NEWS RELEASE

4 March 2009

Old Mutual plc Preliminary Results
For the year ended 31 December 2008

Solid performance in SA and Europe with challenges in US Life

- OMSA and Nordic: excellent growth in sales; adjusted operating profits up 14% and 23% (in local currency) respectively
- UK: sales impacted by equity market decline although strong unit-linked market position maintained
- US Asset Management: diversified asset mix provided resilience
- US Life: disappointing result although management actions to de-risk and return to profitability

The Group and its businesses remain well capitalised

- Group pro-forma FGD surplus at 31 December in excess of £0.7 billion, 1.2 times coverage ratio
- Available cash and facilities of over £600 million
- Strong capital surpluses in individual business units
  - UK: 2.6 times required capital
  - Nordic: 9.9 times required capital
  - OMLACSA: 3.8 times required capital
  - Nedbank: Tier 1 capital at 9.6%
  - US Life: RBC ratio of 305% in onshore and significant excess capital in offshore
- Board decision not to pay dividends in 2009 to give further buffer on cash and capital position

Improved business structure, risk management and governance

- New Long-Term Savings division
- Risk appetite agreed for major subsidiary companies
- Enhanced governance and operational oversight from the centre
- Simplification of business will take place as global financial climate allows

Financial Summary	**2008**	2007
Net client cash flows	**£1.2bn outflow**	£23.4bn inflow
Funds under management	**£264.8bn**	£278.9bn
Profit before tax (IFRS)	**£595m**	£1,750m
Adjusted operating profit before tax (IFRS basis)*	**£999m**	£1,624m
Adjusted operating profit before tax (MCEV basis)	**£978m**	£1,631m
Adjusted operating earnings per share (IFRS basis)**	**12.2p**	16.9p
Basic earnings per share (IFRS)	**8.6p**	19.2p
Adjusted operating earnings per share (MCEV basis)	**11.0p**	17.0p
Adjusted MCEV per share	**117.6p**	166.3p

Julian Roberts, Chief Executive, commented:

"2008 presented major challenges for the Group. The rapid deterioration combined with volatility in global financial markets, most notably in the fourth quarter, gave rise to an extremely difficult operating environment, while we faced a number of specific issues in our US Life business. Nevertheless, many parts of the Group delivered strong performances, especially in the markets where we have scale and strong market positions.

"As a Group we remain well capitalised with strong surpluses over required capital levels in each of our business units, but due to the very uncertain market conditions, we have decided to conserve capital and cash levels despite our ability to withstand significant further deterioration in market conditions.

"Going forward, I am determined to rigorously drive performance improvement and strengthen governance, while at the same time reshaping the Group."

Enquiries

Investor Relations		
Aleida White	UK	+44 (0)20 7002 7287
Deward Serfontein	SA	+27 (0)82 810 5672
Media		
Matthew Gregorowski	UK	+44 (0)20 7002 7133
Finsbury		
Mike Smith / Brian Cattell		+44 (0)20 7251 3801

Notes

Wherever the terms asterisked in the Financial Highlights are used, whether in the Financial Highlights, the Chief Executive's Statement, the Group Finance Director's Review or the Business Review, the following definitions apply:

* For long-term business and general insurance businesses, adjusted operating profit is based on a long-term investment return, includes investment returns on life funds' investments in Group equity and debt instruments, and is stated net of income tax attributable to policyholder returns. For the US Asset Management business, it includes compensation costs in respect of certain long-term incentive schemes defined as minority interests in accordance with IFRS. For all businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, put revaluations related to long-term incentive schemes, the impact of closure of unclaimed shares trusts, profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments, dividends declared to holders of perpetual preferred callable securities, and fair value (profits)/losses on certain Group debt movements.

** Adjusted operating earnings per ordinary share is calculated on the same basis as adjusted operating profit. It is stated after tax attributable to adjusted operating profit and minority interests. It excludes income attributable to Black Economic Empowerment (BEE) trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and BEE trusts.

Cautionary statement

This announcement has been prepared solely to provide additional information to shareholders to assess the Group's strategies and the potential for those strategies to succeed. It should not be relied on by any other party or for any other purpose.

This announcement contains forward-looking statements with respect to certain of Old Mutual plc's plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all 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 global 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 other regulations in territories where Old Mutual plc or its affiliates operate.

As a result, Old Mutual plc's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Old Mutual plc's forward-looking statements. Old Mutual plc undertakes no obligation to update any forward-looking statements contained in this announcement or any other forward-looking statements that it may make.

Notes to Editors:

A webcast of the presentation and Q&A will be broadcast live at 9:00am (GMT), 10:00am (CET), 11:00am (South African time) today on the Company's website www.oldmutual.com. Analysts and investors who wish to participate in the call should dial the following numbers:

UK (toll-free)	0500 101 630
US (toll-free)	877 491 0064
Sweden (toll-free)	0200 887 651
South Africa (toll-free)	0800 991 468
International	+44 20 7162 0025

Playback (available for 14 days from 4 March), using passcode 824733:

UK (toll-free)	0800 358 1860
US (toll-free)	888 365 0240
Sweden (toll-free)	08 5052 0333
International	+44 20 7031 4064

There will also be a separate conference call at 1:30pm GMT (2:30pm CET / 3:30pm South African time) today on Old Mutual's supplementary life reporting under Market Consistent Embedded Value ("MCEV"). Analysts and investors who wish to participate in the call should dial the following numbers, quoting confirmation code 9824696:

UK (toll-free)	0800 028 1277
US (toll-free)	888 935 4577
Sweden (toll-free)	08 5352 6407
South Africa (toll-free)	0800 991 539
International	+44 207 806 1956

This conference call will use VisionCast web meeting facility and slides can be viewed at http://www.livemeeting.com/cc/premconfeurope/join?id=9824696&role=attend&pw=pw7894 or by entering the VisionCast website http://www.euvisioncast.com using Meeting ID 9824696 and password pw7894. The presentation slides will also be available for download on the Company's website, www.oldmutual.com from 8:00am GMT.

Playback (available for 14 days from 4 March), using passcode 9824696#:

UK (toll-free)	0800 559 3271
US (toll-free)	866 239 0765
Sweden (toll-free)	08 5876 9441
International	+44 207 806 1970

Copies of these Preliminary Results, together with high-resolution images and biographical details of the Executive Directors of Old Mutual plc, are available in electronic format to download from the Company's website at www.oldmutual.com.

A Financial Disclosure Supplement relating to the Company's Preliminary Results can be found on the website. This contains key financial data for 2008 and 2007.

Chief Executive's Statement

Overview

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

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

Capital adequacy position

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

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

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

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

Dividend

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

Strong sales and earnings growth in South Africa

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

In contrast to the negative forecast GDP in the UK and US, the South African economy is forecast to grow by 1.2% in 2009 (*Source: South Africa National Treasury*) and, while it is facing its own challenges, the South African banking sector remains in good health, with the inter-bank lending market continuing to operate efficiently. Despite an increased level of

impairments, Nedbank delivered an adjusted operating profit on an IFRS basis of R8.8 billion, down just 5% on 2007, and a return on equity of 17.7% with Tier 1 capital at 9.6%.

Skandia building market share across Europe

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

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

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

Resilient net client cash flows in US Asset Management

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

Actions to stabilise US Life and return to profitability

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

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

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

Chief Executive's Statement

Review of Business

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

1. Maintain and strengthen our capital position

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

2. Streamline the portfolio over time

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

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

- We have agreed to the sale of our Australian business.
- We have exited Portugal.
- We have rationalised our businesses in continental Europe, creating two hubs based in Berlin and Paris for the mass market and affluent markets respectively.
- While we remain committed to our established businesses in India and China, we will scale back significantly our aspirations in the Far East and will therefore close our office in Hong Kong.

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

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

3. Leverage scale in our long term savings businesses

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

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

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

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

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

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

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

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

5. Strengthen governance and risk management

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

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

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

Outlook

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

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

Julian Roberts
Chief Executive

4 March 2009

Group Finance Director's Review

GROUP RESULTS

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

* Restated, as now reporting on an MCEV basis

** Restated net of Institutional sales in Australia

*** Return on equity is calculated using adjusted operating profit after tax and minority interests on an IFRS basis with allowance for accrued coupon payments on the Group's hybrid capital. The average shareholders' equity used in the calculation excludes minorities and hybrid capital.

Funds under management held up well during year of market volatility

During 2008, Old Mutual delivered robust investment performance in challenging markets. Although net client cash flows were negative overall, we produced positive flows of £3.2 billion in our Skandia businesses and £0.1 billion in our combined South Africa businesses. However, these were offset by outflows in our US and Asia Pacific businesses. Excluding the outflows due to a cessation of securities lending which one of our US Asset Management affiliates suspended during the year, net client cash flows were £2.4 billion for the year. The result is pleasing, considering the challenges of delivering on absolute investment performance in the extremely volatile markets in 2008. This is demonstrated through our closing funds under management, which held up well in the year overall, down 5% to £264.8 billion, in a period when markets such as the FTSE 100, the JSE Africa All Share Index and S&P 500 all fell more than 25%.

Breadth of sales product offering in diverse geographic markets

Overall life sales on an APE basis held up well, supported by our core businesses in Nordic and South Africa. We continued to see the benefits of our investment in the Nordic sales channel, where life APE sales were up 30% in local currency. South Africa life sales were up 14% in rand terms. However in the US, sales were constrained, down 23% in local currency. UK and Offshore sales were disappointing, down 19%, with single premium sales being impacted by the market conditions mainly through lower pension sales.

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

Value of new business

The value of new business (VNB) was down 55% to £104 million but excluding US Life, at negative £66 million, was down 15% for the year on a like-for-like basis. Excellent volumes in Nordic and a strong contribution from OMSA were offset by lower volumes in the UK, ELAM and US Life. The APE profit margin was 6%. The margin was steady in the UK and South Africa compared with 2007, but down marginally in Nordic and to a greater extent in ELAM, where it fell to 6% mainly due to lower volumes and a change in product mix. The US Life margin was negative because of a reduction in

the margin of variable annuities as a result of increased guarantee costs and the exclusion of capitalised corporate bond spreads in the Old Mutual MCEV methodology.

Adjusted operating earnings (IFRS basis)

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

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

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

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

* Includes Bermuda Asset Management (now included in USAM)

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

Taxation

The Group's effective adjusted operating profit (IFRS basis) tax rate decreased to 9% from 26% in the comparative period. This tax rate is anomalously low due to the unprecedented market conditions in 2008 coupled with a reduced adjusted operating profit which magnifies the rate effect of any adjustment. The reduction in the tax rate is due to a number of factors. These include releases of tax provisions as a result of the closing of issues being agreed with tax authorities, consistent levels of tax exempt dividend income now representing a greater proportion of the reduced adjusted operating profit, the effect of the different basis of taxation of life tax companies, non-taxable foreign exchange gains, reduction in tax rates and more profits being earned in lower taxed jurisdictions and the utilisation of previously unrecognised deferred tax assets. These factors were partially offset by increased secondary tax on companies charges and a decreased adjusted operating profit, non-recognition of deferred tax assets arising in US Life and adjustments in respect of prior periods.

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

Return on equity

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

Shareholders equity

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

Old Mutual Market Consistent Embedded Value (MCEV)

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

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

Adjusted Group MCEV per share 117.6p

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

Return on Group MCEV

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

Capital position

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

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

Group Finance Director's Review

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

The Group is in compliance with the Financial Groups Directive ("FGD") capital requirements, which apply to all EU-based financial conglomerates. Our pro-forma FGD surplus was in excess of £0.7 billion at 31 December 2008. The FSA requirement is to maintain a positive surplus at all times. Sensitivities to market movements, although not linear, are that a 1% fall in South African rand against sterling is broadly equivalent to a £14 million reduction in FGD, a 1% gain in the US dollar against sterling broadly equivalent to a £4 million fall in FGD and a 1% fall in the JSE broadly equivalent to a £4 million decline in FGD. The level of defaults, impairments and realised losses in our US corporate bond portfolio also impact on the FGD surplus. We improved the pro-forma FGD sensitivity to the dollar since our Q3 Interim Management Statement as a result of hedging activities undertaken.

Unrealised losses

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

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

Holding company net debt

The table below shows the net reported debt of the Old Mutual plc holding company and its sub holding companies.

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

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

Group Finance Director's Review

Risks and uncertainties

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

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

The Group continues to meet Group and individual entity capital requirements, and day-to-day liquidity needs through the Group's available credit facilities. The Company's primary existing revolving current facility of £1.25 billion does not mature until September 2012.

The Board of Directors has the expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements contained with this announcement.

The Listing Rules of the UK Listing Authority (LR 9.7A.1) require that preliminary unaudited statements of annual results must be agreed with the listed company's auditors prior to publication, even though an audit opinion has not yet been issued. In addition, the Listing Rules require such statements to give details of the nature of any likely modification that may be contained in the auditors' report to be included with the annual report and accounts. Old Mutual plc confirms that it has agreed this preliminary statement of annual results with KPMG Audit Plc and that the Board of Directors has not been made aware of any likely modification to the auditors' report required to be included with the annual report and accounts for the year ended 31 December 2008.

Related party transactions

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

Philip Broadley
Group Finance Director

4 March 2009

EUROPE: UNITED KINGDOM AND OFFSHORE

Strong profit performance in a challenging year

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

* Restated, as now reporting on an MCEV basis

Positive net client cash flows despite low investor confidence

Skandia UK and Offshore continued to deliver positive net client cash flows for the year with net inflows of £1.7 billion representing 4% of opening funds under management. This comprised strong International net inflows and positive UK net inflows which were lower than 2007. The market downturn contributed to a 17% decrease in funds under management but this compared favourably with the 31% drop in the FTSE 100 in 2008. Investment performance was driven by the diversity of our offering with significant changes in asset mix occurring as investors moved into cash based investments. Foreign currency denominated funds benefited from the weakened sterling.

Investment volatility affects sales

Life assurance sales APE declined in line with the market. The largest relative falls in sales were in the bonds and single premium pensions products and because the 2007 pensions business figure benefited from the lingering benefits of pensions 'A-day' and higher investor confidence at the time. In 2008 the market for single premium bonds was affected by the introduction of an 18% flat rate of CGT confirmed in the March 2008 Budget. Skandia's market share across the entire pensions market remained strong particularly in the core product area of single premium personal pensions. Regular premium business held up better, ending the year 9% up on 2007.

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

Unit trust performance impacted by volatile markets

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

New business contribution

VNB fell by 17% to £67 million due to lower new business volumes. The reduction was partially mitigated by a strengthening of the assumptions for the amount of fee income rebated from fund managers, as communicated at the Interim Results aligning Skandia more closely to the market. New business contribution was also positively impacted by

the mix of business effects, with a shift towards sales of more profitable portfolio bond charging structures within Skandia International. The new business margin ended the year at 11%, in line with 2007.

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

An excellent adjusted operating profit (IFRS basis) was generated in the current climate with a decrease of 3% to £167 million for the year, in part reflecting the reduction in funds under management and sales. This was partially offset by changes to the policyholder taxation basis for Skandia UK following the market falls experienced in 2008. Additional integration costs were incurred in 2007, as previously communicated. A favourable variance of £33 million arose following the implementation of PS06/14 – the prudential reserving requirements that permit non-linked insurance business to be valued on a more realistic basis.

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

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

Capital

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

Continued investment innovation at Skandia

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

Skandia supports changes in the UK distribution landscape

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

On 3 November 2008 Skandia UK announced that it is ending its membership of the Association of British Insurers (“ABI”) as evidence that its proposition is clearly differentiated from old style life and pensions companies, finding little alignment of interests with the broader ABI membership.

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

Skandia continues to receive awards for its service and investment innovation

In recognition of its leading customer service Skandia achieved a five star rating in the industry *Financial Adviser Awards* for the eleventh year running and became the first company to win the *Outstanding Achievement Award for Pensions*

and Investments. Skandia has now won more than 30 five star awards in the 18 year history of the *Financial Adviser Awards*.

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

Principal risks and uncertainties

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

Outlook

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

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

EUROPE: NORDIC

Strong year with excellent sales performance and strengthened relations with distributors

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

* Restated, as now reporting on an MCEV basis

Strong net client cash flows

Net client cash flows for the year were an exceptional SEK7.0 billion, representing 6% of opening funds under management. The positive performance was largely driven by strong net inflows in the life business benefiting from an excellent sales performance and reduced outflows. However, volatile equity markets negatively impacted asset growth during the year, with funds under management at 31 December 2008 down 21% to SEK91.9 billion.

Sales performance continued to improve

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

Mutual fund sales were down 8% on 2007, mainly due to lower inflows to fund deposits within our bank offering, partially offset by growth through other channels. This growth was mainly through deposits in fixed income and money market funds and through a hedge fund launched in the third quarter.

VNB grew strongly in 2008

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

Strong underlying adjusted operating profits despite market turbulence

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

The adjusted operating profit (MCEV basis) was up 109% on 2007 mainly due to strong VNB growth and the positive effect from assumption changes. In 2007 there was a negative effect of SEK526 million relating to strengthened retention assumptions and lower fund charges on “tick-the-box” collective agreements and tendered corporate business. In 2008 the effect from operating assumption changes was SEK391 million which was mainly attributable to the introduction of currency spreads and increased assumption for the take-up rate for unit-linked contracts on retirement, partly offset by

strengthened retention assumptions. Experience variances in 2008 of SEK142 million were driven by a higher level of fee income than assumed, tax and profits not valued within the value of in-force (e.g. Healthcare Business) partly offset by a negative retention effect mainly caused by premium reductions due to a Swedish legislative change relating to the level of tax deductible pension savings contributions.

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

SkandiaBanken is completely funded by deposits and therefore has a unique liquidity position enabling it to benefit from the current market situation with an improved interest margin and increased business volumes. SkandiaBanken has sufficient surplus liquidity and management continue to ensure that the liquidity position remains strong. The capital ratio as at 31 December 2008 was 14.1% (Basel II, pillar one). SkandiaBanken's lending portfolio has been built on sound lending practices and is comprised of 95% mortgages which have excellent credit worthiness with the remaining 5% comprised of unsecured loans. The average loan-to-value in the portfolio at the end of the year was approximately 40% to 45%. As a consequence, the bank has only been marginally affected by the market turbulence. The credit loss ratio (credit losses as a percentage of the opening lending balance) remains low at only 0.13%. The net interest margin was 1.67% in 2008 compared to 1.32% in 2007. We are confident SkandiaBanken's conservative lending policy means it is well positioned to respond to any adverse market developments.

Both deposit and loan books at SkandiaBanken increased in 2008. Excluding the divested car finance business, lending increased to SEK43.8 billion, up 9% since 2007. The increase related mainly to successful mortgage campaigns during the year in Sweden together with a highly competitive floating interest rate which led to increased lending volumes. As a consequence of the turbulent market conditions, customers have been switching funds from ordinary saving accounts with variable interest rates to saving accounts with fixed interest rates. Deposits of SEK52.0 billion were up 3% since 2007 and the number of customers increased 7% over 2007. SkandiaBanken's operating profit for 2008 was SEK283 million, 48% higher than 2007.

Capital

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

Other

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

As announced on 3 October 2008, a ruling has been passed in respect of the arbitration proceedings between Skandia AB and Skandia Liv. The arbitration board did not accept Skandia Liv's claim to any part of the purchase price paid, but ruled that Skandia AB is obliged to pay Skandia Liv a total sum of SEK580 million (£47 million) plus interest by way of compensation in relation to fees under the asset management agreement which Skandia Liv deemed to be higher than prevailing market rates. Old Mutual had already set aside SEK500 million (£41 million) to cover the arbitration within our pre-acquisition balance sheet. Skandia AB will also have to compensate Skandia Liv for future payments to DnB NOR that are higher than prevailing market rates until the contract with DnB NOR expires in 2013. A new provision of SEK 426 million has therefore been set up.

Principal risks and uncertainties

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

Outlook

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

Business Review

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

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

EUROPE: EUROPE AND LATIN AMERICA (ELAM)

Continuous innovation and customer focus in response to difficult market conditions

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

* Restated, as now reporting on an MCEV basis

Strongly positive net client cash flow during market volatility

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

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

Life sales impacted by constrained sales environment

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

Focused activity to support mutual fund sales

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

Value of new business and profit margins down

VNB of €13 million was down 77% over 2007, mainly as a result of lower sales in 2008 in light of the market crisis. In addition, VNB was negatively affected by changes in operating assumptions, where in particular the changed regulation on policyholder profit participation reduced the German VNB. The APE margin deteriorated to 6% from 20% in 2007. This was attributed to lower APE sales, which for the more recently established businesses was aggravated by a

relatively fixed expense base leading to acquisition expense over-runs. In addition, the strong sales of high margin business in Poland in 2007 was not sustained in 2008.

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

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

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

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

Capital

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

Market recognition of customer focus and innovation

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

These innovations have been well received by the market, as can be judged from the various product and service awards won during the year, as well as from feedback on internal and external surveys undertaken.

Business restructure

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

'Affluent' targets the affluent segment and currently comprises the businesses in France, Italy and Spain. 'Mass Retail' meets the savings needs of this significant part of the population and comprises the businesses in Germany, Austria, Switzerland, Poland and eastern Europe. This foundation for efficiency in Central Europe and the integration of the Southern European businesses will allow us to take advantage of further efficiency opportunities in the future in the Mass Retail and Affluent businesses.

Principal risks and uncertainties

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

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

Outlook

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

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

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

Our strong performance in net client cash flows and client asset values has supported our market share. We believe that we will be able to capitalise on this further once confidence returns and markets return to more stable growth patterns.

SOUTH AFRICA: LONG-TERM BUSINESS & ASSET MANAGEMENT - OLD MUTUAL SOUTH AFRICA (OMSA)

Excellent results in a very tough environment

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

* Life sales now exclude healthcare business. 2007 sales have been restated from R4,699

** Unit trust / mutual fund sales now include Marriott

^ Restated as now reporting on MCEV basis

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

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

Life recurring premium sales were strong, up 8% over 2007. Sales of recurring premium savings products increased by 16% compared to 2007 driven by an expansion in the Retail Mass segment sales force. High interest rates adversely affected our credit life sales through the banking channel as loan advances dropped. Sales of risk products to the Retail Affluent market were largely flat over 2007 as customers faced affordability problems. In December 2008 we reached an agreement to sell our healthcare business to Lethimvula. As a result we now exclude healthcare sales from our life sales and from our embedded value calculations.

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

VNB grew 20% over 2007 driven by the increase in sales and the increase in the margin as a result of strong with-profit annuity sales in the Corporate Segment where the APE margin increased from 15% in 2007 to an outstanding 23% for

2008. The contribution of the with-profit annuity sales to the APE margin was partly offset by the higher frictional tax costs after reducing the proportion of capital invested in equities. The Retail Affluent margin also declined as a result of the lower proportion of high margin risk business following the fall in credit life sales.

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

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

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

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

Capital position

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

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

At 31 December 2008 the statutory capital requirement reduced 4% to R11,176 million as a result of a decision to hold more cash and reduce our exposure to equities. The impact of lower equity markets and the new regulatory requirement to include allowance for operational risk, credit risk and investment guarantee reserve sensitivity in capital requirements, was offset by higher assumed management actions in the investment resilience scenario used for calculating the capital requirement.

Retail Mass

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

^ Restated, as now reporting on an MCEV basis

Retail Mass sales were up a pleasing 20% over 2007 largely due to strong growth in salaried adviser manpower. The broker and direct channels also delivered strong sales growth. Net client cash flows were 5% ahead of last year. The impact of higher surrenders (indicative of the current economic conditions) and greater volumes of maturing savings business (introduced ten years ago and short term savings business introduced five years ago) was offset by favourable mortality experience.

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

Retail Affluent

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

^ Restated, as now reporting on an MCEV basis

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

Total Retail Affluent life sales on an APE basis increased a solid 3%. Recurring premium sales experienced challenges with inflationary pressures and higher interest rates which impacted negatively on consumer disposable income. Recurring premium savings sales grew by 13% with *Max Investment* recurring premium sales up 6% and a full year contribution from Nedlife's *Dreammaker,* launched in the middle of 2007, producing a 112% increase albeit off a low base.

