entities and then adding the rest of the Group's regulated entities as reported under FGD. As FGD uses a different aggregation methodology, the elimination of the investments is made at Group level to derive the Group Own Funds position
AFR	Solvency II Eligible Own Funds for insurance entities and IFRS NAV for non-insurance entities (with adjustments for Intangible assets). The Group AFR uses the FGD SII Own Funds, adds the USAM franchise value and adjusts for valuation differences between FGD and AFR in Nedbank.
FGD	Regulatory capital as determined by the Financial Group's Directive - currently using Solvency I as the regulatory basis for insurance entities in the Group.

* ***Note:*** *ECaR allows for full diversification between all BUs whereas the SCR only allows for limited diversification (i.e. between internal model entities but not between these IM entities and the standard formula entities and non-insurance entities).*

'Diversified Capital' for BU/LE results captures diversification between risk types within the business unit/legal entity (i.e. allows for risk interactions within the Business Unit/Legal Entity).
'Diversified Capital' for Group results captures diversification between entities across the Group and the diversification between GHO risks (e.g. currency) and all other BU risks.

Market risk in policyholder funds (previously referred to as 'ALM risk') refers to the risk of adverse changes in the market value of policyholder assets and policyholder liabilities. In an economic world, examples may include "Traditional" asset-liability mismatches that could result in a "direct burn-through" and loss to the shareholder as well a fall in asset values impacting policyholder investments and reducing fees earned (a "second order" impact on the shareholder).
This does not mean this risk is borne by policyholders - it is a shareholder risk, but relates to policyholder liabilities and assets backing those liabilities.

FURTHER DISCUSSION

March 2013