The shift from life-wrapped savings business to other wrappers continues with non-life recurring premiums up 32% from a relatively low base. *Greenlight* sales grew by 1% as a result of affordability issues among customers and credit life sales declined over 2007 after the reduction in loan volumes as a result of the high interest rate regime and the impact of the National Credit Act.

Life single premium sales were up 4% with living annuities up 20% on 2007 and conventional annuity sales were also solid as a result of the continued competitiveness of our annuity rates, enhanced by a recent re-pricing exercise. Total annuity sales including living annuities were up 11% on 2007. However, *Max Investment* and *Investment Frontiers* single premium sales were down 10% and 1% respectively on 2007 as a result of the impact of market volatility on single premium investments.

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

VNB decreased by 5% despite the overall increase in sales. In addition to the higher frictional tax costs following the change in shareholder investment mandate, (more cash, less equities) the decline was also caused by the lower credit life sales, which have high margins.

Business Review

Corporate Segment

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

^ Restated, as now reporting on an MCEV basis

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

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

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

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

Old Mutual Investment Group South Africa (OMIGSA)

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

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

Business Review

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

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

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

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

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

Principal risks and uncertainties

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

Outlook

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

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

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

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

The year ahead will challenge consumers, businesses and policymakers to adapt their thinking and behaviour to a changing and more challenging economic environment. OMSA's strong capital position, brand loyalty and dominant presence will allow us to compete more aggressively in a market with declining margins and capital restrictions. Our capital position, at more than 3.5 times the required level, and our AAA credit rating are the best in the long-term insurance industry. As a result, we still see opportunities for growth, albeit at lower levels than in the recent past.

SOUTH AFRICA: BANKING - NEDBANK GROUP (NEDBANK)

Resilient performance in a challenging environment

The full text of Nedbank's results for the year ended 31 December 2008, released on 26 February 2009, can be accessed on Nedbank's website http://www.nedbankgroup.co.za

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

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

Banking environment

The South African banking environment is experiencing the effects of a slowing domestic economic cycle and the secondary effects of the global financial crisis. In this challenging economic environment public sector infrastructure spending is expected to continue to provide some support for economic growth in the year ahead. Improved inflation statistics allowed for a 50 basis point decrease in interest rates in December 2008, the first since April 2005. A second cut of 100 basis points followed in February 2009. These interest rate cuts will provide some relief for consumers, but are unlikely to stimulate economic growth in the short term.

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

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

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

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

Financial performance

Given the turmoil in the global financial markets and the slower domestic economy Nedbank is currently adopting a more conservative approach across its operations. We have intensified our focus on increasing capital levels, growing deposits and liquidity, proactive risk management, selectively growing assets in businesses that are well positioned to increase

economic profit, continuing to manage for value in those businesses that have lower economic profit profiles and managing down positions in riskier lines of businesses. At the same time we continue to invest for the future and we are not seeking to maximise short-term profitability at the expense of longer-term sustainability at this point in the cycle.

Adjusted operating profit (IFRS basis) was down 5% to R8,800 million with headline earnings down 3% to R5,765 million. Basic earnings grew by 6% to R6,410 million (2007: R6,025 million). Diluted headline earnings per share (EPS) decreased by 2% from 1,429 cents to 1,401 cents. Diluted EPS grew 7% from 1,454 to 1,558 cents, driven largely by the R622 million after-tax profit on the sale of Visa shares in the first half of the year.

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

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

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

Net interest income (NII)

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

Impairments charge on loans and advances

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

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

Non-interest revenue (NIR)

NIR, excluding Bond Choice's commission and sundry income from the 2007 base, grew by 9% on a like-for-like basis. Total NIR (including Bond Choice in the 2007 base) increased by 3% to R10,729 million.

Commission and fee income grew by 14% on a like-for-like basis (5% including Bond Choice), mainly from volume growth and transactional price increases. Cheque processing fees continue to decrease with the NetBank electronic banking system now implemented for all Business Banking clients and a process of migration initiated for Corporate

Banking clients. Cash handling fees and transactional banking volumes grew strongly due to the growth in customer numbers, reflecting the success of Nedbank's strategy to increase delivery channels, improve customer service and strengthen brand positioning. The sale of Bond Choice reduced commission and fee income by R578 million.

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

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

Expenses

Nedbank continues to invest in its franchise while maintaining a disciplined approach to expenses. Despite high inflation and the increased distribution footprint, expenses continued to be tightly controlled, increasing by 2% to R13,741 million (2007: R13,489 million). On a like-for-like basis, excluding Bond Choice, expenses increased by 5%.

Taxation

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

Non-trading and capital items

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

Capital adequacy

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

Advances and Deposits

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

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

Despite strong growth in retail funding, deposit growth was still largely concentrated in the wholesale market. Management has remained focused on optimising the funding mix and profile of the group through utilising alternate funding sources, concentrating especially on the retail and business banking deposit bases, while pricing competitively for term deposits.

Nedbank's liquidity remains sound. The impact of the global financial crisis on South African markets has, to date, been largely limited to an increased cost of international funding as a result of the reduction in international liquidity. This decreased the banks ability to access such funding and has led to an increase in the cost of - and decrease in appetite for - capital market debt. Given Nedbank's domestic focus, international funding has traditionally not been a large portion

of the group's funding base, while the increase in the pricing of capital market debt has increased the cost of rolling over conduit paper and new subordinated-debt issues, with volumes issued in this market also being lower.

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

Principal risks and uncertainties

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

Nedbank has cultivated and embedded a prudent and conservative risk appetite, primarily focused on the basics of banking in southern Africa. This is illustrated by reference to a number of factors including having neither direct exposure to US subprime credit assets nor associated credit derivative transactions and having conservative credit underwriting practices which have culminated in a high-quality, well-collateralised wholesale book and further tightening of credit criteria in our retail book since 2007 in anticipation of the economic downturn and resulting from the introduction of the National Credit Act. We have reasonable credit concentration risk levels in relation to the South African market with counterparty credit risk being restricted to non-complex, vanilla banking transactions. We have a strong, well-diversified funding deposit base (including a strong retail deposit franchise) and limited offshore funding, low securitisation risk exposure compared to global banks, low leverage ratio compared to global banks and higher ratio of risk-weighted assets to total assets ratio than that of peers, indicative of our appropriately conservative measurement of risk. In addition, we have a low level of assets and liabilities exposed to the volatility of IFRS fair value accounting, our small market trading risk in relation to total bank operations, we have a low interest rate risk in the banking book and we have low equity (investment) risk exposure, having successfully completed our non-core asset disposal strategy in 2007. We have low currency translation risk and an optimal offshore capital structure. Our earnings streams across our full commercial banking activities are well-diversified and our well-diversified subordinated debt profile have no maturities of existing Tier 2 regulatory capital until 2011. We undertake comprehensive stress and scenario testing to confirm the adequacy of our capital ratios and accompanying capital buffers.

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

Outlook

The domestic economy is expected to continue slowing in 2009, with gross domestic product (GDP) growth currently forecast by the Nedbank group at 0.4%. The global financial crisis and resultant recessionary conditions will place more pressure on an already slowing domestic economy. Weaker international trade, lower commodity prices and continued volatility on major financial markets are expected to restrict corporate activity. Consumer finances are likely to remain strained as a result of continued pressure on disposable income, falling asset prices, increasing unemployment and the weaker rand. Lower economic activity is also placing increasing strain on corporates.

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

In light of progress made by Nedbank and taking into account the current economic environment and Nedbank's interest rate expectations, we have revised our medium- to long-term targets and have set short-term objectives for the 2009 financial year. The economic environment remains uncertain and this, together with heightened market volatility, ongoing global uncertainty and the potential for an extended global recession, increases forecast risk. The short-term outlook, which is management's current best estimates for the year ahead, is that the Nedbank headline earnings will reduce by approximately 10% in 2009, but Nedbank will continue to improve its efficiency ratio and strengthen its capital position. This outlook assumes a reduction of 227 basis points in the average prime rate.

SOUTH AFRICA: GENERAL INSURANCE – MUTUAL & FEDERAL

Challenging trading conditions

The full text of Mutual & Federal's results for the year ended 31 December 2008, released on 6 February 2009, can be accessed on Mutual & Federal's website http://www.mf.co.za

Highlights (Rm)	**2008**	2007	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**1,169**	1,256	(7%)
Gross premiums*	**9,159**	9,323	(2%)
Earned premiums*	**7,669**	7,948	(4%)
Claims ratio*	**67.1%**	65.8%	
Combined ratio*	**96.1%**	95.4%	
Solvency ratio*	**41%**	42%	
Return on capital* (3 year average)	**33.9%**	31.7%	

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

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

Adjusted operating profit (IFRS basis) declined following the lower underwriting margin, but was partially offset by the impact of a higher LTIR. This added R57 million to our Adjusted Operating Profit. The profit attributable to equity shareholders declined 117%, primarily as a result of a reduction in the value of listed equities. The underwriting surplus for the year declined by 18% but the 2007 result was positively impacted by the release of R96 million from reserves following refinements to estimation methods. Without this adjustment, underwriting profit increased by 11%. Although there were further increases in the frequency and severity of industrial fire claims in the first half of the year, trading conditions improved during the second half. This, together with corrective measures on the underperforming group schemes portfolio resulted in satisfactory levels of underwriting profitability being achieved for the full year. Gross premium income declined by 2% as growth in the commercial portfolios was offset by the cancellation of a number of personal group schemes and a contraction in the risk finance portfolio.

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

Restructuring undertaken during the year

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

Solvency margin in the target range

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

Principal risks and uncertainty

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

Business Review

Outlook

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

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

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

UNITED STATES: US LIFE

Immediate annuity mortality experience and market driven challenges in variable annuity business depress 2008 results

Highlights ($m)	**2008**	2007	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	**(679)**	195	(448%)
Return on equity	**(50.0%)**	5.9%	
Adjusted operating (loss) / profit (covered business) (MCEV basis) (post-tax)	**(1,112)**	65	(1,811%)
Return on embedded value (covered business)	**(121.4%)**	4.1%	
Life assurance sales (APE)	**519**	671	(23%)
Value of new business	**(122)**	63*	(294%)
APE margin	**(23%)**	9%*	
PVNBP	**4,990**	6,375*	(22%)
PVNBP margin	**(2.4%)**	1.0%*	
Net client cash flows ($bn)**	**1.0**	1.6	(38%)
Funds under management ($bn)**	**20.7**	24.1	(14%)

* Restated, as now reporting on an MCEV basis

** Stated on a start manager basis as USAM manages funds on behalf of US Life

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

Despite the turbulent markets, net client cash flows were 4% of opening funds under management. Funds under management ended the year at $20.7 billion, down 14% from the opening position primarily due to a 21% decrease in the market value of funds under management. The net unrealised loss on the fixed income portfolio increased by $2.3 billion to $2.6 billion and Old Mutual Bermuda (“OMB”) variable annuity separate account asset values decreased by $2.4 billion. The market value decrease was mainly the result of widening credit spreads in the bond markets and dramatic declines in global equity markets.

Sales driven by variable annuities

Total life sales on an APE basis were $519 million, down 23% over 2007. Sales by OMB were the largest contributor to APE. However as a consequence of the high cost of guarantees in the volatile environment, we withdrew the guaranteed variable annuity riders from the Hong Kong book in May, and from the remainder of the business effective 15 August 2008, and therefore the OMB sales in the last four months of the year were significantly lower.

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

Value of new business

VNB reduced by $185 million in 2008 compared to 2007, with a margin of negative 23% compared to 9% in 2007. The decrease in margin was mainly due to the reduction in swap rates, which affects our US Life onshore business by which reducing management capacity to retain additional income above guaranteed minimum crediting rates, the additional provisions for non-modelled risk on OMB variable annuity business sold, and the recognition of higher expected guarantee costs on variable annuity business, in particular on the Hong Kong book.

Review of reserving basis

We continually monitor our assumptions and make adjustments based on experience as appropriate. During 2008 we lowered the mortality assumption for life contingent single premium immediate annuities (“SPIA”), which increased the IFRS reserve and reduced embedded value. We modified the expected lapse rates for deferred and indexed annuities to reflect higher expected surrenders when the contracts exit the surrender charge period, which resulted in DAC unlocking. We also included a non-performance risk factor in discount rates used to determine the indexed annuity embedded derivative liability and the variable annuity guaranteed minimum accumulation benefit (GMAB) liability, which decreased

the liabilities. Finally, we updated the variable annuity GMAB assumptions related to fund indices, mortality, free partial withdrawal utilisation, services fees and volatility, which resulted in a net decrease in the liability.

Underlying adjusted operating profit (IFRS basis) results

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

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

Market Consistent Embedded Value results

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

Credit update

The markets finished the year on a slightly positive note, as credit spreads tightened from historical wide levels in November. Overall, the markets remained fragile as continued financial sector rescue and economic stimulus initiatives were required to boost economic activity and confidence. The recessionary environment projected for 2009-10 depressed all market sectors.

US Life's fixed income portfolio aggregate credit experience continued to be affected by poor economic and financial market conditions. For 2008, impairments total $768 million on 43 securities with 3 of the 43 being subprime asset-backed securities and another 15 indirectly linked to subprime or monoline insurer exposures. 3.4% of US Life's fixed income portfolio has direct exposure to sub-prime mortgage collateral. The majority of the sub-prime exposure remains highly rated but has experienced several ratings downgrades. Of sub-prime holdings at 31 December 2008, 67% was rated AAA, 80% AA and higher, 93% A and higher with an aggregate 68% fair value-to-book value ratio.

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

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

US Life onshore update

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

Our US Life onshore business is conducted through OM Financial Life and its wholly-owned subsidiary, OM Financial Life of New York. US Life onshore is focused on transforming and scaling its entities to improve performance by drawing the business back to reduced sales volume but more profitable sales, lowering new business capital strain and reducing operating expenses while creating a more efficient foundation for potential future business growth.

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

The specifics of the transformation strategy have been finalised, and the implementation actions required are intended to be in place early in the second quarter of 2009. The preferred outcome will be to allow the business to focus on the distribution channels and products which are most efficient and profitable, such as its fixed annuity products. Key activities for the remainder of the year include managing the investment portfolio to reduce exposures to potential impairment losses in the current fragile credit market conditions.

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

Principal risks and uncertainties

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

Outlook for 2009

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

Experience in previous recessions suggests that this economic downturn will have only a limited effect on sales in the life industry. During the last recession, total new premiums for individual life insurance dipped but were trending upward again before the recession ended. We expect traditional insurance sales to small businesses to be strong as companies recognise the need for asset protection and indemnification, and look for simpler solutions to meet their objectives.

Business Review

We will continue working proactively to improve capital efficiency and investment portfolio performance through measures such as the defensive restructuring of the asset portfolio, reducing exposures to corporations in recession prone sectors, reducing financial credit exposures, upgrading CMBS and subprime portfolios and increasing treasury and liquidity balances

US Life offshore update

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

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

The Universal Guarantee Option ("UGO"), which was launched in January 2007, was an optional benefit connected to the Universal Investment Plan ("UIP"). When selected, the UGO provided a Guaranteed Minimum Accumulation Benefit ("GMAB"), that guaranteed the policyholder's account value would grow by 5% over five years (i.e. if the fund is below 105% of the initial premium, it would be "topped up") and by 20% over 10 years. There was also in some cases a Highest Anniversary Value ("HAV") guarantee on death and / or maturity. The UGO was withdrawn from the Hong Kong book in May, and from the rest of the market on 15 August 2008.

The death and living benefit guarantees, which are embedded within the variable annuity products issued by OMB, have similar risk profiles to "put-type" options. This means that OMB bears the risk associated with market downturns as a result of having sold these guarantees. These "put-type" options are considered to be exotic in nature since policyholder behaviour influences the ultimate payoff. In addition, since the guarantees are defined in US dollars but are backed by funds that are invested in foreign currency denominated securities, OMB bears foreign currency exchange risk in connection with these exposures. Since the funds backing the guarantees are not directly hedgeable, linear combinations of liquid market indices are used to proxy the return of every fund ("fund mapping"). For effective hedging, the explanatory power of these fund mappings should be as high as possible establishing good linkage between the funds and the chosen set of hedgeable indices.

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

Improved fund mapping has enabled OMB to have a much clearer understanding of its exposures in terms of the guarantees it has offered. While considerable basis risk remains, OMB has been able to significantly improve hedge effectiveness, from around 75% measured over the full year, to around 92% in the fourth quarter of 2008. Enhanced attribution reporting has also resulted in a better understanding of the sensitivity of our reserves to changes in the underlying markets. As a general guidance, a 1% decrease in equity markets results in a loss of approximately $10 million, a 1% strengthening in the US dollar results in an adverse impact of around $4 million and a 1% parallel increase in volatility costs approximately $15 million.

Better asset and liability management of the margin and bank accounts was instituted in the fourth quarter of 2008 to help increase yields, reduce counterparty exposure and minimise unintentional currency exposure. 24 hour monitoring and trading began in October 2008 to improve reaction time as markets moved around the globe. Moreover, enhanced valuation methodologies to ensure assets and liabilities were calculated on a consistent basis helped remove unnecessary profit and loss volatility. A new product development process has been implemented, which includes the

sign-off of product by the Group Chief Actuary, as well as the sign-off of the hedging strategy and hedge cost by the Chief Investment Officer and risk tolerance by the Chief Risk Officer.

On 5 November 2008, OMB announced an offer permitting direct customers (excluding the Hong Kong book, on which OMB is the reinsurer) who had elected the UGO guarantee riders, many of whom had seen their initial investments fall substantially, to accelerate the guarantees under these riders. The UGO Acceleration Plan enabled customers to receive an immediate top-up to their account value to 85% of their initial investment (less any subsequent redemptions). In return, all guarantees would be terminated and the fees associated with these guarantees would no longer be charged. The offer was closed on 28 November 2008, with 14% of policyholders subjected to the offer accepting the take-up. Such measures represented a further step in de-risking the business and resulted in a cash payout of $94.5 million, and a release of reserves of $133.4 million.

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

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

OMB is confident that a return to more normal market conditions and the launch of a range of new hedgeable products will underpin a good recovery in profitability, although some modest volatility in earnings is still expected in the medium term.

Principal risks and uncertainties

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

Outlook for 2009

In 2009, OMB aims to rebuild its position as a leading distribution platform. It does face challenges in terms of delivering innovative new products that will meet customers' needs within our risk appetite. However, a return to more normal market conditions and the launch of a range of new hedgeable products will underpin a good recovery in profitability.

UNITED STATES: US ASSET MANAGEMENT

Results dampened due to difficult market conditions

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

Investment performance strong through a difficult investing environment

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

Net flows and funds under management impacted by market turbulence

Net client cash flows for the year were a solid $1.5 billion, however including securities lending at Dwight Asset Management which we suspended in the third quarter, total outflows were $5.2 billion. Given the difficult market conditions and the net outflows being experienced across the industry, our result for the year was encouraging and favourable to our peers. Affiliates contributing positive flows included Heitman, The Campbell Group, Rogge Global Partners, Ashfield Capital Partners, 2100 Xenon Group and Larch Lane Advisors. Our track record of investment performance coupled with our diverse multi-boutique model positions us well to continue to attract net inflows despite the current market climate.

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

Retail sales challenges

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

Adjusted operating profit (IFRS basis) down 44%

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

Continued focus on product development and distribution

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

Business Review

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

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

Risk management

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

An independent review of risk management across Old Mutual involving external experts was completed during 2008, and we have implemented a number of initiatives to improve our governance, risk management and internal control processes including implementation of an Enterprise Risk Management programme. These improvements include the recruitment of significant additional risk and compliance personnel at Group and Business Unit level; the development and roll out of a global risk appetite framework; the development of comprehensive and focused risk reporting, including introduction of a risk recording and reporting tool; the implementation of a revised and more comprehensive risk categorisation model at Group; the revision of the Old Mutual policy suite and framework to reflect increased oversight from Group Risk over Business Units; and the development of formal standards for internal loss data collection and increased use of Key Risk Indicators.

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

Principal risks and uncertainties

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

Outlook

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

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

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

OTHER: ASIA PACIFIC

Continued focus on existing businesses

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

* This represents 100% of the businesses; OM owns 50% of Skandia:BSAM and 26% of KMOM

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

During 2008, we continued to focus on broadening our footprint in the Asia Pacific region through new initiatives, increasing distribution and our expanding product. Our portfolio of businesses consists of a retail mutual funds platform and institutional asset manager in Australia, a joint venture with the Beijing State-owned Asset Management Company in China selling unit-linked and the newly-launched universal life products (Skandia:BSAM) and a 26% holding in a life assurance venture in India (Kotak Mahindra Old Mutual).

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

Results impacted by current market conditions

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

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

Principal risks and uncertainties

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

Outlook

Although we believe there is good long-term growth in the Asia Pacific region, we have decided for the foreseeable future to scale back our aspirations for this area. We have therefore reached an agreement to sell our Australian business and rein back our expansion plans to focus on our established businesses in India and China. Reflecting this change in strategy we have decided to close our regional head office in Hong Kong.

Statement of directors' responsibilities in respect of the preliminary announcement of the Annual Report and the financial statements

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole;

- The Group Finance Director's review and the Business review includes a fair view of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the important events, principal risks and uncertainties that they face.

Julian Roberts
Chief Executive

4 March 2009

Philip Broadley
Group Finance Director

4 March 2009

Consolidated income statement

For the year ended 31 December 2008

	Notes	Year ended 31 December 2008	£m Year ended 31 December 2007 Restated*
Revenue			
Gross earned premiums	3(iii)	**5,156**	5,566
Outward reinsurance		**(335)**	(293)
Net earned premiums		**4,821**	5,273
Investment return (non-banking)		**(11,578)**	6,318
Banking interest and similar income		**4,059**	3,190
Banking trading, investment and similar income		**162**	170
Fee and commission income, and income from service activities		**2,313**	2,475
Other income		**270**	245
Total revenues		**47**	17,671
Expenses			
Claims and benefits (including change in insurance contract provisions)		**(3,610)**	(7,193)
Reinsurance recoveries		**262**	236
Net claims and benefits incurred		**(3,348)**	(6,957)
Change in investment contract liabilities		**10,051**	(2,618)
Losses on loans and advances		**(319)**	(157)
Finance costs		**392**	(50)
Banking interest payable and similar expenses		**(2,853)**	(2,053)
Fee and commission expenses, and other acquisition costs		**(937)**	(778)
Other operating and administrative expenses		**(2,834)**	(2,813)
Goodwill impairment	4(ii)	**(74)**	(3)
Change in third party interest in consolidated funds		**779**	(156)
Amortisation of PVIF and other acquired intangibles	4(ii)	**(361)**	(360)
Total expenses		**496**	(15,945)
Share of associated undertakings' loss after tax		**(1)**	(1)
Profit on disposal of subsidiaries, associated undertakings and strategic investments	4(iii)	**53**	25
Profit before tax		**595**	1,750
Income tax credit/(expense)	5(i)	**88**	(504)
Profit after tax for the financial year		**683**	1,246
Profit for the financial year attributable to:			
Equity holders of the parent		**441**	972
Minority interests			
Ordinary shares	6(i)	**188**	224
Preferred securities	6(ii)	**54**	50
Profit after tax for the financial year		**683**	1,246
Earnings per share			
Basic earnings per ordinary share (pence)	7(i)	**8.6**	19.2
Diluted earnings per ordinary share (pence)	7(i)	**8.1**	18.1
Weighted average number of shares – millions		**4,755**	4,894

*2007 results have been restated to include Mutual & Federal as a continuing operation.

Reconciliation of adjusted operating profit to profit after tax

For the year ended 31 December 2008

Reconciliation of adjusted operating profit to profit after tax

	Notes	Year ended 31 December 2008 (£m)	Year ended 31 December 2007 Restated* (£m)
Europe	3(ii)	**266**	268
South Africa	3(ii)	**1,191**	1,254
United States	3(ii)	**(270)**	260
Other	3(ii)	**(17)**	2
		1,170	1,784
Finance costs		**(140)**	(119)
Other shareholders' expenses		**(31)**	(41)
Adjusted operating profit[2] before tax		**999**	1,624
Adjusting items	4(i)	**(168)**	66
Profit for the financial year before tax (excluding policyholder tax)		**831**	1,690
Income tax attributable to policyholder returns	3(ii)	**(236)**	60
Profit for the financial year before tax		**595**	1,750
Total income tax expense	5(i)	**88**	(504)
Profit after tax for the financial year		**683**	1,246

Adjusted operating profit after tax attributable to ordinary equity holders

	Notes	Year ended 31 December 2008 (£m)	Year ended 31 December 2007 Restated (£m)
Adjusted operating profit[2] before tax		**999**	1,624
Tax on adjusted operating profit	5(iii)	**(86)**	(418)
Adjusted operating profit[2] after tax		**913**	1,206
Minority interest – ordinary shares	6(iii)	**(218)**	(242)
Minority interest – preferred securities	6(ii)	**(54)**	(50)
Adjusted operating profit[2] after tax attributable to ordinary equity holders		**641**	914
Adjusted weighted average number of shares – (millions)	7(i)	**5,230**	5,411
Adjusted operating earnings per share[3] – (pence)	7(ii)	**12.2**	16.9

Basis of preparation

1 The reconciliation of adjusted operating profit has been prepared so as to reflect the Directors' view of the underlying long-term performance of the Group. The statement reconciles adjusted operating profit to profit after tax as reported under IFRS as adopted by the EU.

2 For long-term business and general insurance businesses, adjusted operating profit is based on a long-term investment return, includes investment returns on life funds' investments in Group equity and debt instruments, and is stated net of income tax attributable to policyholder returns. For the US Asset Management business it includes compensation costs in respect of certain long-term incentive schemes defined as minority interests in accordance with IFRS. For all businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, revaluations of put options related to long-term incentive schemes, the impact of closure of unclaimed shares trusts, profit/ (loss) on disposal of subsidiaries, associated undertakings and strategic investments, dividends declared to holders of perpetual preferred callable securities, and fair value profits/ (losses) on certain Group debt movements.

3 Adjusted operating earnings per ordinary share is calculated on the same basis as adjusted operating profit. It is stated after tax attributable to adjusted operating profit and minority interests. It excludes income attributable to Black Economic Empowerment trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and Black Economic Empowerment trusts

*2007 results have been restated to include Mutual & Federal as a continuing operation.

Consolidated balance sheet

At 31 December 2008

	Notes	At 31 December 2008	£m At 31 December 2007
Assets			
Goodwill and other intangible assets		**5,882**	5,459
Mandatory reserve deposits with central banks		**734**	615
Property, plant and equipment		**682**	608
Investment property		**1,478**	1,479
Deferred tax assets		**1,590**	683
Investments in associated undertakings and joint ventures		**111**	81
Deferred acquisition costs		**3,199**	2,253
Reinsurers' share of long-term business policyholder liabilities		**1,148**	1,394
Reinsurers' share of general insurance liabilities		**115**	–
Deposits held with reinsurers		**164**	213
Loans and advances		**35,745**	30,687
Investments and securities		**83,522**	89,627
Current tax receivable		**118**	83
Client indebtedness for acceptances		**220**	165
Other assets		**3,137**	2,774
Derivative financial instruments – assets		**4,633**	1,527
Cash and cash equivalents		**2,862**	3,469
Non-current assets held-for-sale		**7**	1,623
Total assets		**145,347**	142,740
Liabilities			
Long-term business policyholder liabilities		**81,269**	84,251
General insurance liabilities		**344**	–
Third party interests in consolidated funds		**2,591**	3,547
Borrowed funds	8	**2,295**	2,353
Provisions	9	**477**	499
Deferred revenue		**598**	462
Deferred tax liabilities		**1,452**	1,413
Current tax payable		**219**	320
Other liabilities		**3,733**	6,180
Liabilities under acceptances		**220**	165
Amounts owed to bank depositors		**38,171**	31,817
Derivative financial instruments – liabilities		**4,395**	1,716
Non-current liabilities held-for-sale		**6**	420
Total liabilities		**135,770**	133,143
Net assets		**9,577**	9,597
Shareholders' equity			
Equity attributable to equity holders of the parent		**7,737**	7,961
Minority interests			
Ordinary shares		**1,147**	933
Preferred securities		**693**	703
Total minority interests		**1,840**	1,636
Total equity		**9,577**	9,597

Consolidated cash flow statement

For the year ended 31 December 2008

		£m
	Year ended 31 December 2008	Year ended 31 December 2007
Cash flows from operating activities		
Profit before tax	**595**	1,750
Capital losses/(gains) included in investment income	**14,183**	(1,836)
Loss on disposal of property, plant and equipment	**3**	4
Depreciation of property, plant and equipment	**74**	73
Amortisation and impairment of goodwill and other intangible assets	**504**	403
Impairment of loans and receivables	**320**	183
Share-based payment expense	**21**	15
Share of associated undertakings' loss after tax	**1**	(1)
Profit arising on disposal of subsidiaries, associated undertakings and strategic investments	**(53)**	(25)
Other non-cash amounts in profit	**(397)**	29
Non-cash movements in profit before tax	**14,656**	(1,155)
Reinsurers' share of long-term business policyholder liabilities	**486**	(53)
Reinsurers' share of general insurance liabilities	**(49)**	–
Deferred acquisition costs	**(370)**	(482)
Loans and advances	**(5,206)**	(5,339)
Insurance liabilities	**282**	1,962
Investment contracts	**(10,260)**	4,124
Amounts owed to bank depositors	**6,110**	4,647
Other operating assets and liabilities	**(4,242)**	(491)
Changes in working capital	**(13,249)**	4,368
Taxation paid	**(458)**	(563)
Net cash inflow from operating activities	**1,544**	4,400
Cash flows from investing activities		
Net acquisitions of financial investments	**(1,170)**	(3,896)
Net acquisition of investment properties	**(7)**	(26)
Net acquisition of property, plant and equipment	**(110)**	(186)
Net acquisition of intangible assets	**(18)**	(67)
Acquisition of interests in subsidiaries	**(93)**	(278)
Disposal of interests in subsidiaries, associated undertakings and strategic investments	**1,138**	106
Net cash outflow from investing activities	**(260)**	(4,347)
Cash flows from financing activities		
Dividends paid to:		
Equity holders of the Company	**(352)**	(333)
Equity minority interests and preferred security interests	**(208)**	(205)
Interest paid (excluding banking interest paid)	**(87)**	(83)
Proceeds from issue of ordinary shares (including by subsidiaries to minority interests)	**31**	70
Net sale of treasury shares	**5**	149
Shares repurchased in buyback programme	**(175)**	(177)
Net receipts from unclaimed shares trust	**–**	95
Issue of subordinated and other debt	**374**	699
Other debt repaid	**(225)**	(356)
Net cash outflow from financing activities	**(637)**	(141)

	£m	
	Year ended 31 December 2008	Year ended 31 December 2007
Net increase/(decrease) in cash and cash equivalents	**647**	(88)
Effects of exchange rate changes on cash and cash equivalents	**399**	50
Cash and cash equivalents at beginning of the year	**3,596**	3,634
Cash and cash equivalents at end of the year	**4,642**	3,596
Consisting of:		
Coins and bank notes	**221**	211
Money at call and short notice	**2,453**	3,169
Balances with central banks (other than mandatory reserve deposits)	**188**	121
Cash and cash equivalents from non-current assets held-for-sale	**–**	(32)
Cash and cash equivalents	**2,862**	3,469
Mandatory reserve deposits with central banks	**734**	615
Short term cash balances held in policy holder funds	**2,043**	808
Cash and cash equivalents subject to consolidation of funds	**(997)**	(1,296)
Total	**4,642**	3,596
Other supplementary cash flow disclosures		
Interest income received (including banking interest)	**5,370**	4,858
Dividend income received	**493**	388
Interest paid (including banking interest)	**3,064**	2,130

Cash flows presented in this statement include all cash flows relating to policyholders' funds for the long-term business.

Cash and cash equivalents subject to consolidation of funds are not included in the cash flow as they relate to the minority holding in the funds.

Management do not consider that there are material amounts of cash and cash equivalents which are not available for use by the Group.

Mandatory reserve deposits with central banks held by Nedbank are included in Cash and cash equivalents for the purposes of the cash flow statement in line with market practice in South Africa.

Consolidated statement of changes in equity

For the year ended 31 December 2008

Year ended 31 December 2008	Notes	Millions Number of shares issued and fully paid	£m Attributable to equity holders of the parent	Total minority interest	Total equity
Equity holders' funds at beginning of the year		**5,510**	**7,961**	**1,636**	**9,597**
Changes in equity arising in the year					
Fair value gains/(losses):					
Property revaluation		–	16	–	16
Net investment hedge		–	281	–	281
Available-for-sale investments:					
Fair value losses		–	(1,635)	–	(1,635)
Recycled to the income statement		–	414	–	414
Shadow accounting		–	26	–	26
Currency translation differences/exchange differences on translating foreign operations		–	419	10	429
Other movements		–	(23)	91	68
Aggregate tax effect of items taken directly to or transferred from equity		–	366	–	366
Net income recognised directly in equity		–	(136)	101	(35)
Profit after tax for the financial year		–	441	242	683
Total recognised income and expense for the year		–	305	343	648
Dividends for the year	10	–	(395)	(165)	(560)
Net sale of treasury shares		–	5	–	5
Shares repurchased in the buyback programme		–	(175)	–	(175)
Issue of ordinary share capital by the Company		–	5	–	5
Change in participation in subsidiaries		–	–	26	26
Exercise of share options		6	5	–	5
Fair value of equity settled share options		–	26	–	26
Equity holders' funds at end of the year		**5,516**	**7,737**	**1,840**	**9,577**

Year ended 31 December 2008	Notes	Share capital	Share premium	Other reserves	Translation reserve	Retained earnings	Perpetual preferred callable securities	Total £m
Attributable to equity holders of the parent at beginning of the year		**551**	**757**	**2,908**	**(304)**	**3,361**	**688**	**7,961**
Changes in equity arising in the year:								
Fair value gains/(losses):								
Property revaluation		**–**	**–**	**16**	**–**	**–**	**–**	**16**
Net investment hedge		**–**	**–**	**–**	**281**	**–**	**–**	**281**
Available-for-sale investments:								
Fair value losses		**–**	**–**	**(1,635)**	**–**	**–**	**–**	**(1,635)**
Recycled to income statement				**414**	**–**	**–**	**–**	**414**
Shadow accounting		**–**	**–**	**26**	**–**	**–**	**–**	**26**
Currency translation differences/exchange differences on translating foreign operations		**–**	**–**	**–**	**419**	**–**	**–**	**419**
Other movements		**–**	**–**	**8**	**3**	**(34)**	**–**	**(23)**
Aggregate tax effect of items taken directly to or transferred from equity		**–**	**–**	**367**	**(13)**	**–**	**12**	**366**
Net income recognised directly in equity		**–**	**–**	**(804)**	**690**	**(34)**	**12**	**(136)**
Profit for the financial year attributable to equity holders of the parent		**–**	**–**	**–**	**–**	**410**	**31**	**441**
Total recognised income and expense for the year		**–**	**–**	**(804)**	**690**	**376**	**43**	**305**
Dividends for the year	10	**–**	**–**	**–**	**–**	**(352)**	**(43)**	**(395)**
Net sale of treasury shares		**–**	**–**	**–**	**–**	**5**	**–**	**5**
Shares repurchased in the buyback programme		**–**	**–**	**–**	**–**	**(175)**	**–**	**(175)**
Issue of ordinary share capital by the Company		**–**	**5**	**–**	**–**	**–**	**–**	**5**
Exercise of share options		**1**	**4**	**–**	**–**	**–**	**–**	**5**
Fair value of equity settled share options		**–**	**–**	**26**	**–**	**–**	**–**	**26**
Attributable to equity holders of the parent at end of the year		**552**	**766**	**2,130**	**386**	**3,215**	**688**	**7,737**

Other reserves	£m At 31 December 2008
Merger reserve	**2,716**
Available-for-sale reserve	**(844)**
Property revaluation reserve	**85**
Share-based payments reserve	**171**
Other reserves	**2**
Attributable to equity holders of the parent at end of the year	**2,130**

Retained earnings were reduced by £280 million at 31 December 2008 in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

Included within other reserves is the merger reserve for the additional share consideration made in respect of the Skandia acquisition, being the difference between the market value of the shares on the date of issue and the nominal value included as share capital.

Consolidated statement of changes in equity

For the year ended 31 December 2008 continued

Year ended 31 December 2007	Notes	Millions Number of shares issued and fully paid	£m Attributable to equity holders of the parent	Total minority Interest	Total equity
Equity holders' funds at beginning of the year		5,501	7,237	1,526	8,763
Changes in equity arising in the year					
Fair value gains/(losses):					
Property revaluation		–	95	1	96
Net investment hedge		–	(13)	–	(13)
Available-for-sale investments:					
Fair value losses		–	(197)	–	(197)
Recycled to the income statement		–	36	–	36
Shadow accounting		–	25	–	25
Currency translation differences/exchange differences on translating foreign operations		–	129	4	133
Other movements		–	(4)	–	(4)
Aggregate tax effect of items taken directly to or transferred from equity		–	34	–	34
Net income recognised directly in equity		–	105	5	110
Profit after tax for the financial year		–	972	274	1,246
Total recognised income and expense for the year		–	1,077	279	1,356
Dividends for the year	10	–	(373)	(165)	(538)
Net sale of treasury shares		–	149	–	149
Shares repurchased in the buyback programme		–	(177)	–	(177)
Issue of ordinary share capital by the Company		–	3	–	3
Change in participation in subsidiaries		–	–	(4)	(4)
Exercise of share options		9	9	–	9
Fair value of equity settled share options		–	36	–	36
Equity holders' funds at end of the year		5,510	7,961	1,636	9,597

Year ended 31 December 2007	Notes	Share capital	Share premium	Other reserves	Translation reserve	Retained earnings	Perpetual preferred callable securities	Total
								£m
Attributable to equity holders of the parent at beginning of the year		550	746	2,901	(421)	2,773	688	7,237
Changes in equity arising in the year:								
Fair value gains/(losses):								
Property revaluation		–	–	95	–	–	–	95
Net investment hedge		–	–	–	(13)	–	–	(13)
Available-for-sale investments:								
Fair value losses		–	–	(197)	–	–	–	(197)
Recycled to income statement on realisation		–	–	36	–	–	–	36
Shadow accounting		–	–	25	–	–	–	25
Currency translation differences/exchange differences on translating foreign operations		–	–	–	129	–	–	129
Other movements		–	–	(10)	(2)	8	–	(4)
Aggregate tax effect of items taken directly to or transferred from equity		–	–	22	3	–	9	34
Net income recognised directly in equity		–	–	(29)	117	8	9	105
Profit for the financial year attributable to equity holders of the parent		–	–	–	–	941	31	972
Total recognised income and expense for the year		–	–	(29)	117	949	40	1,077
Dividends for the year	10	–	–	–	–	(333)	(40)	(373)
Net sale of treasury shares		–	–	–	–	149	–	149
Shares repurchased in the buyback programme		–	–	–	–	(177)	–	(177)
Issue of ordinary share capital by the Company		–	3	–	–	–	–	3
Exercise of share options		1	8	–	–	–	–	9
Fair value of equity settled share options		–	–	36	–	–	–	36
Attributable to equity holders of the parent at end of the year		551	757	2,908	(304)	3,361	688	7,961

Other reserves	£m At 31 December 2007
Merger reserve	2,716
Available-for-sale reserve	(30)
Property revaluation reserve	75
Share-based payments reserve	147
Attributable to equity holders of the parent at end of the year	2,908

Retained earnings were reduced by £588 million at 31 December 2007 in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

Included within other reserves is the merger reserve for the additional share consideration made in respect of the Skandia acquisition, being the difference between the market value of the shares on the date of issue and the nominal value included as share capital.

Notes to the consolidated financial statements

For the year ended 31 December 2008

1 Accounting policies

Basis of preparation

The consolidated financial information contained herein has been prepared in accordance with International Financial Reporting Standards adopted by the EU. The Group's results for the year ended 31 December 2008 and the position at that date have been prepared using accounting policies consistent with those applied in the preparation of the Group's 2007 Annual Report and Accounts, except as set out below.

The financial information set out herein does not constitute the Company's statutory accounts for the years ended 31 December 2008 or 2007. Statutory accounts for 2007 have been delivered to the Registrar of Companies, and those for 2008 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports, and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

Segment presentation

There has been a presentational change in the way segmental information is reflected in the notes to more closely align the disclosure with the way that management and the Board of Directors considers information when making operating decisions and is the basis on which resources are allocated and performance assessed by management and the Board of Directors. The Group's results are now analysed across nine reportable segments. For purposes of presentation these are grouped in geographical areas. The reported segments are Skandia UK, Nordic and ELAM, Old Mutual South Africa, Nedbank, Mutual & Federal, Rest of Africa, US Life and US Asset Management. Information about other business activities and operating segments is disclosed in the 'other reportable segments' category. Other segments comprise the Asia Pacific asset management business and Group head office.

There are four principal business activities from which the Group generates revenues. These are long-term business (premium income), asset management business (fee and commission income), banking (banking interest receivable and) and general insurance (premium income). The revenues generated in each reported segment can be seen in the analysis of profits and losses in note 3(ii).

The information reflected in note 3 reflects the measures of profit and loss, assets and liabilities for each segment as regularly provided to management and the Board of Directors. There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments. A reconciliation between the reported segment revenues and expenses and the Group's revenues and expenses is shown in note 3(ii).

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices. Given the nature of the operations, there are no major customers within any of the segments.

Reallocations of certain comparative segment information have been made following changes in the Group's management reporting structure, effective 1 January 2008. There was no impact on net profit or net assets.

Amendments to IAS 39 'Financial instruments: Recognition and Measurement' – reclassification of financial assets

The amendments to IAS 39 'Financial instruments: Recognition and Measurement', issued in October 2008, in respect of the reclassification of financial assets, have been adopted in these financial statements. Under the extended reclassification rules introduced by the amendments an entity has the ability to reclassify financial instruments from the held-for-trading and available-for-sale categories in certain specified rare circumstances. The Group's accounting policies have been updated to reflect the amendments to the standard. The Group's US Life business has applied the amendments to certain financial assets previously categorised as available-for-sale, which it has reclassified to the loans and receivables category. This reclassification was implemented as at 1 July 2008 in accordance with the transitional provisions in the IAS 39 amendment. As a result, assets with a carrying value of £926m at 1 July 2008 have been reclassified from available-for-sale to loans and receivables. Net decreases in the fair value of the reclassified assets in the period from 1 July 2008 to 31 December 2008, amounting to £284m, have consequently not been reflected in the available-for-sale reserve in equity. There was no impact on the Group's IFRS profit or Adjusted operating profit, before or after tax, as a result of the introduction of the amendments.

2 Foreign currencies

The principal exchange rates used to translate the operating results, assets and liabilities of key foreign business segments to Sterling are:

	Income statement (average rate)	Balance sheet (closing rate)
31 December 2008		
Rand	**15.2948**	**13.7194**
US Dollars	**1.8524**	**1.4575**
Swedish Kronor	**12.2209**	**11.4494**
Euro	**1.2594**	**1.0446**
31 December 2007		
Rand	14.1109	13.6043
US Dollars	2.0014	1.9827
Swedish Kronor	13.5253	12.8320
Euro	1.4602	1.3596

3 Segment information

(i) Basis of segmentation

The Group's results are analysed across nine reportable segments. For purposes of presentation these are grouped in geographical areas. This is consistent with the way that management and the Board of Directors considers information when making operating decisions and is the basis on which resources are allocated and performance assessed by management and the Board of Directors. The Group generates revenue from four principal business activities: long-term business, asset management, banking and general insurance. The types of products and services from which each reportable segment derives its revenues are as follows:

Europe – Skandia UK – long-term business and asset management

Europe – Nordic – long-term business, asset management and banking

Europe – ELAM – long-term business and asset management

South Africa – OMSA – long-term business and asset management

South Africa – Nedbank – banking and asset management

South Africa – Mutual & Federal – general insurance

South Africa – Rest of Africa – long-term business and asset management (includes Namibia)

United States – US Life – long-term business

United States – USAM – asset management

Information about other business activities and operating segments is disclosed in the 'other reportable segments' category. Other segments comprise the Asia Pacific asset management business and Group head office.

Adjusted operating profit is one of the key measures reported to the Group's management and Board of Directors for their consideration in the allocation of resources to and the review of performance of the segments. The Group utilises additional measures to assess the performance of each of the segments, in particular the level of funds under management. Additional performance measures considered by management and the Board of Directors in assessing the performance of the segments can be found in the Old Mutual Market Consistent Embedded Value information presented on pages 80-117.

Comparative segment information has been revised in accordance with the improvements in presentation made in the current financial year.

In the analysis that follows, consolidation adjustments include the elimination of inter-segment revenues, expenses, assets and liabilities together with the impacts of the consolidation of the Group's interest in unit trusts, mutual funds and similar entities.

3 Segment information continued

(ii) Adjusted operating profit statement – segment information year ended 31 December 2008

	Europe			South Africa	
	UK	Nordic	ELAM	OMSA	Nedbank
Revenue					
Gross earned premiums	131	92	92	1,587	–
Outward reinsurance	(78)	(4)	(8)	(45)	–
Net earned premiums	53	88	84	1,542	–
Investment return (non–banking)	(6,165)	(2,317)	(1,436)	(305)	–
Banking interest and similar income	–	266	–	–	3,793
Banking trading, investment and similar income	–	24	–	–	138
Fee and commission income, and income from service activities	667	184	316	185	533
Other income	14	20	2	97	85
Inter–segment revenues	104	104	29	227	19
Total revenues	(5,327)	(1,631)	(1,005)	1,746	4,568
Expenses					
Claims and benefits (including change in insurance contract provisions)	(38)	(68)	(103)	(648)	–
Reinsurance recoveries	34	4	2	41	–
Net claims and benefits incurred	(4)	(64)	(101)	(607)	–
Change in investment contract liabilities	5,991	2,390	1,466	184	–
Losses on loans and advances	–	(4)	–	–	(315)
Finance costs	–	–	–	–	–
Banking interest payable and similar expenses	–	(183)	–	–	(2,684)
Fee and commission expenses, and other acquisition costs	(330)	(49)	(151)	(150)	–
Other operating and administrative expenses	(333)	(193)	(166)	(487)	(928)
Goodwill impairment	–	–	–	–	–
Change in third party interest in consolidated funds	–	–	–	–	–
Amortisation of PVIF and other acquired intangibles	–	–	–	–	–
Income tax attributable to policyholder returns	283	(52)	(1)	7	–
Inter–segment expenses	(113)	(126)	(31)	(177)	(71)
Total expenses	5,494	1,719	1,016	(1,230)	(3,998)
Share of associated undertakings' profit/(loss) after tax	–	–	–	6	5
Profit on disposal of subsidiaries, associated undertakings and strategic investments	–	–	–	–	–
Adjusted operating profit/(loss) before tax and minority interests	167	88	11	522	575
Tax expense	(56)	(11)	(14)	(155)	(123)
Minority interests	–	–	–	(5)	(227)
Adjusted operating profit/(loss) after tax and minority interests	111	77	(3)	362	225
Adjusting items net of tax and minority interests	55	(122)	(16)	104	29
Profit/(loss) after tax attributable to equity holders of the parent	166	(45)	(19)	466	254

3 Segment information continued

(ii) Adjusted operating profit statement – segment information year ended 31 December 2008 continued

		United States						£m
M & F	Rest of Africa	US Life	USAM	Other operating segments	Consolidation adjustments	Adjusted operating profit Total reportable segments	Adjusting items (Note 4)	IFRS Income statement
570	85	2,599	–	–	–	5,156	–	5,156
(91)	(2)	(107)	–	–	–	(335)	–	(335)
479	83	2,492	–	–	–	4,821		4,821
56	(14)	(332)	(3)	(13)	(713)	(11,242)	(336)	(11,578)
–	–	–	–	–	–	4,059	–	4,059
–	–	–	–	–	–	162	–	162
16	4	–	473	33	(1)	2,410	(97)	2,313
–	–	22	17	–	13	270	–	270
26	3	–	8	66	(586)	–	–	–
577	76	2,182	495	86	(1,287)	480	(433)	47
(401)	(52)	(2,300)	–	–	–	(3,610)	–	(3,610)
72	1	108	–	–	–	262	–	262
(329)	(51)	(2,192)	–	–	–	(3,348)	–	(3,348)
–	16	4	–	–	–	10,051	–	10,051
–	–	–	–	–	–	(319)	–	(319)
–	–	–	–	(140)	–	(140)	532	392
–	–	–	–	–	–	(2,867)	14	(2,853)
(101)	(6)	(264)	(10)	(10)	(44)	(1,115)	178	(937)
(59)	(10)	(84)	(388)	(75)	(34)	(2,757)	(77)	(2,834)
–	–	–	–	–	–	–	(74)	(74)
–	–	–	–	–	779	779	–	779
–	–	–	–	–	–	–	(361)	(361)
–	(1)	–	–	–	–	236	(236)	–
(12)	(6)	(13)	–	(37)	586	–	–	–
(501)	(58)	(2,549)	(398)	(262)	1,287	520	(24)	496
–	–	–	–	(12)	–	(1)	–	(1)
–	–	–	–	–	–	–	53	53
76	18	(367)	97	(188)	–	999	(404)	595
(17)	(2)	76	2	214	–	(86)	174	88
(19)	–	–	–	(21)	–	(272)	30	(242)
40	16	(291)	99	5	–	641	(200)	441
(49)	(13)	(569)	1	380	–	(200)		
(9)	3	(860)	100	385	–	441		

Notes to the consolidated financial statements

For the year ended 31 December 2008 continued

3 Segment information continued

(ii) Adjusted operating profit statement – segment information year ended 31 December 2007

	Europe			South Africa	
	UK	Nordic	ELAM	OMSA	Nedbank
Revenue					
Gross earned premiums	129	73	28	1,474	–
Outward reinsurance	(66)	(3)	(3)	(39)	–
Net earned premiums	63	70	25	1,435	–
Investment return (non–banking)	1,565	349	50	3,006	–
Banking interest and similar income	–	211	–	–	2,979
Banking trading, investment and similar income	–	3	–	–	167
Fee and commission income, and income from service activities	706	184	295	209	529
Other income	15	17	1	100	65
Inter–segment revenues	82	92	44	190	39
Total revenues	2,431	926	415	4,940	3,779
Expenses					
Claims and benefits (including change in insurance contract provisions)	(79)	(46)	(26)	(2,842)	–
Reinsurance recoveries	47	1	2	38	–
Net claims and benefits incurred	(32)	(45)	(24)	(2,804)	–
Change in investment contract liabilities	(1,525)	(293)	(33)	(768)	–
Losses on loans and advances	–	(3)	–	–	(154)
Finance costs	–	–	–	–	–
Banking interest payable and similar expenses	–	(125)	–	–	(1,928)
Fee and commission expenses, and other acquisition costs	(327)	(35)	(131)	(148)	–
Other operating and administrative expenses	(325)	(223)	(149)	(533)	(977)
Goodwill impairment	–	–	–	–	–
Change in third party interest in consolidated funds	–	–	–	–	–
Amortisation of PVIF and other acquired intangibles	–	–	–	–	–
Income tax attributable to policyholder returns	42	(39)	–	(62)	–
Inter–segment expenses	(91)	(98)	(48)	(139)	(75)
Total expenses	(2,258)	(861)	(385)	(4,454)	(3,134)
Share of associated undertakings' profit/(loss) after tax	–	–	–	11	8
Profit on disposal of subsidiaries, associated undertakings and strategic investments	–	–	–	–	–
Adjusted operating profit/(loss) before tax and minority interests	173	65	30	497	653
Tax expense	(43)	(10)	(15)	(128)	(173)
Minority interests	–	–	(1)	(6)	(252)
Adjusted operating profit/(loss) after tax and minority interests	130	55	14	363	228
Adjusting items net of tax and minority interests	(13)	(69)	(14)	121	23
Profit/(loss) after tax attributable to equity holders of the parent	117	(14)	–	484	251

3 Segment information continued

(ii) Adjusted operating profit statement – segment information year ended 31 December 2007 continued

		United States						£m
M & F	Rest of Africa	US Life	USAM	Other operating segments	Consolidation adjustments	Adjusted operating profit Total reportable segments	Adjusting items (Note 4)	IFRS Income statement Restated
625	89	3,148	–	–	–	5,566	–	5,566
(92)	(2)	(88)	–	–	–	(293)	–	(293)
533	87	3,060	–	–	–	5,273	–	5,273
60	77	774	13	8	211	6,113	205	6,318
–	–	–	–	–	–	3,190	–	3,190
–	–	–	–	–	–	170	–	170
18	5	–	570	42	–	2,558	(83)	2,475
–	–	9	12	3	23	245	–	245
33	3	–	12	17	(512)	–	–	–
644	172	3,843	607	70	(278)	17,549	122	17,671
(390)	(139)	(3,671)	–	–	–	(7,193)	–	(7,193)
52	1	95	–	–	–	236	–	236
(338)	(138)	(3,576)	–	–	–	(6,957)	–	(6,957)
–	1	–	–	–	–	(2,618)	–	(2,618)
–	–	–	–	–	–	(157)	–	(157)
–	–	–	–	(119)	–	(119)	69	(50)
–	–	–	–	–	–	(2,053)	–	(2,053)
(128)	(5)	(102)	(10)	(11)	(70)	(967)	189	(778)
(53)	(6)	(54)	(435)	(74)	(8)	(2,837)	24	(2,813)
–	–	–	–	–	–	–	(3)	(3)
–	–	–	–	–	(156)	(156)	–	(156)
–	–	–	–	–	–	–	(360)	(360)
–	(1)	–	–	–	–	(60)	60	–
(36)	(8)	(13)	–	(4)	512	–	–	–
(555)	(157)	(3,745)	(445)	(208)	278	(15,924)	(21)	(15,945)
–	–	–	–	(20)	–	(1)	–	(1)
–	–	–	–	–	–	–	25	25
89	15	98	162	(158)	–	1,624	126	1,750
(28)	(1)	(33)	(27)	40	–	(418)	(86)	(504)
(20)	–	–	–	(13)	–	(292)	18	(274)
41	14	65	135	(131)	–	914	58	972
2	1	(49)	8	48	–	58		
43	15	16	143	(83)	–	972		

Notes to the consolidated financial statements

For the year ended 31 December 2008 continued

3 Segment information continued

(iii) Gross earned premiums

	Europe			South Africa	
Year ended 31 December 2008	**UK**	**Nordic**	**ELAM**	**OMSA**	**Nedbank**
Long–term business–insurance contracts	**131**	**92**	**92**	**1,111**	**–**
Long–term business–investment contracts with discretionary participation features	**–**	**–**	**–**	**476**	**–**
General insurance	**–**	**–**	**–**	**–**	**–**
Gross earned premiums	**131**	**92**	**92**	**1,587**	**–**
Long– term business–other investment contracts recognised as deposits	**4,892**	**976**	**1,052**	**1,358**	**–**

	Europe			South Africa	
Year ended 31 December 2007	UK	Nordic	ELAM	OMSA	Nedbank
Long–term business–insurance contracts	129	73	28	1,011	–
Long–term business–investment contracts with discretionary participation features	–	–	–	463	–
General insurance	–	–	–	–	–
Gross earned premiums	129	73	28	1,474	–
Long– term business–other investment contracts recognised as deposits	6,335	694	1,421	1,293	–

(iv) Impairments on financial assets

	Europe			South Africa	
Year ended 31 December 2008	**UK**	**Nordic**	**ELAM**	**OMSA**	**Nedbank**
Impairment losses	**–**	**5**	**–**	**–**	**315**

	Europe			South Africa	
Year ended 31 December 2007	UK	Nordic	ELAM	OMSA	Nedbank
Impairment losses	–	2	–	5	154

(v) Funds under management

	Europe			South Africa	
As at 31 December 2008	**UK**	**Nordic**	**ELAM**	**OMSA**	**Nedbank**
Long–term business policyholder funds	**26,889**	**6,605**	**5,297**	**20,048**	**425**
Unit trusts and mutual funds	**7,108**	**1,000**	**4,291**	**3,613**	**2,617**
Third party client funds	**–**	**–**	**–**	**8,613**	**3,375**
Total client funds under management	**33,997**	**7,605**	**9,588**	**32,274**	**6,417**
Shareholder funds	**885**	**418**	**311**	**1,596**	**–**
Total funds under management	**34,882**	**8,023**	**9,899**	**33,870**	**6,417**

	Europe			South Africa	
As at 31 December 2007	UK	Nordic	ELAM	OMSA	Nedbank
Long–term business policyholder funds	31,735	7,595	5,344	21,784	430
Unit trusts and mutual funds	9,211	1,182	4,023	3,918	2,775
Third party client funds	–	–	–	6,945	3,335
Total client funds under management	40,946	8,777	9,367	32,647	6,540
Shareholder funds	915	315	224	1,846	–
Total funds under management	41,861	9,092	9,591	34,493	6,540

3 Segment information continued

		United States		Other	£m
M & F	**Rest of Africa**	**US Life**	**USAM**		**Total**
–	**37**	**2,599**	**–**	**–**	**4,062**
–	**48**	**–**	**–**	**–**	**524**
570	**–**	**–**	**–**	**–**	**570**
570	**85**	**2,599**	**–**	**–**	**5,156**
–	**33**	**230**	**–**	**–**	**8,541**

		United States		Other	£m
M &F	Rest of Africa	US Life	USAM		Total
–	37	3,148	–	–	4,426
–	52	–	–	–	515
625	–	–	–	–	625
625	89	3,148	–	–	5,566
–	22	177	–	–	9,942

		United States		Other	£m
M &F	**Rest of Africa**	**US Life**	**USAM**		**Total**
–	**–**	**414**	**–**	**–**	**734**

		United States		Other	£m
M &F	Rest of Africa	US Life	USAM		Total
–	–	32	–	–	193

		United States		Other	£m
M & F	**Rest of Africa**	**US Life**	**USAM**		**Total**
–	**253**	**2,642**	**13,623**	**193**	**75,975**
–	**–**	**–**	**3,127**	**1,859**	**23,615**
–	**228**	**–**	**147,956**	**1,484**	**161,656**
–	**481**	**2,642**	**164,706**	**3,536**	**261,246**
145	**36**	**–**	**177**	**–**	**3,568**
145	**517**	**2,642**	**164,883**	**3,536**	**264,814**

		United States		Other	£m
M &F	Rest of Africa	US Life	USAM		Total
–	255	2,368	12,454	122	82,087
–	–	–	5,260	2,535	28,904
–	237	–	149,850	3,833	164,200
–	492	2,368	167,564	6,490	275,191
136	60	–	191	–	3,687
136	552	2,368	167,755	6,490	278,878

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2008

	Europe			South Africa	
At 31 December 2008	**UK**	**Nordic**	**ELAM**	**OMSA**	**Nedbank**
Assets					
Goodwill and other intangible assets	1,609	1,183	1,138	28	425
Goodwill	644	222	574	24	308
Present value of acquired in–force business	713	742	375	–	–
Software development	22	1	6	4	117
Other intangibles	230	218	183	–	–
Mandatory reserve deposits with central banks	–	–	–	–	734
Property, plant and equipment	23	4	17	254	316
Investment property	2	–	1	1,273	15
Deferred tax assets	166	78	51	65	25
Investments in associated undertakings and joint ventures	–	–	–	26	75
Deferred acquisition costs	639	34	315	102	2
Insurance contracts	24	2	25	–	–
Investment contracts	552	32	282	92	–
Asset management	63	–	8	10	2
Reinsurers' share of long–term business policyholder liabilities	607	13	5	6	9
Insurance contracts	42	10	3	6	9
Unit-linked investment contracts and similar contracts	551	–	–	–	–
Outstanding claims	14	3	2	–	–
Reinsurers' share of general insurance liabilities	–	–	–	–	–
Deposits held with reinsurers	–	121	–	–	–
Loans and advances	116	3,846	25	49	31,634
Policyholder loans	116	–	24	49	–
Other loans and advances	–	3,846	1	–	31,634
Investments and securities	27,167	7,595	5,389	21,700	5,043
Government and government–guaranteed securities	163	214	610	3,631	2,255
Listed other debt securities, preference shares and debentures	2	813	41	1,781	2,172
Unlisted other debt securities, preference shares and debentures	–	–	67	2,106	–
Listed equity securities	1	–	1	6,678	38
Unlisted equity securities	23	12	9	873	152
Listed pooled investments	638	155	11	283	426
Unlisted pooled investments	26,340	6,401	4,650	4,233	–
Short–term funds and securities treated as investments	–	–	–	2,114	–
Other securities	–	–	–	1	–
Current tax receivable	80	–	8	3	25
Client indebtedness for acceptances	–	–	–	–	220
Other assets	178	138	125	433	486
Derivative financial instruments – assets	–	–	–	1,614	1,627
Cash and cash equivalents	202	372	183	97	631
Non–current assets held–for–sale	–	–	–	7	–
Inter–segment assets	163	264	89	1,308	19
Total assets	30,952	13,648	7,346	26,965	41,286

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2008 continued

		United States				£m
M&F	Rest of Africa	US Life	USAM	Other operating segments	Consolidation adjustments	Total reportable segments
29	4	137	1,305	24	–	5,882
10	4	–	1,271	24	–	3,081
–	–	120	–	–	–	1,950
19	–	17	1	–	–	187
–	–	–	33	–	–	664
–	–	–	–	–	–	734
24	13	1	26	4	–	682
–	8	–	–	–	179	1,478
8	–	1,036	158	3	–	1,590
–	–	–	–	10	–	111
15	3	2,041	40	8	–	3,199
15	–	2,041	–	–	–	2,107
–	3	–	–	–	–	961
–	–	–	40	8	–	131
–	–	508	–	–	–	1,148
–	–	480	–	–	–	550
–	–	–	–	–	–	551
–	–	28	–	–	–	47
115	–	–	–	–	–	115
3	–	40	–	–	–	164
2	10	62	–	1	–	35,745
–	10	61	–	–	–	260
2	–	1	–	1	–	35,485
322	626	13,960	177	88	1,455	83,522
–	64	97	–	–	1,942	8,976
1	9	7,555	–	–	1,695	14,069
2	7	2,690	–	–	175	5,047
67	253	–	–	–	7,938	14,976
5	11	118	–	–	–	1,203
36	128	2,093	135	–	1,310	5,215
–	–	18	42	–	(11,853)	29,831
211	150	1,389	–	–	125	3,989
–	4	–	–	88	123	216
–	–	–	–	2	–	118
–	–	–	–	–	–	220
68	10	1,041	139	100	419	3,137
–	–	57	–	226	1,109	4,633
56	4	11	220	89	997	2,862
–	–	–	–	–	–	7
46	14	423	99	1,632	(4,057)	–
688	692	19,317	2,164	2,187	102	145,347

Notes to the consolidated financial statements

For the year ended 31 December 2008 continued

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2008 continued

At 31 December 2008	Europe			South Africa	
	UK	Nordic	ELAM	OMSA	Nedbank
Liabilities					
Long–term business policyholder liabilities	27,327	6,884	5,348	22,569	426
Insurance contracts	157	71	700	10,310	–
Unit–linked investment contracts and similar contracts	27,154	6,704	4,641	6,525	–
Other investment contracts	–	–	–	105	426
Discretionary participating investment contracts	–	–	–	5,428	–
Outstanding claims	16	109	7	201	–
General insurance liabilities	–	–	–	–	–
Third party interests in consolidated funds	–	–	–	–	–
Borrowed funds	1	–	–	237	960
Senior debt securities	1	–	–	–	–
Mortgage backed securities	–	–	–	–	104
Subordinated debt securities	–	–	–	237	856
Provisions	22	203	15	126	1
Deferred revenue	401	3	155	22	–
Long-term business	320	3	149	16	–
Asset management	81	–	6	6	–
General insurance	–	–	–	–	–
Deferred tax liabilities	221	93	212	172	162
Current tax payable	26	22	3	96	18
Other liabilities	508	198	173	826	747
Liabilities under acceptances	–	–	–	–	220
Amounts owed to bank depositors	–	4,622	–	–	33,549
Derivative financial instruments – liabilities	1	–	–	1,436	1,731
Non–current liabilities held–for–sale	–	–	–	6	–
Inter–segment liabilities	185	174	406	26	427
Total liabilities	28,692	12,199	6,312	25,516	38,241
Net assets	2,260	1,449	1,034	1,449	3,045
Equity					
Equity attributable to equity holders of the parent	2,260	1,449	1,034	1,441	1,717
Minority interests	–	–	–	8	1,328
Minority interests – ordinary shares	–	–	–	8	1,081
Minority interests – preference shares	–	–	–	–	247
Total equity	2,260	1,449	1,034	1,449	3,045

The net assets of South African businesses are stated after eliminating investments in Group equity and debt instruments of £236 million (2007: £493 million) held in policyholder funds. These include investments in the Company's ordinary shares and subordinated liabilities and preferred securities issued by the Group's banking subsidiary Nedbank Limited. All South Africa debt relates to long–term business. All other debt relates to other shareholders' net assets.

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2008 continued

		United States				£m
M& F	Rest of Africa	US Life	USAM	Other operating segments	Consolidation adjustments	Total reportable segments
–	593	18,122	–	–	–	81,269
–	238	16,630	–	–	–	28,106
–	137	–	–	–	–	45,161
–	–	1,434	–	–	–	1,965
–	218	–	–	–	–	5,646
–	–	58	–	–	–	391
344	–	–	–	–	–	344
–	–	–	–	–	2,591	2,591
–	–	–	–	1,097	–	2,295
–	–	–	–	556	–	557
–	–	–	–	–	–	104
–	–	–	–	541	–	1,634
21	2	–	3	84	–	477
8	1	–	–	8	–	598
–	1	–	–	–	–	489
–	–	–	–	8	–	101
8	–	–	–	–	–	8
2	–	578	–	12	–	1,452
2	1	4	8	39	–	219
71	5	276	299	165	465	3,733
–	–	–	–	–	–	220
–	–	–	–	–	–	38,171
–	–	–	–	124	1,103	4,395
–	–	–	–	–	–	6
(1)	5	4	1,452	1,379	(4,057)	–
447	607	18,984	1,762	2,908	102	135,770
241	85	333	402	(721)	–	9,577
193	85	333	365	(1,140)	–	7,737
48	–	–	37	419	–	1,840
48	–	–	37	(27)	–	1,147
–	–	–	–	446	–	693
241	85	333	402	(721)	–	9,577

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2007

	Europe			South Africa	
At 31 December 2007	UK	Nordic	ELAM	OMSA	Nedbank
Assets					
Goodwill and other intangible assets	1,716	1,180	939	26	420
Goodwill	639	196	436	14	320
Present value of acquired in–force business	794	760	338	–	–
Software development	24	1	4	12	100
Other intangibles	259	223	161	–	–
Mandatory reserve deposits with central banks	–	–	–	–	615
Property, plant and equipment	19	5	14	241	291
Investment property	2	–	1	1,096	13
Deferred tax assets	40	74	13	106	12
Investments in associated undertakings and joint ventures	–	–	–	25	62
Deferred acquisition costs	524	15	182	93	1
Insurance contracts	20	1	3	–	–
Investment contracts	439	14	175	86	–
Asset management	65	–	4	7	1
Reinsurers' share of long–term business policyholder liabilities	702	8	4	4	13
Insurance contracts	56	5	2	4	13
Unit-linked investment contracts and similar contracts	636	–	–	–	–
Outstanding claims	10	3	2	–	–
Deposits held with reinsurers	–	183	–	–	–
Loans and advances	64	3,117	19	83	27,360
Policyholder loans	63	–	15	83	–
Other loans and advances	1	3,117	4	–	27,360
Investments and securities	31,964	7,867	5,426	24,394	4,686
Government and government–guaranteed securities	163	165	44	3,074	1,414
Listed other debt securities, preference shares and debentures	–	105	80	1,969	2,660
Unlisted other debt securities, preference shares and debentures	–	16	3	2,083	–
Listed equity securities	1	1	7	9,402	44
Unlisted equity securities	1	16	3	680	138
Listed pooled investments	2,520	197	11	214	430
Unlisted pooled investments	29,279	7,367	5,278	4,703	–
Short–term funds and securities treated as investments	–	–	–	2,269	–
Other securities	–	–	–	–	–
Current tax receivable	45	5	2	4	4
Client indebtedness for acceptances	–	–	–	–	165
Other assets	161	63	166	513	611
Derivative financial instruments – assets	–	15	–	43	666
Cash and cash equivalents	599	202	125	195	763
Non–current assets held–for–sale	–	1,024	–	2	2
Inter–segment assets	198	549	137	844	102
Total assets	36,034	14,307	7,028	27,669	35,786

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2007 continued

		United States				£m
M&F	Rest of Africa	US Life	USAM	Other operating segments	Consolidation adjustments	Total reportable segments
–	4	184	959	31	–	5,459
–	4	57	932	31	–	2,629
–	–	116	–	–	–	2,008
–	–	11	10	–	–	162
–	–	–	17	–	–	660
–	–	–	–	–	–	615
–	13	1	17	7	–	608
–	8	–	–	–	359	1,479
–	–	327	106	5	–	683
–	–	–	–	(6)	–	81
–	3	1,398	24	13	–	2,253
–	–	1,398	–	–	–	1,422
–	3	–	–	–	–	717
–	–	–	24	13	–	114
–	1	662	–	–	–	1,394
–	1	646	–	–	–	727
–	–	–	–	–	–	636
–	–	16	–	–	–	31
–	–	30	–	–	–	213
–	–	44	–	–	–	30,687
–	–	43	–	–	–	204
–	–	1	–	–	–	30,483
–	675	11,560	192	155	2,708	89,627
–	80	240	–	–	2,054	7,234
–	15	6,881	–	–	911	12,621
–	–	2,179	–	–	–	4,281
–	320	–	–	–	11,586	21,361
–	10	115	–	–	–	963
–	104	1,656	169	–	897	6,198
–	–	11	23	–	(13,261)	33,400
–	106	478	–	–	489	3,342
–	40	–	–	155	32	227
–	–	–	–	23	–	83
–	–	–	–	–	–	165
–	13	876	182	85	104	2,774
–	–	20	–	72	711	1,527
–	5	3	205	76	1,296	3,469
595	–	–	–	–	–	1,623
52	11	46	–	2,112	(4,051)	–
647	733	15,151	1,685	2,573	1,127	142,740

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2007 continued

	Europe			South Africa	
At 31 December 2007	UK	Nordic	ELAM	OMSA	Nedbank
Liabilities					
Long–term business policyholder liabilities	32,311	7,909	5,371	24,632	430
Insurance contracts	188	72	103	11,105	–
Unit–Linked investment contracts and similar contracts	32,111	7,738	5,263	6,936	–
Other investment contracts	–	–	–	85	430
Discretionary participating investment contracts	–	–	–	6,194	–
Outstanding claims	12	99	5	312	–
General insurance liabilities	–	–	–	–	–
Third party interests in consolidated funds	–	–	–	–	–
Borrowed funds	22	20	17	238	845
Senior debt securities	22	20	17	–	–
Mortgage backed securities	–	–	–	–	103
Subordinated debt securities	–	–	–	238	742
Provisions	21	180	5	134	18
Deferred revenue	345	1	76	23	3
Long–term business	261	1	72	16	–
Asset management	84	–	4	7	3
Deferred tax liabilities	332	111	155	281	128
Current tax payable	34	15	8	149	29
Other liabilities	618	219	152	772	2,406
Liabilities under acceptances	–	–	–	–	165
Amounts owed to bank depositors	–	3,936	–	–	27,881
Derivative financial instruments – liabilities	–	21	3	115	840
Non-current liabilities held-for-sale	–	22	–	2	–
Inter-segment liabilities	198	579	212	75	379
Total liabilities	33,881	13,013	5,999	26,421	33,124
Net assets	2,153	1,294	1,029	1,248	2,662
Equity					
Equity attributable to equity holders of the parent	2,153	1,294	1,024	1,238	1,520
Minority interests	–	–	5	10	1,142
Minority interests – ordinary shares	–	–	5	10	885
Minority interests – preference shares	–	–	–	–	257
Total equity	2,153	1,294	1,029	1,248	2,662

3 Segment information continued

(vi) Balance sheet – segment information year ended 31 December 2007 continued

		United States				£m
M&F	Rest of Africa	US Life	USAM	Other operating segments	Consolidation adjustments	Total reportable segments
–	602	12,996	–	–	–	84,251
–	269	11,900	–	–	–	23,637
–	123	–	–	–	–	52,171
–	–	1,059	–	–	–	1,574
–	210	–	–	–	–	6,404
–	–	37	–	–	–	465
–	–	–	–	–	–	–
–	–	–	–	–	3,547	3,547
–	–	–	–	1,211	–	2,353
–	–	–	–	402	–	461
–	–	–	–	–	–	103
–	–	–	–	809	–	1,789
–	3	–	2	136	–	499
–	–	–	–	14	–	462
–	–	–	–	–	–	350
–	–	–	–	14	–	112
–	–	401	–	5	–	1,413
–	1	13	(5)	76	–	320
–	33	555	364	137	924	6,180
–	–	–	–	–	–	165
–	–	–	–	–	–	31,817
–	–	–	–	30	707	1,716
396	–	–	–	–	–	420
4	2	–	1,638	964	(4,051)	–
400	641	13,965	1,999	2,573	1,127	133,143
247	92	1,186	(314)	–	–	9,597
200	92	1,186	(346)	(400)	–	7,961
7	–	–	32	400	–	1,636
47	–	–	32	(46)	–	933
–	–	–	–	446	–	703
247	92	1,186	(314)	–	–	9,597

4 Operating profit adjusting items

(i) Summary of adjusting items

In determining the adjusted operating profit of the Group certain adjustments are made to profit before tax to reflect the directors' view of the underlying long–term performance of the Group. The following table shows an analysis of those adjustments from adjusted operating profit to profit before and after tax.

						£m
Year ended 31 December 2008	**Notes**	**Europe**	**South Africa**	**United States**	**Other**	**Total**
Income/(expense)						
Goodwill impairment and impact of acquisition accounting	4(ii)	**(341)**	**–**	**(96)**	**(1)**	**(438)**
Profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments	4(iii)	**72**	**(20)**	**1**	**–**	**53**
Short–term fluctuations in investment return	4(iv)	**145**	**(239)**	**(476)**	**–**	**(570)**
Investment return adjustment for Group equity and debt instruments held in life funds	4(v)	**–**	**234**	**–**	**–**	**234**
Dividends declared to holders of perpetual preferred callable securities	4(vi)	**–**	**–**	**–**	**43**	**43**
US Asset Management equity plans and minority holders	4(viii)	**–**	**–**	**7**		**7**
Credit-related fair value gains on Group debt instruments	4(ix)	**–**	**14**	**–**	**489**	**503**
Total adjusting items		**(124)**	**(11)**	**(564)**	**531**	**(168)**
Tax on adjusting items	5(iii)	**41**	**45**	**3**	**(151)**	**(62)**
Minority interest in adjusting items	6(iii)	**–**	**37**	**(7)**	**–**	**30**
Total adjusting items after tax and minority interests		**(83)**	**71**	**(568)**	**380**	**(200)**

						£m
Year ended 31 December 2007	Notes	Europe	South Africa	United States	Other	Total
Income/(expense)						
Goodwill impairment and impact of acquisition accounting	4(ii)	(218)	(3)	(24)	–	(245)
Profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments	4(iii)	16	1	8	–	25
Short–term fluctuations in investment return	4(iv)	55	191	(55)	–	191
Investment return adjustment for Group equity and debt instruments held in life funds	4(v)	–	14	–	–	14
Dividends declared to holders of perpetual preferred callable securities	4(vi)	–	–	–	40	40
Closure of unclaimed shares trusts	4(vii)	–	13	–	(12)	1
US Asset Management equity plans and minority holders	4(viii)	–	–	11	–	11
Credit-related fair value gains on Group debt instruments	4(ix)	–	–	–	29	29
Total adjusting items		(147)	216	(60)	57	66
Tax on adjusting items	5(iii)	51	(98)	30	(9)	(26)
Minority interest in adjusting items	6(iii)	–	29	(11)	–	18
Total adjusting items after tax and minority interests		(96)	147	(41)	48	58

4 Operating profit adjusting items continued

(ii) Goodwill impairment and impact of acquisition accounting

In applying acquisition accounting in accordance with IFRS deferred acquisition costs and deferred revenue are not recognised. These are reversed in the acquisition balance sheet and replaced by goodwill, other intangible assets and the value of the acquired present value of in–force business ("acquired PVIF"). In determining its adjusted operating profit the Group recognises deferred revenue and acquisition costs in relation to policies sold by acquired businesses pre–acquisition, and excludes the impairment of goodwill and the amortisation of acquired other intangibles and acquired PVIF.

Goodwill impairment and acquisition accounting adjustments to adjusted operating profit are summarised below:

					£m
Year ended 31 December 2008	**Europe**	**South Africa**	**United States**	**Other**	**Total**
Amortisation of acquired PVIF					
UK	**(86)**	**–**	**–**	**–**	**(86)**
Nordic	**(105)**	**–**	**–**	**–**	**(105)**
ELAM	**(60)**	**–**	**–**	**–**	**(60)**
US Life	**–**	**–**	**(35)**	**–**	**(35)**
Amortisation of acquired deferred costs and revenue					
UK	**33**	**–**	**–**	**–**	**33**
Nordic	**22**	**–**	**–**	**–**	**22**
ELAM	**26**	**–**	**–**	**–**	**26**
Amortisation of other acquired intangible assets					
UK	**(30)**	**–**	**–**	**–**	**(30)**
Nordic	**(24)**	**–**	**–**	**–**	**(24)**
ELAM	**(21)**	**–**	**–**	**–**	**(21)**
Change in acquisition balance sheet provisions					
UK	**(8)**	**–**	**–**	**–**	**(8)**
Nordic	**(76)**	**–**	**–**	**–**	**(76)**
Goodwill impairment					
Nordic	**(12)**	**–**	**–**	**–**	**(12)**
US Life	**–**	**–**	**(61)**	**–**	**(61)**
Other	**–**	**–**	**–**	**(1)**	**(1)**
	(341)	**–**	**(96)**	**(1)**	**(438)**

					£m
Year ended 31 December 2007	Europe	South Africa Restated	United States	Other	Total
Amortisation of acquired PVIF					
UK	(95)	–	–	–	(95)
Nordic	(92)	–	–	–	(92)
ELAM	(79)	–	–	–	(79)
US Life	–	–	(24)	–	(24)
Amortisation of acquired deferred costs and revenue					
UK	35	–	–	–	35
Nordic	20	–	–	–	20
ELAM	51	–	–	–	51
Amortisation of other acquired intangible assets					
UK	(30)	–	–	–	(30)
Nordic	(22)	–	–	–	(22)
ELAM	(18)	–	–	–	(18)
Change in acquisition balance sheet provisions					
Nordic	12	–	–	–	12
Goodwill impairment					
M & F	–	(3)	–	–	(3)
	(218)	(3)	(24)	–	(245)

4 Operating profit adjusting items continued

(iii) Profit on disposal of subsidiaries, associated undertakings and strategic investments

On 11 June 2008, ELAM completed the disposal of its controlling shareholding in Palladyne, an asset management business, resulting in a profit on disposal of £17 million.

Part of the Nordic segment's banking business, Skandia's Nordic vehicle finance operation, SkandiaBanken Bilfinans, was sold during the six months ended 30 June 2008, resulting in a profit on disposal of £55 million.

During 2007, the Nordic segment's banking subsidiary sold its Danish operation. An accounting profit on sale of £16 million was recognised. The US Asset Management business disposed of its interests in certain affiliate asset managers, resulting in a profit on disposal of £8 million in 2007.

The Group has closed its project to develop a direct financial services capability in South Africa due to adverse market conditions. Costs relating to the closure amounting to £25 million have been excluded from the adjusted operating profit. OMSA realised a profit of £4 million on the sale of its administration business and Nedbank recognised a £1 million profit in the disposal of Bond Choice.

Profits on the disposal of subsidiaries, associated undertakings and strategic investments are analysed below:

				£m
Year ended 31 December 2008	**Europe**	**South Africa**	**United States**	**Total**
Nordic	**55**	**–**	**–**	**55**
ELAM	**17**	**–**	**–**	**17**
OMSA	**–**	**(11)**	**–**	**(11)**
Nedbank	**–**	**1**	**–**	**1**
M & F	**–**	**(10)**	**–**	**(10)**
USAM	**–**	**–**	**1**	**1**
	72	**(20)**	**1**	**53**

				£m
Year ended 31 December 2007	Europe	South Africa	United States	Total
Nordic	16	–	–	16
Nedbank	–	1	–	1
USAM	–	–	8	8
	16	1	8	25

(iv) Long–term investment return

Profit before tax includes actual investment returns earned on the shareholder assets of the Group's long-term and general insurance businesses. Adjusted operating profit is stated after recalculating shareholder asset investment returns based on a long–term investment return rate. The difference between the actual and the long–term investment returns are short–term fluctuations in investment return.

Long–term rates of return are based on achieved real rates of return appropriate to the underlying asset base, adjusted for current inflation expectations and consensus economic investment forecasts, and are reviewed frequently, usually annually, for appropriateness. These rates of return have been selected with a view to ensuring that returns credited to adjusted operating profit are consistent with the actual returns expected to be earned over the long–term.

For South Africa long–term business, the return is applied to an average value of investible shareholders' assets, adjusted for net fund flows. For US and Europe long–term businesses, the return is applied to average investible assets.

For all businesses mis–matches attributed to the timing of the recognition of policyholder tax and related receipts from policyholders are eliminated with reference to the historic net gains / (losses) in respect of this item.

Long–term investment rates	**Year ended 31 December 2008**	Year ended 31 December 2007
Europe long–term business	**4.8%**	4.9%
South Africa long–term business	**16.6%**	15.6%
United States long–term business	**5.9%**	5.7%

4 Operating profit adjusting items continued

(iv) Long–term investment return continued

Analysis of short–term fluctuations in investment return

At 31 December 2008	**UK**	**Nordic**	**ELAM**	**OMSA**	**M & F**	**Rest of Africa**	**US Life**	**Total**
								£m
Long-term investment return	**65**	**1**	**–**	**230**	**60**	**11**	**754**	**1,121**
Less: Actual shareholder investment return	**205**	**5**	**1**	**76**	**(12)**	**(2)**	**484**	**757**
Short-term fluctuations in investment return	**(140)**	**(4)**	**(1)**	**154**	**72**	**13**	**270**	**364**
Hedge losses on Bermuda guarantees treated as short-term fluctuations	**–**	**–**	**–**	**–**	**–**	**–**	**206**	**206**
Total short–term fluctuations in investment return	**(140)**	**(4)**	**(1)**	**154**	**72**	**13**	**476**	**570**

At 31 December 2007	UK	Nordic	ELAM	OMSA	M & F	Rest of Africa	US Life	Total
								£m
Long-term investment return	6	–	1	212	65	9	582	875
Less: Actual shareholder investment return	60	–	2	406	61	10	527	1,066
Short-term fluctuations in investment return	(54)	–	(1)	(194)	4	(1)	55	(191)
Hedge losses on Bermuda guarantees treated as short-term fluctuations	–	–	–	–	–	–	–	–
Total short–term fluctuations in investment return	(54)	–	(1)	(194)	4	(1)	55	(191)

The actual investment return attributable to shareholders for the US long–term business reflects total investment income, as a distinction is not drawn between shareholder and policyholder funds.

(v) Investment return adjustment for Group equity and debt instrument held in life funds

Adjusted operating profit includes investment returns on policyholder investments in Group equity and debt instruments by the Group's life funds. These include investments in the Company's ordinary shares, and the subordinated liabilities and ordinary securities of the Group's South Africa banking subsidiary. These investment returns are eliminated within the consolidated income statement in arriving at profit before tax, but are included in adjusted operating profit. In 2008 the investment return adjustment decreased adjusted operating profit by £234 million (2007: decrease of £14 million).

(vi) Dividends declared to holders of perpetual preferred callable securities

Dividends declared to the holders of the Group's perpetual preferred callable securities were £43 million in the year ended 31 December 2008 (2007: £40 million). These are recognised in finance costs on an accruals basis for the purpose of determining adjusted operating profit. In the IFRS financial statements this cost is recognised in equity.

(vii) Closure of unclaimed shares trusts

During 2006 Old Mutual plc announced that the Old Mutual South Africa Unclaimed Shares Trust (UST), together with similar trusts set up in Namibia, Zimbabwe, Malawi and Bermuda, would be closed. Proceeds of sale of the Old Mutual plc shares held by those trusts were remitted to Old Mutual plc in 2006 and 2007. Old Mutual intends to use substantially all of the proceeds realised to discharge late claims in cash for a further period of three years (to 31 August 2009), to fund good causes in the jurisdictions of the trust concerned or to enhance benefits for certain specific groups of policyholders of the Group's South African and Namibian life businesses. Provisions are held in this regard.

During 2007 adjustments were made in respect of the realisation of certain foreign exchange losses (£14 million) and the remeasurement of certain provisions (£13 million). Consistent with the original accounting treatment in 2006, these amounts have been excluded from adjusted operating profit.

4 Operating profit adjusting items continued

(viii) US Asset Management equity plans and minority interests

During 2007, US Asset Management entered into a number of new long–term incentive arrangements with its asset management affiliates.

In accordance with IFRS requirements the cost of these schemes is disclosed as being attributable to minority interests. However, this is treated as a compensation expense in determining adjusted operating profit. The amount recognised in relation to this in 2008 was £7 million (2007: £11 million).

The Group has issued put options to employees as part of some of its US affiliate incentive schemes. The impact of revaluing these instruments is recognised in accordance with IFRS, but excluded from adjusted operating profit. As at 31 December 2008 these instruments were revalued, the impact of which was nil (2007: less than £1 million).

(ix) Credit-related fair value gains on Group debt instruments

The widening of credit spread of the Group's debt instruments in the market price has resulted in gains of £489 million (2007: £29 million gain) at Group head office and £14 million (2007: nil) in Nedbank being recorded in the Group's income statement for those instruments that are recorded at fair value.

In the directors' view, this gain is not reflective of the underlying performance of the Group and will reverse over time. The gain has therefore been excluded from adjusted operating profit.

5 Income tax (credit)/expense

(i) Analysis of total income tax (credit)/expense

£m

	Year ended 31 December 2008	Year ended 31 December 2007 Restated
Current tax		
United Kingdom tax		
Corporation tax	**93**	436
Double tax relief	**(145)**	(399)
Overseas tax		
South Africa	**264**	403
United States	**4**	26
Europe	**68**	73
Secondary Tax on Companies (STC)	**22**	74
Prior year adjustments	**1**	(25)
Total current tax	**307**	588
Deferred tax		
Origination of temporary differences	**(548)**	(66)
Changes in tax rates/bases	**(1)**	(13)
Write down/recognition of deferred tax assets	**154**	(5)
Total deferred tax	**(395)**	(84)
Total income tax expense	**(88)**	504

(ii) Reconciliation of total income tax (credit)/expense

£m

	Year ended 31 December 2008	Year ended 31 December 2007 Restated
Profit before tax	**595**	1,750
Tax at standard rate of 28.5% (2007: 30%)	**169**	525
Different tax rate or basis on overseas operations	**(23)**	(20)
Untaxed and low taxed income	**(218)**	(166)
Disallowable expenses	**8**	90
Net movement on deferred tax assets not recognised	**123**	(38)
Effect on deferred tax of changes in tax rates	**(5)**	(18)
STC	**53**	57
Income tax attributable to policyholder returns	**(169)**	51
Other	**(26)**	23
Total income tax (credit)/expense	**(88)**	504

5 Income tax (credit)/expense continued

(iii) Income tax on adjusted operating profit

	Year ended 31 December 2008	£m Year ended 31 December 2007 Restated
Income tax (credit)/expense	**(88)**	504
Tax on adjusting items		
Impact of acquisition accounting	**46**	65
Profit on disposal of subsidiaries, associated undertakings and strategic investments	**12**	(10)
Short–term fluctuations in investment return	**35**	(37)
Income tax attributable to policyholders returns	**236**	(60)
Secondary Tax on Companies (STC) on dividends paid	**–**	(35)
Tax on dividends declared to holders of perpetual preferred callable securities recognised in equity	**(12)**	(9)
Fair value gains on group debt instruments	**(143)**	–
Income tax on adjusted operating profit	**86**	418

6 Minority interests – Income statement

(i) Minority interests – ordinary shares

The minority interest charge to profit for the financial year has been calculated on the basis of the Group's effective ownership of the subsidiaries in which it does not own 100 per cent of the ordinary equity. The principal subsidiaries where a minority exists are the Group's banking and general insurance businesses in South Africa. For the year ended 31 December 2008 the minority interest attributable to ordinary shares was £188 million (2007: £224 million).

(ii) Minority interests – preferred securities

	At 31 December 2008	£m At 31 December 2007
R2,000 million non–cumulative preference shares	**14**	13
R792 million non–cumulative preference shares	**5**	5
R300 million non–cumulative preference shares	**1**	1
US$750 million cumulative preferred securities	**32**	30
R364 million non–cumulative preference shares	**2**	1
Minority interest – preferred securities	**54**	50

(iii) Minority interests – adjusted operating profit

The following table reconciles minority interests' share of profit for the financial year to minority interests' share of adjusted operating profit:

Reconciliation of minority interests share of profit for the financial year	Year ended 31 December 2008	£m Year ended 31 December 2007
The minority interest charge is analysed as follows:		
Minority interest – ordinary shares	**188**	224
Goodwill impairment and impact of acquisition accounting	**–**	–
Profit on disposal of subsidiaries, associated undertakings and strategic investments	**2**	–
Short–term fluctuations in investment return	**11**	–
Income attributable to Black Economic Empowerment trusts of listed subsidiaries	**30**	29
Fair value gains on group debt instruments	**(6)**	–
Income attributable to US Asset Management minority holdings	**(7)**	(11)
Minority interest share of adjusted operating profit	**218**	242

The Group uses revised weighted average effective ownership interests when calculating the minority interest applicable to the adjusted operating profit of its South Africa banking and general insurance businesses. This reflects the legal ownership of these businesses following the implementation for Black Economic Empowerment (BEE) schemes in 2005. In accordance with IFRS accounting rules the shares issued for BEE purposes are deemed to be, in substance, options. Therefore the effective ownership interest of the minorities reflected in arriving at profit after tax in the consolidated income statement is lower than that applied in arriving at adjusted operating profit after tax. In 2008 the increase in adjusted operating profit attributable to minority interests as a result of this was £30 million (2007: £29 million).

7 Earnings and earnings per share

(i) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit for the financial year attributable to ordinary equity shareholders by the weighted average number of ordinary shares in issue during the year excluding own shares held in policyholder funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

		£m
	Year ended 31 December 2008	Year ended 31 December 2007
Profit for the financial year attributable to equity holders of the parent	**441**	972
Dividends declared to holders of perpetual preferred callable securities	**(31)**	(31)
Profit attributable to ordinary equity holders	**410**	941

Total dividends declared to holders of perpetual preferred callable securities of £43 million in 2008 (2007: £40 million) are stated net of tax credits of £12 million (2007: £9 million).

		Millions
	Year ended 31 December 2007	Year ended 31 December 2007
Weighted average number of ordinary shares in issue	**5,294**	5,492
Shares held in charitable foundations	**(19)**	(20)
Shares held in ESOP trusts	**(45)**	(61)
Adjusted weighted average number of ordinary shares	**5,230**	5,411
Shares held in life funds	**(240)**	(282)
Shares held in Black Economic Empowerment trusts	**(235)**	(235)
Weighted average number of ordinary shares	**4,755**	4,894
Basic earnings per ordinary share (pence)	**8.6**	19.2

Diluted earnings per share recognises the dilutive impact of share options held in ESOP trusts and Black Economic Empowerment trusts which are currently in the money in the calculation of the weighted average number of shares, as if the relevant shares were in issue for the full period.

		Millions
	Year ended 31 December 2008	Year ended 31 December 2007
Weighted average number of ordinary shares	**4,755**	4,894
Adjustments for share options held by ESOP trusts	**61**	63
Adjustments for shares held in Black Economic Empowerment trusts	**235**	235
	5,051	5,192
Diluted earnings per ordinary share (pence)	**8.1**	18.1

7 Earnings and earnings per share continued

(ii) Adjusted operating earnings per ordinary share

Adjusted operating earnings per ordinary share is determined based on adjusted operating profit. Adjusted operating profit represents the directors' view of the underlying performance of the Group. For long–term and general insurance business adjusted operating profit is based on a long–term investment return, includes investment returns on life funds' investments in Group equity and debt instruments and is stated net of income tax attributable to policyholder returns. For the US Asset Management business it includes compensation costs in respect of certain long–term incentive schemes defined as minority interests in accordance with IFRS. For all businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, revaluations of put options related to long–term incentive schemes, the impact of closure of unclaimed shares trusts, profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments, dividends declared to holders of perpetual preferred callable securities, income/(expense) from closure of unclaimed shares trusts and fair value gains/(losses) on Group debt instruments.

The reconciliation of profit for the financial year to adjusted operating profit after tax attributable to ordinary equity holders is as follows:

		£m
	Year ended 31 December 2008	Year ended 31 December 2007
Profit for the financial year attributable to equity holders of the parent	**441**	972
Adjusting items	**168**	(66)
Tax on adjusting items	**62**	26
Minority interest on adjusting items	**(30)**	(18)
Adjusted operating profit after tax attributable to ordinary equity holders	**641**	914
Adjusted weighted average number of ordinary shares – (millions)	**5,230**	5,411
Adjusted operating earnings per ordinary share – (pence)	**12.2**	16.9

8 Borrowed funds

			£m
	Notes	**At 31 December 2008**	At 31 December 2007
Senior debt securities and term loans	8(i)	**557**	461
Mortgage backed securities	8(ii)	**104**	103
Subordinated debt securities	8(iii)	**1,634**	1,789
Borrowed funds		**2,295**	2,353

(i) Senior debt securities and term loans

		£m
	At 31 December 2008	At 31 December 2007
Floating rate notes[1]	**85**	151
Fixed rate notes[2]	**152**	44
Revolving credit facility[3]	**294**	161
Term loan and other loans	**26**	26
Investment fund borrowings	**–**	79
Total senior debt securities and term loans	**557**	461

(i) Senior debt securities and term loans continued

The maturities of the senior debt securities and term loans are as follows:

£m

At 31 December 2008	Less than 1 year	Greater than 1 year and less than 5 years	Greater than 5 years	Total
Floating rate notes	**16**	**69**	**–**	**85**
Fixed rate notes	**96**	**56**	**–**	**152**
Revolving credit facility	**–**	**294**	**–**	**294**
Term loans and other loans	**26**	**–**	**–**	**26**
Investment fund borrowings	**–**	**–**	**–**	**–**
Total senior debt securities and term loan	**138**	**419**	**–**	**557**
At 31 December 2007				
Floating rate notes	–	75	76	151
Fixed rate notes	–	29	15	44
Revolving credit facility	–	161	–	161
Term loans and other loans	17	9	–	26
Investment fund borrowings	79	–	–	79
Total senior debt securities and term loan	96	274	91	461

Senior debt securities and term loan comprise:

1 Floating rate notes
- – £7 million note repayable in December 2010, with holders having the option to elect for early redemption every 6 months with coupon referenced against 6 month LIBOR less 0.50 per cent.
- – US$150 million repayable September 2014 at 3 month LIBOR plus 0.63 per cent – repaid.
- – US$50 million repayable September 2011 at 3 month LIBOR plus 0.50 per cent.
- – US$10 million repayable September 2009 at 3 month LIBOR plus 0.35 per cent.
- – SEK100 million repayable March 2009 at 3 month STIBOR plus 0.20 per cent.
- – €22 million repayable January 2010 at 3 month EURIBOR plus 0.35 per cent.
- – SEK50 million repayable March 2010 at 3 month STIBOR plus 0.38 per cent.

2 Fixed rate notes
- – €30 million Euro bond repayable July 2010, capital and interest swapped into fixed rate US Dollars at 5.28 per cent.
- – €10 million Euro bond repayable December 2010, capital and interest swapped into floating rate US Dollars at 3 month LIBOR plus 0.95 per cent.
- – €20 million Euro bond repayable August 2013, capital and interest swapped into floating rate US Dollars at 3 month LIBOR plus 1.30 per cent.
- – €100 million Euro bond repayable December 2009 at 3.46 per cent

The total fair value of the swap derivatives associated with the Senior notes is £11 million (2007: £8 million). These are recognised as derivative assets.

3 Revolving credit facility

The Group has a £1,250 million five–year multi–currency revolving credit facility, which had an original maturity date of September 2010. On 18 August 2007 syndicate banks agreed to extend the maturity date of £1,232 million of the facility until September 2012. At 31 December 2008 £826 million (2007: £413 million) of this facility was utilised, £294 million (2007: £161 million) in the form of drawn debt and £532 million (2007: £252 million) in the form of irrevocable letters of credit.

The Group has a SEK1,000 million revolving credit facility, which has a maturity date of 2 July 2009. At 31 December 2008 this facility was undrawn.

(ii) Mortgage backed securities

£m

	At 31 December 2008	At 31 December 2007
R291 million notes (class A1) repayable 18 November 2039 (11.467 per cent)[1]	**22**	21
R1.4 billion notes (class A2A) repayable 18 November 2039 (11.817 per cent)[1]	**73**	73
R98 million notes (class B note) repayable 18 November 2039 (12.067 per cent)[1]	**5**	5
R76 million notes (class C note) repayable 18 November 2039 (13.317 per cent)[1]	**4**	4
	104	103

1 Issued on 10 December 2007 by the Group's South African banking business and are callable on 18 November 2012.

8 Borrowed funds continued

(iii) Subordinated debt securities

	£m	
	At 31 December 2008	At 31 December 2007
Banking		
US$18 million repayable 31 August 2009 (6 month LIBOR less 1.5 %)[1]	**12**	9
R1.5 billion repayable 24 April 2016 (7.85 %)[2]	**108**	103
R1.8 billion repayable 20 September 2018 (9.84 %)[3]	**135**	135
R515 million repayable on 4 December 2008 (13.5 %)[4] – Repaid	**–**	39
R500 million repayable on 30 December 2010 (8.38 %)[5]	**36**	34
R650 million repayable 8 February 2017 (9.03 %)[6]	**49**	47
R1.7 billion repayable 8 February 2019 (8.9 %)[7]	**125**	123
R2.0 billion repayable 6 July 2022 (3 month JIBAR plus 0.47 %)[8]	**150**	151
R500 million repayable 15 August 2012 (3 month JIBAR plus 0.45 %)[9]	**37**	37
R1.0 billion repayable 17 September 2015 (10.54 %)[10]	**77**	77
R500 million repayable 14 December 2017 (3 month JIBAR plus 0.70 %)[11]	**37**	37
R120 million repayable 14 December 2017 (10.38 %)[12]	**9**	9
R487 million repayable 20 November 2018 (15.05 %)[13]	**40**	–
R1,265 million repayable 20 November 2018 (JIBAR plus 4.75 %)[14]	**94**	–
R300 million repayable on 4 December 2013 (JIBAR + 2.5%)[15]	**11**	–
	920	801
Other		
R3.0 billion repayable 27 October 2020 (8.9 %)[16]	**219**	220
£300 million repayable 21 January 2016 (5.0 %)[17]	**239**	291
R250 million preference shares repayable 9 June 2011[18]	**18**	18
€750 million repayable 18 January 2017 (4.5 %)[19]	**303**	519
	779	1,048
Less: banking subordinated debt securities held by other Group companies	**(65)**	(60)
Total subordinated liabilities	**1,634**	1,789

The subordinated notes rank behind the claims against the Group depositors and other unsecured, unsubordinated creditors. None of the Group's subordinated notes are secured.

1 This instrument is matched either by advances to clients or covered against exchange rate fluctuations.
2 Unsecured secondary callable note was issued 24 April 2005 with a call date of 24 April 2011.
3 Unsecured secondary callable note was issued 20 September 2006 at R1.5 billion with a call date of 20 September 2013. On 18 May 2007 an additional R0.3 billion was issued.
4 Unsecured callable Bonds issued 10 June 2002.
5 Unsecured callable Bonds issued 30 March 2006.
6 Unsecured secondary callable note was issued 8 February 2007 with a call date of 8 February 2012.
7 Unsecured secondary callable note was issued 8 February 2007 at R1.0 billion. On 19 March 2007 an additional R0.7 billion was issued.
8 Unsecured secondary capital callable note issued 6 July 2007 and has a call date of 6 July 2017.
9 This bond issued on 15 August 2007 is an unsecured secondary capital callable floating rate note with a call date 15 August 2012.
10 This bond issued on 17 September 2007 is an unsecured fixed rate note with a term of 13 years (non–call 8).
11 This bond issued on 14 December 2007 is a 10 year (non–call 5) floating rate note. After its call date on 14 December 2012 its terms become JIBAR plus 1.70 per cent until maturity.
12 This bond issued on 14 December 2007 is a 10 year (non–call 5) fixed rate note. After its call date its terms become floating 3 month JIBAR plus initial margin over mid swaps plus 1.0 per cent until maturity.
13 This bond issued on 20 May 2008 is a perpetual (non–call 10 year) fixed rate note with a call date on 20 November 2018.
14 This bond issued on 20 May 2008 is a perpetual (non–call 10 year) floating rate note with a call date of 20 November 2018.
15 This bond issued on 4 December 2008 is a floating rate note with a call date of 4 December 2013.
16 These bonds have a maturity date of 27 October 2020 and pay a coupon of 8.92 per cent to 27 October 2015 and 3 month JIBAR plus 1.59 per cent thereafter. The Group has the option to repay the bonds at par on 27 October 2015 and at 3 monthly intervals thereafter.
17 These bonds, issued on 20 January 2006, have a maturity date of 21 January 2016 and pay a coupon of 5.0 per cent to 21 January 2011 and 6 month LIBOR plus 1.13 per cent thereafter. The coupon on the bonds was swapped into floating rate of 6 month STIBOR plus 0.50 per cent. The Group has the option to repay the bonds at par on 21 January 2011 and at 6 monthly intervals thereafter.
18 These preference shares are redeemable on 9 June 2011 and pay a variable cumulative coupon of 61.0 per cent of the Prime Rate as quoted by Nedbank Limited. The Group has the option to redeem the shares at par at any time before the final redemption date but after giving an agreed period of notice.
19 This bond, issued on 16 January 2007, has a maturity date of 18 January 2017 and pays a coupon of 4.5 per cent to 17 January 2012 and 6 month EURIBOR plus 0.96 per cent thereafter. The principal and coupon on the bond were swapped equally into Sterling and US Dollars with coupons of 6 month LIBOR plus 0.34 per cent and 6 month US LIBOR plus 0.31 per cent respectively. The Group has the option to repay the bonds at par on 17 January 2012 and at 6 monthly intervals thereafter.

9 Provisions

	At 31 December 2008	At 31 December 2007
		£m
Surplus property	**23**	29
Client compensation	**27**	19
Warranties on sale of business	**111**	87
Liability for long service leave	**38**	34
Provision for donations	**80**	82
Litigation claims	**36**	64
Other provisions	**165**	183
	480	498
Post employment benefits	**(3)**	1
Total	**477**	499

£m

Year ended 31 December 2008	Surplus property	Client compensation	Warranties on sale of business	Liability for long service leave	Provision for donations	Litigation claims	Other	Total
Balance at beginning of the year	**29**	**19**	**87**	**34**	**82**	**64**	**183**	**498**
Unused amounts reversed	**(1)**	**(5)**	**(5)**	**–**	**–**	**–**	**(40)**	**(51)**
Unwind of discount	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**1**
Charge to income statement	**-**	**8**	**22**	**4**	**–**	**37**	**20**	**91**
Utilised during the year	**(7)**	**(14)**	**(3)**	**1**	**(2)**	**(74)**	**(24)**	**(123)**
Foreign exchange and other movements	**1**	**19**	**10**	**(1)**	**–**	**9**	**26**	**64**
Balance at end of the year	**23**	**27**	**111**	**38**	**80**	**36**	**165**	**480**

2008 provisions in relation to surplus property amounted to £23 million (2007: £29 million). These relate to the onerous costs of vacant properties leased by the Group.

Provisions in relation to client compensation were £27 million (2007: £19 million), primarily relating to possible misselling of guarantee contracts in Nordic.

Provisions in relation to warranties on the sale of businesses amounted to £111 million (2007: £87 million). These principally relate to the sale of American Skandia to Prudential Financial, recognised by the Group on acquisition of Skandia in 2006.

The liability for long service leave of £38 million (2007: £34 million) relates to provision for staff payments for long serving employees.

The provision for donations is held by OMSA. It relates to the payment of charitable donations in future periods to which the Group is committed, out of the funds made available on the closure of the Group's unclaimed shares trusts, which were set up as part of the demutualisation in 1999 and closed in 2006.

At 31 December 2008 provisions in relation to litigation claims amounted to £36 million (2007: £64 million). During the year £74 million of the provision was utilised, principally in respect of payments made in connection with the outcome of the Skandia Liv arbitration. The balance of the provision primarily relates to future amounts payable to Skandia Liv in connection with the arbitration ruling.

Where material, provisions are discounted at discount rates specific to the risks inherent in the liability. The timing and final amounts of payments in respect of some of the provisions, particularly those in respect of litigation claims and similar actions against the Group, are uncertain and could result in adjustments to the amounts recorded. Of the provisions recorded above, £271 million (2007: £420 million) is estimated to be payable after more than one year.

£m

Year ended 31 December 2007	Surplus property	Client compensation	Warranties on sale of business	Liability for long service leave	Provision for donations	Litigation claims	Other	Total
Balance at beginning of the year	41	8	113	30	115	71	151	529
Unused amounts reversed	(3)	(1)	(11)	–	–	(6)	–	(21)
Unwind of discount	2	–	–	–	–	–	–	2
Charge to income statement	–	20	–	4	–	–	23	47
Utilised during the year	(8)	(8)	(15)	(2)	(33)	–	–	(66)
Foreign exchange and other movements	(3)	–	–	2	–	(1)	9	7
Balance at end of the year	29	19	87	34	82	64	183	498

10 Dividends

Dividends paid were as follows:

		£m
	Year ended 31 December 2008	Year ended 31 December 2007
2006 Final dividend paid – 4.15p per 10p share	**–**	218
2007 Interim dividend paid – 2.3p per 10p share	**–**	115
2007 Final dividend paid – 4.55p per 10p share	**227**	–
2008 Interim dividend paid – 2.45p per 10p share	**125**	–
Dividends to ordinary equity holders	**352**	333
Dividends declared to holders of perpetual preferred callable securities	**43**	40
Dividend payments for the year	**395**	373

Dividends paid to ordinary equity holders, as above, are calculated using the number of shares in issue at the record date, less treasury shares held in ESOP trusts, life funds of Group companies, Black Economic Empowerment trusts and related undertakings.

As a consequence of the exchange control arrangements in place in certain African territories, dividends to ordinary equity holders on the branch registers of those countries (or, in the case of Namibia, the Namibian section of the principal register) are settled through Dividend Access Trusts established for that purpose.

In March and November 2008, £23 million and £20 million respectively were declared and paid to holders of perpetual preferred callable securities (March 2007: £22 million and November 2007: £18 million).

11 Contingent liabilities

		£m
	At 31 December 2008	At 31 December 2007
Guarantees and assets pledged as collateral security	**1,839**	1,489
Irrevocable letters of credit	**760**	426
Secured lending	**383**	1,052
Other contingent liabilities	**393**	136

Nedbank structured financing

Historically a number of the Group's South Africa banking businesses entered into structured finance transactions with third parties using the tax base of these companies. Pursuant to the terms of the majority of these transactions, the underlying third party has contractually agreed to accept the risk of any tax being imposed by the South African Revenue Service (SARS), although the obligation to pay in the first instance rests with the Group's companies. It is only in limited cases where, for example, the credit quality of a client becomes doubtful, or where the client has specifically contracted out of the re–pricing of additional taxes, that the recovery from a client could be less than the liability that could arise on assessment, in which case provisions are made. SARS has examined the tax aspects of some of these types of structures and SARS could assess these structures in a manner different to that initially envisaged by the contracting parties. As a result Group companies could be obliged to pay additional amounts to SARS and recover these from clients under the applicable contractual arrangements.

American Skandia

The sale of American Skandia to Prudential Financial contained customary representations and warranties. The indemnity in respect of this is limited to US$1 billion. Investigations by various US regulators have given rise to potential settlements and claims in relation to market timing. American Skandia's exposure to market timing is part of a wider investigation of the US industry. The exposure is covered by the aforementioned indemnity which also covers the matter of American Skandia's failure to administer the annuitisation provisions contained in certain contracts. This was an administrative error made by the American Skandia business between 1996 and 2003.

American Skandia has been provided for in the acquisition accounting

12 Post balance sheet events

On 2 March 2009 the Group announced the sale, by its Group subsidiary, OM Group (UK) Limited, of the Group's interests in the Old Mutual Australia group. The sale is expected to complete on 6 March 2009.

Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

Statement of earnings on a Group Market Consistent Embedded Value basis	£m **Year ended 31 December 2008**	Year ended 31 December 2007
Europe		
Covered business	**505**	372
Asset management	**(13)**	26
Banking	**23**	14
	515	412
South Africa		
Covered business	**463**	359
Asset management	**102**	98
Banking	**545**	622
General insurance	**76**	89
	1,186	1,168
United States		
Covered business	**(644)**	37
Asset management	**97**	162
	(547)	199
Other		
Covered business	**–**	–
Asset management	**(17)**	2
	(17)	2
Finance costs	**(140)**	(119)
Other shareholders' expenses	**(19)**	(31)
Adjusted operating Group MCEV earnings before tax*	**978**	1,631
Adjusting items**	**(2,037)**	21
Total Group MCEV earnings for the financial year before tax	**(1,059)**	1,652
Income tax attributable to shareholders	**13**	(423)
Total Group MCEV earnings after tax for the financial year	**(1,046)**	1,229
Total Group MCEV earnings for the financial period attributable to:		
Equity holders of the parent	**(1,284)**	952
Minority interests		
Ordinary shares	**184**	227
Preferred securities	**54**	50
Total Group MCEV earnings after tax for the financial year	**(1,046)**	1,229

*For long–term business and general insurance businesses, adjusted operating MCEV earnings is based on short–term and long–term investment returns respectively, includes investment returns on life funds' investments in Group equity and debt instruments, and is stated net of income tax attributable to policyholder returns. For the US Asset Management business it includes compensation costs in respect of certain long–term incentive schemes defined as minority interests in accordance with IFRS. For all businesses, adjusted operating MCEV earnings excludes goodwill impairment, the impact of acquisition accounting, put revaluations related to long–term incentive schemes, the impact of closure of unclaimed shares trusts, profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments, dividends declared to holders of perpetual preferred callable securities, and fair value (profits)/losses on certain Group debt movements.

**The breakdown of the adjusting items is detailed in Note 5

Total Group MCEV earnings per share	Year ended 31 December 2008	Year ended 31 December 2007
		£m
Basic total Group MCEV earnings per ordinary share	**(25.7)**	18.4
Weighted average number of shares – millions	**4,995**	5,176

Adjusted operating Group MCEV earnings after tax attributable to ordinary equity holders	Year ended 31 December 2008	Year ended 31 December 2007
Adjusted operating Group MCEV earnings before tax	**978**	1,631
Tax on adjusted operating Group MCEV earnings	**(135)**	(414)
Adjusted operating Group MCEV earnings after tax	**843**	1,217
Minority interests		
Ordinary shares	**(214)**	(245)
Preferred securities	**(54)**	(50)
Adjusted operating Group MCEV earnings after tax attributable to ordinary equity holders	**575**	922

	Year ended 31 December 2008	Year ended 31 December 2007
Adjusted operating Group MCEV earnings per share* (pence)	**11.0**	17.0
Adjusted weighted average number of shares – millions	**5,230**	5,411

* Adjusted operating Group MCEV earnings per share is calculated on the same basis as adjusted operating Group MCEV earnings, but is stated after tax and minority interests. It excludes income attributable to Black Economic Empowerment trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and Black Economic Empowerment trusts.

Reconciliation of movements in Group Market Consistent Embedded Value (Group MCEV) (after tax)

£m

	Year ended 31 December 2008			Year ended 31 December 2007		
	Covered business MCEV	**Non–covered business IFRS**	**Total Group MCEV**	Covered business MCEV	Non–covered business IFRS	Total Group MCEV
Opening Group MCEV*	**6,349**	**1,010**	**7,359**	6,145	594	6,739
Adjusted operating MCEV earnings	**133**	**442**	**575**	591	331	922
Non–operating MCEV earnings	**(2,270)**	**411**	**(1,859)**	(77)	107	30
Total Group MCEV earnings	**(2,137)**	**853**	**(1,284)**	514	438	952
Other movements in IFRS net equity	**(29)**	**(784)**	**(813)**	(310)	(22)	(332)
Closing Group MCEV	**4,183**	**1,079**	**5,262**	6,349	1,010	7,359

* The Opening Group MCEV for the year ended 31 December 2007 is gross of minority interest of £29m in Skandia. During 2007 all minority interests were purchased.

Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

Components of Group Market Consistent Embedded Value (Group MCEV)

		£m
	At 31 December 2008	At 31December 2007
Adjusted net worth attributable to ordinary equity holders of the parent	**3,462**	3,431
Equity	**7,737**	7,961
Adjustment to include long–term business on a statutory solvency basis:		
Europe	**(2,749)**	(2,581)
South Africa	**137**	147
United States	**151**	(621)
Adjustment for market value of life funds' investments in Group equity and debt instruments held in life funds	**173**	428
Adjustment to remove perpetual preferred callable securities and accrued dividends	**(688)**	(688)
Adjustment to exclude acquisition goodwill from the covered business:		
Europe	**(1,299)**	(1,155)
United States	**–**	(60)
Value of in–force business	**1,800**	3,928
Present value of future profits	**2,580**	4,583
Additional time value of financial options and guarantees	**(261)**	(199)
Frictional costs	**(148)**	(192)
Cost of residual non–hedgeable risks	**(371)**	(264)
Group MCEV	**5,262**	7,359
Group MCEV value per share (pence)	**99.7**	136.2
Return on Group MCEV (RoEV) per annum	**7.8%**	13.7%
Number of shares in issue at the end of the period less treasury shares – millions	**5,277**	5,405

The adjustments to include long–term business on a statutory solvency basis reflect the difference between the net worth of each business on the statutory basis (as required by the local regulator) and their portion of the Group's consolidated equity shareholders' funds. In South Africa, these values exclude items that are eliminated or shown separately on consolidation (such as Nedbank, Mutual & Federal and intercompany loans). For some European territories the value excludes the write–off of deferred acquisition costs which remain part of adjusted net worth for MCEV purposes.

The RoEV is calculated as the adjusted operating Group MCEV earnings after tax and minority interests of £575 million (year ended 31 December 2007: £922 million) divided by the opening Group MCEV.

Components of adjusted Group Market Consistent Embedded Value (Group MCEV)

		£m
	At 31 December 2008	At 31 December 2007
Pro forma adjustments to bring Group investments to market value		
Group MCEV	**5,262**	7,359
Adjustment to bring listed subsidiaries to market value	**68**	1,162
South Africa banking business	**41**	956
South Africa general insurance business	**27**	206
Adjustment for value of own shares in ESOP schemes*	**63**	158
Adjustment for present value of Black Economic Empowerment scheme deferred consideration	**169**	191
Adjustment to bring external debt to market value	**645**	120
Adjusted Group MCEV	**6,207**	8,990
Adjusted Group MCEV per share (pence)	**117.6**	166.3
Number of shares in issue at the end of the period less treasury shares – millions	**5,277**	5,405

* Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2007 and 31 December 2008 is due to the reduction in the Old Mutual plc share price over the year.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

1 Basis of preparation

The Old Mutual Market Consistent Embedded Value methodology (referred to herein and in the supplementary statements on pages 80 to 126 as 'MCEV') adopts Market Consistent Embedded Value Principles issued in June 2008 by the CFO Forum ('the Principles') as the basis for the methodology used in preparing the supplementary information. The Principles have been fully complied with for all businesses as at 31 December 2008, with the exception of the use of an adjusted risk free rate due to current market conditions for US Life Onshore business. The Group has replaced the European Embedded Value ('EEV') basis with the MCEV basis for the covered business and figures for 31 December 2007 have been restated accordingly, and complies fully with all of the Principles.

The Principles were designed during a period of relatively stable market conditions and their application could, in turbulent markets, lead to misleading results. In December 2008 the CFO Forum announced that they are reviewing the Principles and guidance of the application of these Principles to address the notion of market consistency in the current dislocated market conditions. The particular areas under review include implied volatilities, the cost of residual non-hedgeable risks, the use of swap rates as a proxy for risk free reference rates and the effect of liquidity premia. In respect of the 31 December 2008 disclosure, Old Mutual has made an adjustment to the risk free rate used in determining the value of the US Life Onshore business, to take account of the liquidity component of corporate bond spreads that is evident in the market as at 31 December 2008. The Directors consider this adjustment to be necessary so as to ensure a meaningful basis of reporting the value of the Group's life and related businesses. The 31 December 2008 MCEV disclosure in respect of all other business units complies fully with the Principles.

The detailed methodology and assumptions made in presenting this supplementary information, including the US adjusted risk free rate for 31 December 2008, are set out in notes 2 and 3.

This supplementary information provides details on the methodology, assumptions and results of the MCEV for the Old Mutual Group and includes conversion of comparative supplementary information for 2007, previously prepared on the EEV basis, to a MCEV basis.

Throughout the supplementary information the following terminology is used to distinguish between the terms 'MCEV', 'Group MCEV' and 'adjusted Group MCEV':

- MCEV is a measure of the consolidated value of shareholders' interests in the covered business and consists of the sum of the shareholders' adjusted net worth in respect of the covered business and the value of the in-force covered business.
- Group MCEV is a measure of the consolidated value of shareholders' interests in covered and non-covered business and therefore includes the value of all non-covered business at the unadjusted IFRS net asset value detailed in the primary financial statements.
- The adjusted Group MCEV, a measure used by the directors to assess the shareholders' interest in the value of the Group, includes the impact of marking all debt to market value, the market value of the Group's listed banking and general insurance subsidiaries as well as marking the value of deferred consideration due in respect of Black Economic Empowerment arrangements in South Africa ('the BEE schemes') to market.

The major change in Old Mutual's overall approach for deriving its MCEV compared to the approach adopted for EEV is the allowance for risk. Under MCEV a bottom-up allowance is made for financial risks (in particular, asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets and financial options and guarantees are valued using market consistent models calibrated to observable market prices) and an explicit allowance is made for the cost of residual non-hedgeable risks in the covered business. In contrast, under EEV a top-down allowance was made for all risks by means of the risk margin included in the single risk discount rate applicable for each geography and the value placed on the time value of financial options and guarantees. The MCEV methodology therefore makes a more granular allowance for the differences in the risk profile of different blocks of business than the EEV methodology.

Further detailed commentary of the key changes from an EEV to MCEV methodology and the impact of the transition from EEV to MCEV reporting on results for the financial year ended 31 December 2007 are provided in notes 12 to 18.

2 Methodology

Introduction

MCEV represents the present value of shareholders' interests in the earnings distributable from assets allocated to the in-force covered business after sufficient allowance for the aggregate risks in the covered business and is measured in a way that is consistent with the value that would normally be placed on the cash flows generated by these assets and liabilities in a deep and liquid market. MCEV is therefore a risk-adjusted measure to the extent that financial risk is reflected through the use of market consistent techniques in the valuation of both assets and distributable earnings and a transparent explicit allowance is made for non-financial risks.

The MCEV consists of the sum of the following components:

- Adjusted net worth, which excludes acquired intangibles and goodwill, consisting of:
    - Free surplus allocated to the covered business
    - Required capital to support the covered business
- Value of in-force covered business (VIF)

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

2 Methodology continued

The adjusted net worth of the covered business is the market value of shareholders' assets held in respect of the covered business after allowance for the liabilities of the in-force covered business which are dictated by local regulatory reserving requirements.

MCEV is calculated net of minority shareholder interests and excludes the value of future new business.

Coverage

Covered business includes, where material, any contracts that are regarded by local insurance supervisors as long-term life insurance business. This generally means that covered business includes all product lines where the profits are included in the IFRS long-term business profits in the primary Financial Statements.

For the South African business, healthcare administration business is no longer recognised as part of the VIF or value of new business of covered business as previously reported under EEV.

Some types of business are legally written by a life Company, but under IFRS this business is classified as asset management because 'long-term business' only serves as a wrapper. This business continues to be excluded from covered business, for example:

- New institutional investment platform pensions business written in the United Kingdom as it is more appropriately classified as mutual fund business; and
- Individual unit trusts and some group market-linked business written by the asset management Companies in South Africa through the life Company as profits from this business arise in the asset management Companies.

The treatment within this supplementary information of all business other than the covered business is the same as in the primary financial statements, except for the adjusted Group MCEV which includes the impact of marking all debt to market value, the market value of the Group's listed banking and general insurance subsidiaries as well as marking the value of deferred consideration due in respect of Black Economic Empowerment arrangements in South Africa ('the BEE schemes') to market.

Free surplus

Free surplus is the market value of any assets allocated to, but not required to support, the covered in-force business. It is determined as the market value of any excess assets attributed to the covered business but not backing the regulatory liabilities, less the required capital to support the covered business.

Required capital

Required capital is the market value of assets that are attributed to support the covered business, over and above that required to back statutory liabilities for covered business, whose distribution to shareholders is restricted. The following capital measures are considered in determining the required capital held for covered business so that it reflects the level of capital considered by the directors to be appropriate to manage the business:

- Economic capital;
- Regulatory capital (i.e. the level of solvency capital at which the local regulators are empowered to take action) with appropriate deductions being made for any implicit items that are not allowed by local regulators;
- Capital required by rating agencies in respect of our North American business in order to maintain our desired credit rating; and
- Any other required capital definition to meet internal management objectives.

Economic capital for the covered business is based upon our own internal assessment of risks inherent in the underlying business. It measures capital requirements on an economic balance sheet, with MCEV as the available capital, consistent with a 99.93 per cent confidence level over a one-year time horizon.

For Europe and South Africa capital determined with reference to internal management objectives is the most onerous and is the capital measure used, whereas in the United States the required capital is based on the amount that management deems necessary to maintain the desired credit rating for the Company. The required capital in respect of the South Africa covered business is partially covered by the market value of the Group's investments in banking and general insurance in South Africa. On consolidation these investments are shown separately.

The table below shows the level of required capital expressed as a percentage of the minimum local regulatory capital requirements.

£m	Total	Europe	South Africa	United States
31 December 2008				
Required capital (a)	2,025	371	1,070	584
Regulatory capital (b)	1,293	229	819	245
Ratio (a/b)	**1.6**	**1.6**	**1.3**	**2.4**
31 December 2007				
Required capital (a)	1,906	323	1,159	424
Regulatory capital (b)	1,257	226	866	165
Ratio (a/b)	**1.5**	**1.4**	**1.3**	**2.6**

2 Methodology continued

VIF

Under the MCEV methodology, VIF consists of the following components:

- Present value of future profits (PVFP) from in-force covered business; less
- Time value of financial options and guarantees; less
- Frictional costs of required capital; less
- Cost of residual non-hedgeable risks

Projected liabilities and cash flows are calculated net of outward risk reinsurance with allowance for default risk of reinsurance counterparties where material.

PVFP

The PVFP is calculated as the discounted value of future distributable earnings (taking account of local statutory reserving requirements) that are expected to emerge from the in-force covered business, including the value of renewals of in-force business, on a best estimate basis where assumed earned rates of return and discount rates are equal to the risk free reference rates. It therefore represents a deterministic certainty equivalent valuation of future distributable earnings. The certainty equivalent valuation approach is described in more detail in note 4. Any limitations on distribution of such earnings due to statutory or internal capital requirements are taken into account separately in the calculation of frictional costs of required capital.

PVFP captures the intrinsic and time value of financial options and guarantees on in-force covered business which are included in the local statutory reserves according to local requirements, but excludes any additional allowance for the time value of financial options and guarantees.

Financial options and guarantees

Allowance is made in the MCEV for the potential impact of variability of investment returns (i.e. asymmetric impact) on future shareholder cash flows of policyholder financial options and guarantees within the in-force covered business.

The time value of financial options and guarantees describes that part of the value of financial options and guarantees that arises from the variability of future investment returns on assets to the extent that it is not already included in the statutory reserves. The calculations are based on market consistent stochastic modelling techniques where the actual assets held at the valuation date are used as the starting point for the valuation of such financial options and guarantees. Projected cash flows are valued using economic assumptions such that they are valued in line with the price of similar cash flows that are traded in the capital markets. The time value represents the difference between the average value of shareholder cash flows under many generated economic scenarios and the deterministic shareholder value under the best estimate assumptions for the equivalent business. Closed form solutions are also applied in Europe provided the nature of any guarantees is not complex.

The time value of financial options and guarantees also includes allowance for potential burn-through costs on participating business, i.e. the extent to which shareholders are unable to recover a loan made to participating funds to meet either regulatory or internal capital management requirements or the extent to which reserves are inadequate to cover severely adverse experience.

In the generated economic scenarios allowance is made, where appropriate, for the effect of dynamic management and / or policyholder actions in different circumstances:

- Management has some discretion in managing exposure to financial options and guarantees, particularly within participating business. Such dynamic management actions are reflected in the valuation of financial options and guarantees provided that such discretion is consistent with established and justifiable practice taking into account policyholders' reasonable expectations (e.g. with due consideration of the PPFM for South African business), subject to any contractual guarantees and regulatory or legal constraints and has been passed through an appropriate approval process by the local Executive team and, where applicable, the Board. Assumptions that depend on the market performance (such as crediting rates or bonus rates) are set relative to the risk free reference rates (subject to contractual guarantees) and assuming that all market participants are subjected to the same market conditions.
- Where credible evidence exists that persistency rates are linked to economic scenarios, allowance is made for dynamic policyholder behaviour in response to changes in economic conditions.
- Modelled dynamic management and policyholders' actions include the following:
  - Changes in future bonus and crediting rates subject to contractual guarantees, including removing all or part of previously declared non-vested bonuses where circumstances warrant such action;
  - Dynamic persistency rates for the United States business and dynamic guaranteed annuity option take-up rates for the South African business driven by changes in economic conditions and management actions.
  - Changes in surrender values; and
  - Option take-up rates vary stochastically for the South African business to the extent that the value of those options change in different economic conditions.

In determining the time value of financial options and guarantees at least 1,000 simulations are run to gain comfort that a reasonable degree of convergence of results has been obtained. Where deemed appropriate, the number of simulations is increased to reduce sampling error.

Europe

Whilst certain products within the European businesses provide financial options and guarantees, these are immaterial due to the predominantly unit-linked nature of the business.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

2 Methodology continued

South Africa

The time value of the financial options and guarantees mainly relates to maturity guarantees and guaranteed annuity options.

As required by the applicable Actuarial Society of South Africa guidance note, the time value of the financial options and guarantees included in the statutory reserves in the South African businesses as at 31 December 2008 has been valued using a risk-neutral market consistent asset model, and is referred to as an investment guarantee reserve. This reserve includes a discretionary margin as defined by local guidelines to allow for the sensitivity of the reserve to interest rate movements. This discretionary margin is valued in the VIF.

United States

The time value of the financial options and guarantees mainly relates to minimum crediting (bonus) and growth rates.

Frictional costs of required capital

From the shareholders' viewpoint there is a cost due to restrictions on the distribution of required capital that is locked in the Company. Where material, an allowance has been made for the frictional costs in respect of the taxation on investment return (income and capital gains) and investment costs on the assets backing the required capital for covered business. The allowance for taxation is based on the taxation rates applicable to investment earnings on assets backing the required capital, although such tax rates are reduced, where applicable, to allow for interest paid on debt which is used to partly finance the required capital.

The run-off pattern of the required capital is projected on an approximate basis over the lifetime of the underlying risks in line with drivers of the capital requirement. The same drivers are used to split the total required capital between existing business and new business.

Cost of residual non-hedgeable risks

Sufficient allowance for most financial risks has been made in the PVFP and the time value of financial options and guarantees by using techniques that are similar to the approach used by capital markets. In addition the modelling of some non-hedgeable non-financial risks is incorporated as part of the calculation of the PVFP (e.g. to the extent that expected operational losses are incorporated in the maintenance expense assumptions) or the time value of financial options and guarantees (e.g. dynamic policyholder behaviour such as the interaction of the investment scenario and the persistency rates).

All residual non-financial risks (e.g. liability risks such as mortality, longevity and morbidity risks; business risks such as persistency, expense and reinsurance credit risks; and operational risk) for which no or insufficient allowance is made in the PVFP or time value of financial options and guarantees, together with hedge risk and credit spread risk in the United States, are considered within the allowance for the cost of residual non-hedgeable risks.

An allowance is made in the cost of residual non-hedgeable risks to reflect uncertainty in the best estimate of shareholder cash flows as a result of both symmetric and asymmetric non-hedgeable risks since these risks can not be hedged in deep and liquid capital markets and are managed, inter alia, by holding risk capital. Considering the Group as a whole, most residual non-hedgeable risks have a symmetric impact on shareholder value with the exception of operational risk.

The cost of residual non-hedgeable risks is calculated using a cost of capital approach, i.e. it is determined as the present value of capital charges for all future non-hedgeable risk capital requirements until run-off of the liabilities. The capital charge in each year is the product of the projected expected non-hedgeable risk capital held after allowance for some diversification benefits and the cost of capital rate. The cost of capital rate therefore represents the return above the risk free reference rates that the market is deemed to demand for providing this capital.

The residual non-hedgeable risk capital measure is determined using an internal economic capital model based on appropriate shock scenarios consistent with a 99.5 per cent confidence level over a one-year time horizon. The internal economic capital model makes allowance for certain management actions, such as reductions in bonus and crediting rates, where deemed appropriate.

The following allowance is made for diversification benefits in determining the residual non-hedgeable risk capital at a business unit level:

- Diversification benefits within the non-hedgeable risks of the covered business are allowed for.
- No allowance is made for diversification benefits between hedgeable and non-hedgeable risks of the covered business.
- No allowance is made for diversification benefits between covered and non-covered business.

The table below shows the amounts of diversified economic capital held in respect of residual non-hedgeable risks.

£m	Total	Europe	South Africa	United States
31 December 2008				
Non-hedgeable risk capital	2,003	720	457	826
31 December 2007				
Non-hedgeable risk capital	1,535	714	461	360

2 Methodology continued

A weighted average cost of capital rate of 2.0 per cent has been applied to residual symmetric and asymmetric non-hedgeable risks at a business unit level over the life of the contracts. This translates into an equivalent cost of capital rate of approximately 3.25 per cent being applied to the group diversified capital required in respect of such non-hedgeable risks.

Participating business

For participating business in South Africa and the United States, the method of valuation makes assumptions about future bonus or crediting rates and the determination of profit allocation between policyholders and shareholders. These assumptions are made on a basis consistent with other projection assumptions, especially the projected future investment returns, established Company practice (with due consideration of the PPFM for South African business), past external communication, any payout smoothing strategy, local market practice, regulatory/contractual restrictions and bonus participation rules.

Where current benefit levels are higher than can be supported by the existing fund assets together with projected investment returns, a downward 'glide path' is projected in benefit levels so that the fund would be exhausted on payment of the last benefit.

Spread-based products

A market consistent valuation of spread-based products (such as fixed indexed annuities in the United States, where investment returns are earned at one rate and policyholders' accounts are credited at a different rate with the difference referred to as 'spread') is dependent on the extent that management discretion can target a shareholder profit margin and the decision rules that management would follow in respect of crediting or bonus rates in any particular stochastic scenario.

Where guaranteed terms are offered at outset of a contract that dictate the payments to policyholders throughout the term of the contract, these payments are valued using the certainty equivalent valuation technique. These products, for example immediate annuities in payment, may therefore show a loss at point of sale under MCEV as investment margins are not anticipated while currently pricing practice does anticipate these margins. If returns in excess of the risk free reference rates actually emerge in the future, these will be recognised in the MCEV earnings as they arise.

For business where the crediting (bonus) rate is set in advance, crediting rates are set by considering management's target shareholder margins throughout the contract lifetime (subject to any guarantees). Projected crediting rates are set equal to the risk free reference rate less the anticipated margin to cover profit and expenses (subject to any policyholder guarantees eroding the shareholder margins). However, during the period following the valuation date the existing crediting rate is applied until the next point at which it can be varied. Given the guarantees included within such products (including consideration of a 0 per cent floor for crediting rates), stochastic modelling is used to value such contracts.

Valuation of assets and treatment of unrealised losses

The market values of assets, where quoted, are based on the bid price on the reporting date. Unquoted assets are valued according to IFRS and marked to model.

No smoothing of market values or unrealised gains/losses is applied.

Asset mix

PVFP and the time value of financial options and guarantees are calculated using assets projected on the actual asset allocation of the policyholder funds at the reporting date. However, if the current asset mix is materially different to the long-term strategic asset allocation as a result of market movements, projected assets are assumed to revert to the long-term strategic asset allocation in the short to medium term as appropriate.

Defined benefit pension scheme

Where a defined benefit pension scheme within the covered business is in surplus or deficit, the employer pension fund expense assumptions incorporated within the VIF allow appropriately for the expected release of surplus or funding of the deficit.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

Look through principle

PVFP and value of new business cash flow projections look through and include the profits/losses of owned service companies, e.g. distribution and administration, related to the management of the covered business. Any profit margins that are included in investment management fees payable by the life assurance companies to the asset management subsidiaries have not been included in the value of in-force business or the value of new business on the grounds of materiality and because a significant proportion of these profits arise from performance-based fees.

Taxation

In valuing shareholders' cash flows, allowance is made in the cash flow projections for taxes in the relevant jurisdiction affecting the covered business. Tax assumptions are based on best estimate assumptions, applying current local corporate tax legislation and practice together with known future changes and taking credit for any deferred tax assets.

No allowance is made for any further additional tax that would be incurred on the remittance of dividends from the life subsidiaries to Old Mutual plc, apart from the South African business where full allowance has been made for Secondary Tax on Companies (STC) at a rate of 10 per cent that may be payable in South Africa and the impact of capital gains tax. Furthermore, for the South African business it has been assumed that a reasonable proportion of the shareholder fund equity portfolio (excluding Group subsidiaries) will be traded each year. In Europe tax has been allowed for on dividends to be remitted to Skandia UK from the Isle of Man.

The value of any deferred tax assets is only recognised in the MCEV in so far as those tax assets are expected to be utilised in future by offsetting it against expected tax liabilities that are generated on expected profits emerging from in-force business. Since projected investment returns are based on the risk free reference rates, MCEV may therefore understate the true economic value of such deferred tax assets.

New business and renewals

The market consistent value of new business (VNB) measures the value of the future profits expected to emerge from all new business sold, and in some cases increases to existing contracts, during the reporting period after allowance for the time value of financial options and guarantees, frictional costs and the cost of residual non-hedgeable risks associated with writing the new business.

VNB includes contractual renewal of premiums and recurring single premiums, where the level of premium is pre-defined and is reasonably predictable, and changes to existing contracts where these are not variations allowed for in the PVFP. Non-contractual increments are treated similarly where the volume of such increments is reasonably predictable or likely (e.g. where premiums are expected to increase in line with salary or price inflation).

Any variations in premiums on renewal of in-force business from that previously anticipated including deviations in non-contractual increases, deviations in recurrent single premiums and re-pricing of premiums for in-force business are treated as experience variances on in-force business and not as new business.

VNB is calculated as follows:

- Using economic assumptions at the start of the reporting period.
- Using demographic and operating assumptions at the end of the reporting period.
- At point of sale and rolled forward to the end of the reporting period.
- Generally using a standalone approach unless a marginal approach would better reflect the additional value to shareholders created through the activity of writing new business.
- Expense allowances include all acquisition expenses, including any acquisition expense overruns.
- Net of tax, reinsurance and minority interests.
- No attribution of any investment and operating variances to VNB.

New business margins are disclosed as:

- The ratio of VNB to the present value of new business premiums (PVNBP); and
- The ratio of VNB to annual premium equivalent (APE), where APE is calculated as recurring premiums plus 10 per cent 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.

Analysis of MCEV earnings

An analysis of MCEV earnings provides a reconciliation of the MCEV for covered business at the beginning of the reporting period and the MCEV for covered business at the end of the reporting period on a net of taxation basis.

Operating MCEV earnings are generated by the value of new business sold during the reporting period, the expected existing business contribution, operating experience variances, operating assumption changes and other operating variances:

- The value of new business includes the impact of new business strain on free surplus that arises, amongst other things, from the impact of initial expenses and additional required capital that should be held in respect of such new business.
- The expected existing business contribution is determined by projecting both actual assets and actual liabilities (including assets backing the free surplus and required capital) from the start of the reporting period to the end of the reporting period using expected real-world earned rates of return. The expected existing business contribution is presented in two components:
    - Expected earnings on free surplus and required capital and the expected change in VIF assuming that the assets earn the beginning of period risk free reference rates; and
    - Additional expected earnings on free surplus and required capital and the additional expected change in VIF as a result of real-world expected earned rates of return on assets in excess of beginning of period risk free reference rates.
- Transfers from VIF and required capital to free surplus includes the release of required capital and modelled profits from VIF into free surplus in respect of business that was in-force at the beginning of the reporting period, although the movement does not contribute to a change in the MCEV.
- Operating experience variances reflect the impact of deviations of the actual operational experience during the reporting period from the expected operational experience. It is analysed before operating assumption changes, i.e. such variances are assessed against opening operating assumptions, and reflects the total impact of in-force and new business variances.
- Operating assumption changes incorporate the impact of changes to operating assumptions from those assumed at the beginning of the reporting period to those assumed at the end of the reporting period. As VNB is calculated using operating assumptions at the end of the reporting period, this impact only relates to the value of in-force business at the end of the reporting period.
- Other operating variances include model improvements, changes in methodology and the impact of certain management actions, such as a change in the asset allocation backing required capital.

Total MCEV earnings also include economic variances and other non-operating variances:

- Economic variances incorporate the impact of changes in economic assumptions from the beginning of the reporting period to the end of the reporting period as well as the impact on earnings resulting from actual returns on assets being different to the expected returns on those assets as reflected in the expected existing business contribution. It therefore also includes the impact of economic variances in the reporting period on projected future earnings.
- Other non-operating variances include the impact of changes in mandatory local regulations and changes in taxation.

An analysis of MCEV earnings requires closing adjustments in respect of exchange rate movements and capital transfers such as those in respect of payment of dividends and acquiring/divesting businesses.

Return on MCEV for covered business is calculated as the operating MCEV earnings after tax divided by opening MCEV in local currency, except for total covered business where the calculations are performed in Sterling.

Analysis of Group MCEV earnings

Presentation of Group MCEV consists of the covered business under the MCEV methodology and the non-covered business valued as the unadjusted IFRS net asset value. A mark to market adjustment is therefore not performed for external borrowings and other items not on a mark to market basis under IFRS relating to non-covered business.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

3 Assumptions

Non-economic assumptions

The appropriate non-economic projection assumptions for future experience (e.g. mortality, persistency and expenses) are determined using best estimate assumptions of each component of future cash flows, are specific to the entity concerned and has regard to past, current and expected future experience (e.g. longevity improvements and AIDS-related claims) as derived from both entity specific and industry data where deemed appropriate. Material assumptions are actively reviewed by means of detailed experience investigations and updated, as deemed appropriate, at least annually.

These assumptions are based on the covered business being part of a going concern, although favourable changes in maintenance expenses such as productivity improvements are generally not included beyond what has been achieved by the end of the reporting period. The only exception is in respect of the United States business which is currently undergoing a major restructuring and cost-cutting exercise. The expense assumption used in the calculation of MCEV takes into account cost reductions already achieved in the first quarter of 2009, but not any of the additional planned cost reductions.

The management expenses attributable to life assurance business have been analysed between expenses relating to the acquisition of new business, maintenance of in-force business (including investment management expenses) and development projects.

- All expected maintenance expense overruns affecting the covered business are allowed for in the calculations.
- Unallocated Group holding Company expenses have been included to the extent that they relate to the covered business. The future expenses attributable to life assurance business include 35 per cent of the Group holding Company expenses, with 14 per cent allocated to South Africa, 4 per cent allocated to United States and 17 per cent allocated to Europe (31 December 2007: 37 per cent of the Group holding Company expenses, with 15 per cent allocated to South Africa, 5 per cent allocated to United States and 17 per cent allocated to Europe). The allocation of these expenses aligns to the proportion that the management expenses incurred by the business bears to the total management expenses incurred in the Group.
- The MCEV normally only makes provision for future development costs and one-off exceptional expenses (such as those incurred on the integration of businesses following an acquisition and restructuring costs) to the extent that such project costs are known with sufficient certainty. However no such costs are allowed for as at 31 December 2008 (or 31 December 2007).

Legislative changes were introduced in Germany in 2008 specifying the proportion of miscellaneous profits to be shared with policyholders. According to the regulations, the revenue on in-force business can be reduced by various expense items, including those costs arising in respect of new business acquisition expenses in any year. To model this, Skandia Leben has adopted an approach consistent with German market practice. This approach is to set best estimate assumptions for the amount to be shared with policyholders in future years after allowing for the acquisition expenses in relation to the new business expected to be written over the next three years as per their business plan projections.

Economic assumptions

An active basis is applied to set pre-tax investment and economic assumptions to reflect the economic conditions prevailing on the reporting date. Economic assumptions are set consistently, for example future bonus or crediting rates are set at levels consistent with the investment return assumptions.

Under a market consistent valuation, economic assumptions are determined such that projected cash flows are valued in line with the prices of similar cash flows that are traded on the capital markets. Thus, risk free cash flows are discounted at a risk free reference rate and equity cash flows at an equity rate. In practice for the PVFP, where cash flows do not depend on or vary linearly with market movements, a certainty equivalent method is used which assumes that actual assets held earn, before tax and investment management expenses, risk free reference rates and all the cash flows are discounted using risk free reference rates which are gross of tax and investment management expenses. The deterministic certainty equivalent method is purely a valuation technique and over time the expectation is still that risk premiums will be earned on assets such as equities and corporate bonds.

Risk free reference rates and inflation

The risk free reference rates, reinvestment rates and discount rates are determined with reference to the swap yield curve appropriate to the currency of the cash flows. For Europe the swap yield curve is obtained from a number of sources including Bloomberg, Nordea Bank and Reuters. For the South African and United States businesses, the swap yield curve is sourced from the third party market consistent asset model that is used to generate the economic scenarios that are required to value the time value of financial options and guarantees.

No adjustments are made to swap yields to allow for liquidity premiums or credit risk premiums, apart from a liquidity adjustment to the United States Life onshore business at 31 December 2008. Any other risk premiums are recognised within the MCEV as and when they are earned.

3 Assumptions continued

Following a review of a wide range of market data and literature, such as, the Barrie+Hibbert calibration of US corporate bond spreads at 31 December 2008, it is the directors' view that the significant widening of corporate bond spreads during the recent financial market turmoil is partly a function of an increased liquidity premium rather than only heightened default risk and that returns in excess of swap rates can be achieved, rather than entire corporate bond spreads being lost to worsening default experience. For the United States onshore business we considered the currency, credit quality and duration of our actual corporate bond portfolio and derived adjusted risk free reference rates at 31 December 2008 by adding 300bps of liquidity premium to swap rates used for setting investment return and discounting assumptions (31 December 2007: no liquidity adjustment was applied as we did not anticipate at that time the extent to which the bond markets would become even further dislocated). This adjustment reflects the liquidity premium component in corporate bond spreads over swap rates that we expect to earn on our portfolio. We believe that the difference between market yields on our United States onshore bond portfolio and the adjusted risk free reference rate still provides an adequate implied margin for defaults.

No liquidity adjustment is applied to risk free reference rates for other geographies or for Old Mutual Bermuda because:

- the nature and management of the products sold onshore in the United States is materially different to those sold elsewhere in the Group, with greater opportunity for managing assets in such a manner as to realise liquidity premiums by holding corporate bonds to maturity;
- the widening of corporate bond spreads has been more pronounced in the United States compared to other geographies; and
- it is the only geography with a significant concentration of investments in the corporate bond market.

At those durations where swap yields are not available, e.g. due to a lack of a sufficiently liquid or deep swap market, the swap curve is extended using appropriate interpolation and extrapolation techniques.

Consumer price inflation assumptions are determined as those implied by index-linked government stocks or real swap yields if a liquid market of sufficient size exists. In other markets, the consumer price inflation assumptions are modelled considering a reasonable spread compared to swap rates. However, where modelling system capabilities are restricted, consumer price inflation is set as a flat assumption. Other types of inflation such as expense inflation are derived on a consistent basis and, where deemed appropriate, include a percentage addition to the consumer price inflation rate as life Company expenses for example include a large element of salary related expenses.

The risk free reference spot yields (inclusive of any applicable liquidity adjustments) and expense inflation rates at various terms for each of the significant geographies are provided in the table below. The risk free reference spot yield curve has been derived from mid swap rates at the reporting date.

Risk free reference spot yields	**1 year**	**5 years**	**10 years**	**20 years**
31 December 2008				
GBP	2.0%	3.1%	3.4%	3.5%
EUR	2.4%	3.3%	3.8%	3.9%
USD*	4.3%	5.1%	5.6%	5.8%
ZAR	9.3%	8.0%	7.8%	6.7%
SEK	1.8%	2.9%	3.2%	3.2%
31 December 2007				
GBP	5.5%	5.1%	5.0%	4.8%
EUR	4.6%	4.6%	4.7%	5.0%
USD	4.2%	4.2%	4.7%	4.9%
ZAR	11.5%	10.1%	9.1%	8.1%
SEK	4.7%	4.8%	4.9%	4.9%

Expense inflation	**1 year**	**5 years**	**10 years**	**20 years**
31 December 2008				
GBP	0.1%	1.5%	2.8%	4.1%
EUR	2.0%-3.0%	2.0%-3.0%	2.0%-3.0%	2.0%-3.0%
USD	3.0%	3.0%	3.0%	3.0%
ZAR	6.1%	5.4%	5.5%	4.6%
SEK	0.2%	1.0%	1.8%	2.1%
31 December 2007				
GBP	3.8%	3.6%	4.1%	4.5%
EUR	2.5%-3.0%	2.5%-3.0%	2.5%-3.0%	2.5%-3.0%
USD	3.0%	3.0%	3.0%	3.0%
ZAR	7.7%	7.1%	6.5%	5.8%
SEK	3.6%	3.4%	3.5%	3.6%

* After 300 bps adjustment to the risk free rate to recognise the liquidity premium

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

3 Assumptions continued

Volatilities and correlations

Where cash flows contain financial options and guarantees such that they do not move linearly with market movements, asset cash flows are projected and all cash flows discounted using risk-neutral stochastic models. These models project the assets and liabilities using a distribution of asset returns where all asset types, on average, earn the same risk free reference rate.

Apart from the risk free reference yields specified above, other key economic assumptions for the calibration of economic scenarios include the implied volatilities for each asset class and correlations between different asset classes. The volatility assumptions for the calibration of economic scenarios that are used in the stochastic models are, where possible, based on those implied from appropriate derivative prices (such as equity options in respect of guarantees that are dependent on changes in equity markets or swaptions in respect of guarantees that are dependent on changes in interest rates) as observed on the valuation date. However, historic implied and historic observed volatilities of the underlying instruments and expert opinion are considered where there are concerns over the depth or liquidity of the market, e.g. volatilities for property returns. Where strict adherence to the above is not possible, for example where markets only exist at short durations such as the equity option market in South Africa, interpolation or extrapolation techniques are used to derive volatility assumptions for the full term structure of the liabilities. Correlation assumptions between asset classes that are used in stochastic models are based on an assessment of historic relationships. Where historic data is used in setting volatility or correlation assumptions, a suitable time period is considered for analysing historic data including consideration of the appropriateness of historical data where economic conditions were materially different to current conditions.

For the South African stochastic models, due to the immateriality of corporate bond and property holdings, corporate bonds are assumed to yield the same returns as equivalent long-term government bonds and property is assumed to be invested 50 per cent in local equities and 50 per cent in long-term government bonds.

The at-the-money annualised asset volatility assumptions of the asset classes incorporated in the stochastic models are detailed below.

ZAR volatilities	**Option term**			
	1 year	**5 years**	**10 years**	**20 years**
31 December 2008				
1 year swap	30.8%	35.1%	32.9%	25.4%
5 year swap	32.9%	33.6%	30.2%	22.5%
10 year swap	30.8%	30.3%	25.9%	18.7%
20 year swap	26.9%	25.1%	19.8%	13.9%
Equity (total return index)*	37.6%	31.6%	29.2%	28.1%
Property (total return index)	23.2%	19.0%	15.6%	15.4%
31 December 2007				
1 year swap	14.9%	14.5%	13.6%	13.3%
5 year swap	14.5%	14.1%	13.2%	12.9%
10 year swap	14.3%	13.7%	12.8%	12.5%
20 year swap	14.0%	13.1%	12.1%	11.7%
Equity (total return index)*	24.4%	24.4%	25.4%	26.0%
Property (total return index)	14.8%	13.5%	13.7%	13.6%

* Due to limited liquidity in the ZAR equity option market, the market consistent asset model has been calibrated by extrapolating equity option implied volatility data beyond a term of 3 years.

3 Assumptions continued

USD volatilities	Option term			
	1 year	5 years	10 years	20 years
*31 December 2008**				
1 year swap	44.9%	23.9%	18.3%	16.1%
5 year swap	34.1%	22.8%	17.9%	16.0%
10 year swap	27.7%	21.2%	17.1%	15.4%
20 year swap	24.7%	20.1%	16.3%	14.5%
31 December 2007				
1 year swap	35.0%	26.9%	22.2%	19.8%
5 year swap	20.6%	18.7%	17.4%	15.8%
10 year swap	16.1%	15.4%	14.7%	13.3%
20 year swap	14.8%	14.1%	13.5%	12.4%

* Due to limited liquidity in the USD swap market, the market consistent asset model has been calibrated by reference to volatility data as at 31 September 2008.

International equity volatilities (Old Mutual Bermuda)*	Option term			
	1 year	5 years	10 years	20 years
31 December 2008				
SPX	38%	35%	27%	27%
RTY	46%	45%	34%	34%
TPX	41%	39%	31%	31%
HSCEI	57%	51%	43%	43%
TWSE	36%	34%	30%	30%
KOSP12	42%	43%	36%	36%
NIFTY	39%	33%	31%	31%
SX5E	38%	37%	31%	31%
UKX	37%	36%	28%	28%
BCAI	4%	4%	4%	4%
31 December 2007				
SPX	22%	24%	10%	18%
RTY	28%	10%	12%	18%
TPX	21%	22%	10%	17%
HSCEI	40%	30%	10%	27%
IBOV	35%	28%	10%	24%
FTSE	21%	26%	10%	18%
SBBIG	4%	4%	4%	4%

*Note that due to improvements in fund mapping during 2008, some different indices are referenced at 31 December 2008 than those referenced at 31 December 2007

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

3 Assumptions continued

Exchange rates

All MCEV figures are calculated in local currency and translated to GBP using the appropriate exchange rates as detailed in Note 2 of the IFRS statements.

Expected asset returns in excess of the risk free reference rates

The expected asset returns in excess of the risk free reference rates have no bearing on the calculated MCEV other than the calculation of the expected existing business contribution in the analysis of MCEV earnings. Such real-world economic assumptions are determined with reference to one-year forward risk free reference rates applicable to the currency of the liabilities at the start of the reporting period. All other economic assumptions, for example future bonus or crediting rates, are set at levels consistent with the real-world investment return assumptions.

Equity and property risk premiums incorporate both historical relationships and the directors' view of future projected returns in each geography. Pre-tax real-world economic assumptions are determined as follows:

- The equity risk premium is 3.5 per cent for Africa and 3 per cent for Europe and the United States.
- The cash return equals the risk free reference rate less a deduction of 2 per cent for Africa and 1 per cent for Europe and the United States.
- The corporate bond return is based on actual corporate bond spreads on the reporting date less an allowance for defaults.
- The property risk premium is 2.5 per cent in Africa and 2 per cent in Europe.

Tax

The effective tax rates for Nordic, United Kingdom and the balance of Europe were a range of 2 to 28 per cent (2007: 2 to 28 per cent), 29 per cent (2007: 28 per cent) and a range of 8 to 31 per cent (2007: 14 to 30 per cent) respectively.

The effective tax rate was 33 per cent for South Africa (2007: 34 per cent) and 0 per cent for Namibia (2007: 0 per cent), except for the investment return on capital for which the attributed tax was derived from the primary accounts.

For the United States the effective rate was under 1 per cent.

£m

4 (i) Adjusted Group Market Consistent Embedded Value presented per business line

	Year ended 31 December 2008	Year ended 31 December 2007
MCEV of the covered business	**4,183**	6,349
Adjusted net worth*	**2,383**	2,421
Value of in–force business**	**1,800**	3,928
Adjusted net worth of the asset management businesses	**1,577**	1,637
Europe	**98**	160
South Africa	**292**	232
United States	**1,187**	1,245
Value of the banking business	**1,976**	2,716
Europe (adjusted net worth)	**285**	305
South Africa (market value)	**1,691**	2,411
Market value of the general insurance business		
South Africa	**219**	405
Net other business	**(161)**	(35)
Adjustment for present value of Black Economic Empowerment scheme deferred consideration	**169**	191
Adjustment for value of own shares in ESOP schemes* **	**63**	158
Perpetual preferred securities (US$ denominated)	**(203)**	(378)
Perpetual preferred callable securities	**(304)**	(652)
GBP denominated	**(174)**	(328)
Euro denominated	**(130)**	(324)
Debt	**(1,312)**	(1,401)
Rand denominated	**(213)**	(215)
USD denominated	**(537)**	(408)
GBP denominated	**(191)**	(272)
SEK denominated	**(252)**	(506)
Euro denominated	**(119)**	–
Adjusted Group MCEV	**6,207**	8,990

* Adjusted net worth is after the elimination of intercompany loans.

** Net of minority interests.

*** Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2007 and 31 December 2008 is due to the reduction in the Old Mutual plc share price.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

4 (ii) Adjusted operating MCEV earnings for the covered business

£m	At 31 December 2008	At 31 December 2007
Adjusted operating MCEV earnings before tax for the covered business*	**324**	768
UK	**333**	288
Nordic	**164**	83
Europe and Latin America	**8**	1
OMSA	**441**	355
Rest of Africa	**22**	4
United States	**(644)**	37
Tax on adjusted operating MCEV earnings for the covered business	**191**	**177**
UK	**98**	82
Nordic	**15**	17
Europe and Latin America	**4**	(6)
OMSA	**116**	78
Rest of Africa	**–**	–
United States	**(42)**	6
Adjusted operating MCEV earnings after tax for the covered business	**133**	**591**
UK	**235**	**206**
Nordic	**149**	**66**
Europe and Latin America	**4**	**7**
OMSA	**325**	**277**
Rest of Africa	**22**	**4**
United States	**(602)**	**31**

Tax on adjusted operating MCEV earnings comprises		
Tax on adjusted operating MCEV earnings for the covered business	**191**	**177**
Tax on adjusted operating MCEV earnings for other business	**(56)**	**237**
Tax on adjusted operating MCEV earnings	**135**	**414**

* Adjusted operating MCEV earnings before tax are derived by grossing up each of the components of the earnings after tax at the expected tax rates.

4 (iii) Components of Market Consistent Embedded Value of the covered business

£m

	At 31 December 2008	At 31 December 2007
MCEV of the covered business	**4,183**	6,349
Adjusted net worth	**2,383**	2,421
Value of in–force business	**1,800**	3,928
UK		
Adjusted net worth	**278**	276
Free surplus	**121**	89
Required capital	**157**	187
Value of in–force business	**1,393**	1,255
Present value of future profits	**1,439**	1,305
Additional time value of financial options and guarantees	**–**	–
Frictional costs	**(7)**	(10)
Cost of non–hedgeable risks	**(39)**	(40)
Nordic		
Adjusted net worth	**163**	122
Free surplus	**58**	47
Required capital	**105**	75
Value of in–force business* **	**882**	992
Present value of future profits	**943**	1,058
Additional time value of financial options and guarantees	**–**	–
Frictional costs	**(8)**	(9)
Cost of non–hedgeable risks	**(53)**	(57)
Europe and Latin America		
Adjusted net worth	**126**	50
Free surplus	**17**	(11)
Required capital	**109**	61
Value of in–force business	**587**	522
Present value of future profits	**659**	574
Additional time value of financial options and guarantees	**(13)**	(1)
Frictional costs	**(13)**	(10)
Cost of residual non–hedgeable risks	**(46)**	(41)
OMSA		
Adjusted net worth*	**905**	1,392
Free surplus	**(128)**	266
Required capital	**1,033**	1,126
Value of in–force business	**1,040**	1,154
Present value of future profits	**1,228**	1,344
Additional time value of financial options and guarantees	**–**	–
Frictional costs**	**(113)**	(122)
Cost of residual non–hedgeable risks	**(75)**	(68)
Rest of Africa		
Adjusted net worth	**70**	76
Free surplus	**33**	43
Required capital	**37**	33
Value of in–force business	**48**	48
Present value of future profits	**57**	55
Additional time value of financial options and guarantees	**–**	–
Frictional costs	**(4)**	(2)
Cost of residual non–hedgeable risks	**(5)**	(5)
United States		
Adjusted net worth	**841**	505
Free surplus	**257**	81
Required capital	**584**	424
Value of in–force business	**(2,150)**	(43)
Present value of future profits	**(1,746)**	246
Additional time value of financial options and guarantees	**(248)**	(198)
Frictional costs	**(3)**	(38)
Cost of residual non–hedgeable risks	**(153)**	(53)

* The required capital in respect of OMSA is partially covered by the market value of the Group's investments in banking and general insurance in South Africa. On consolidation these investments are shown separately.

** For the South African business there has been a material change in the asset allocation of assets backing required capital from 31 December 2007 to 31 December 2008. As at 31 December 2008, significantly fewer assets are held in equities and more in cash compared to 31 December 2007.

*** The defined benefit plan funds allocated to the Nordic covered business are currently showing an aggregate surplus of £45m on an IAS 19 basis. This amount has not been incorporated within the VIF by allowing for the expected release of surplus, nor has it been allowed within the ANW of the business.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

For the United States, the material decrease in frictional costs from £38 million as at 31 December 2007 to £3 million as at 31 December 2008 reflects the changed tax position of the business between these two reporting dates on a market consistent basis. The fact that there are greater losses projected on an MCEV basis at 31 December 2008 compared to 31 December 2007 (mainly due to lower risk free reference rates) means that future income on the capital required to back the business is to a large extent not subject to tax as such future income can be offset against current projected losses.

For the United States, the material increase in the cost of residual non-hedgeable risks from £53 million as at 31 December 2007 to £153 million as at 31 December 2008 results mainly from the introduction as at 31 December 2008 of an allowance for hedge risks on the Variable Annuity portfolio. This allowance was not backdated to 31 December 2007 as issues with the effectiveness of the hedging programme, which has improved in the second half of 2008, only emerged during 2008. The position at 31 December 2007 was restated based on the knowledge at the time, which included an expectation that the guarantee hedges would be more effective than actually experienced during 2008.

4 (iv) Analysis of covered business MCEV earnings (after tax)

£m

Total covered business*					**Year ended 31 December 2008**					Year ended 31 December 2007
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in–force**	**MCEV**	Free surplus	Required capital	Adjusted net worth	Value of in–force	MCEV
Opening MCEV **	**515**	**1,906**	**2,421**	**3,928**	**6,349**	199	1,903	2,102	4,043	6,145
New business value	**(608)**	**172**	**(436)**	**540**	**104**	(588)	181	(407)	637	230
Expected existing business contribution (reference rate)	**63**	**117**	**180**	**289**	**469**	15	127	142	269	411
Expected existing business contribution (in excess of reference rate)	**4**	**15**	**19**	**81**	**100**	3	19	22	67	89
Transfers from VIF and required capital to free surplus	**939**	**(189)**	**750**	**(750)**	**–**	850	(201)	649	(649)	–
Experience variances	**160**	**(75)**	**85**	**(250)**	**(165)**	132	(29)	103	(119)	(16)
Assumption changes	**(55)**	**–**	**(55)**	**(375)**	**(430)**	26	(1)	25	(226)	(201)
Other operating variance	**172**	**(156)**	**16**	**39**	**55**	102	(121)	(19)	97	78
Operating MCEV earnings	**675**	**(116)**	**559**	**(426)**	**133**	540	(25)	515	76	591
Economic variances	**(722)**	**5**	**(717)**	**(1,485)**	**(2,202)**	190	13	203	(364)	(161)
Other non–operating variance	**(111)**	**43**	**(68)**	**–**	**(68)**	(5)	3	(2)	86	84
Total MCEV earnings	**(158)**	**(68)**	**(226)**	**(1,911)**	**(2,137)**	725	(9)	716	(202)	514
Closing adjustments	**1**	**187**	**188**	**(217)**	**(29)**	(409)	12	(397)	87	(310)
Capital and dividend flows	**(22)**	**–**	**(22)**	**–**	**(22)**	(412)	–	(412)	–	(412)
Foreign exchange variance	**23**	**187**	**210**	**(217)**	**(7)**	3	12	15	87	102
Closing MCEV	**358**	**2,025**	**2,383**	**1,800**	**4,183**	515	1,906	2,421	3,928	6,349
Return on MCEV (RoEV) % per annum					**2.1%**					9.6%

* Note that results for the 'Rest of Africa' are included in the analysis of total covered business MCEV earnings, but that no separate analysis is shown for such business from a materiality perspective.
** The opening MCEV for the year ended 31 December 2007 is gross of minority interest of £29m in Skandia. During 2007 all the minority shares were purchased.

Return on MCEV for total covered business is calculated as the operating MCEV earnings after tax divided by opening MCEV in Sterling.

4 (iv) Analysis of covered business MCEV earnings (after tax) continued

£m

UK covered business	Year ended 31 December 2008					Year ended 31 December 2007				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in–force**	**MCEV**	Free surplus	Required capital	Adjusted net worth	Value of in–force	MCEV
Opening MCEV	**89**	**187**	**276**	**1,255**	**1,531**	73	162	235	1,090	1,325
New business value	**(189)**	**(1)**	**(190)**	**257**	**67**	(190)	12	(178)	259	81
Expected existing business contribution (reference rate)	**31**	**1**	**32**	**58**	**90**	(2)	15	13	56	69
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**20**	**20**	–	–	–	17	17
Transfers from VIF and required capital to free surplus	**294**	**(15)**	**279**	**(279)**	**–**	225	(5)	220	(220)	–
Experience variances	**26**	**(10)**	**16**	**1**	**17**	25	3	28	3	31
Assumption changes	**(3)**	**–**	**(3)**	**59**	**56**	(8)	(1)	(9)	17	8
Other operating variance	**11**	**–**	**11**	**(26)**	**(15)**	–	–	–	–	–
Operating MCEV earnings	**170**	**(25)**	**145**	**90**	**235**	50	24	74	132	206
Economic variances	**(59)**	**(9)**	**(68)**	**51**	**(17)**	1	–	1	5	6
Other non–operating variance	**8**	**(1)**	**7**	**(10)**	**(3)**	–	–	–	27	27
Total MCEV earnings	**119**	**(35)**	**84**	**131**	**215**	51	24	75	164	239
Closing adjustments	**(87)**	**5**	**(82)**	**7**	**(75)**	(35)	1	(34)	1	(33)
Capital and dividend flows	**(82)**	**–**	**(82)**	**–**	**(82)**	(35)	–	(35)	–	(35)
Foreign exchange variance	**(5)**	**5**	**–**	**7**	**7**	–	1	1	1	2
Closing MCEV	**121**	**157**	**278**	**1,393**	**1,671**	89	187	276	1,255	1,531
Return on MCEV (RoEV) % per annum					**15.3%**					15.5%

The 'expected existing business contribution (in excess of reference rate)' is not significant. This is reasonable for business comprised mostly of unit-linked products where most of the profits emanate from premium charges, acquisition charges and fund based fees. Such fees and charges are largely captured in the 'expected existing business contribution (reference rate)'.

The experience variances were driven by a higher level of fund rebate than that assumed, offset by a write-down of capitalised software costs.

The main operating assumption changes related to an increased recognition of fee income which was partly offset by a strengthening of expense assumptions.

The other operating variances mainly reflect the impact of modelling and methodology improvements.

The capital and dividend flows consist mainly of dividends.

The other non-operating variance is due to the implementation of a new actuarial system. .

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in Sterling.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

4 (iv) Analysis of covered business MCEV earnings (after tax) continued

£m

Nordic covered business	Year ended 31 December 2008					Year ended 31 December 2007				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in–force**	**MCEV**	Free surplus	Required capital	Adjusted net worth	Value of in–force	MCEV
Opening MCEV	**47**	**75**	**122**	**992**	**1,114**	(154)	46	(108)	971	863
New business value	**(50)**	**3**	**(47)**	**79**	**32**	(36)	2	(34)	57	23
Expected existing business contribution (reference rate)	**2**	**2**	**4**	**50**	**54**	1	1	2	39	41
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**23**	**23**	–	–	–	21	21
Transfers from VIF and required capital to free surplus	**85**	**1**	**86**	**(86)**	**–**	67	2	69	(69)	–
Experience variances	**10**	**18**	**28**	**(17)**	**11**	(4)	20	16	4	20
Assumption changes	**–**	**–**	**–**	**32**	**32**	–	–	–	(39)	(39)
Other operating variance	**(1)**	**–**	**(1)**	**(2)**	**(3)**	(5)	5	–	–	–
Operating MCEV earnings	**46**	**24**	**70**	**79**	**149**	23	30	53	13	66
Economic variances	**9**	**(20)**	**(11)**	**(296)**	**(307)**	10	(5)	5	(35)	(30)
Other non–operating variance	**(85)**	**19**	**(66)**	**(3)**	**(69)**	–	–	–	1	1
Total MCEV earnings	**(30)**	**23**	**(7)**	**(220)**	**(227)**	33	25	58	(21)	37
Closing adjustments	**41**	**7**	**48**	**110**	**158**	168	4	172	42	214
Capital and dividend flows	**31**	**–**	**31**	**–**	**31**	165	–	165	–	165
Foreign exchange variance	**10**	**7**	**17**	**110**	**127**	3	4	7	42	49
Closing MCEV	**58**	**105**	**163**	**882**	**1,045**	47	75	122	992	1,114
Return on MCEV (RoEV) % per annum					**12.9%**					7.6%

The experience variances were largely driven by tax gains, a higher level of fee income than assumed and a contribution from profits from healthcare business which is not valued within the VIF. These were partially offset by one-off persistency effects due to a Swedish legislative change relating to the level of tax deductible savings contributions.

The main operating assumption changes related to a release of reserves set up for costs in the corporate business partially offset by strengthened persistency assumptions.

The other non-operating variance is mainly driven by legacy issues, such as the settlement of the Skandia Liv-arbitration and strengthening of various legacy provisions.

The capital and dividend flows mainly represent dividends received, repayment of loans and settlement of the Liv-arbitration.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in Swedish Krona.

4 (iv) Analysis of covered business MCEV earnings (after tax) continued

£m

Europe and Latin America covered business	Year ended 31 December 2008					Year ended 31 December 2007				
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in–force**	**MCEV**	Free surplus	Required capital	Adjusted net worth	Value of in–force	MCEV
Opening MCEV	**(11)**	**61**	**50**	**522**	**572**	59	56	115	470	585
New business value	**(108)**	**5**	**(103)**	**113**	**10**	(103)	4	(99)	137	38
Expected existing business contribution (reference rate)	**1**	**1**	**2**	**23**	**25**	–	1	1	18	19
Expected existing business contribution (in excess of reference rate)	**–**	**–**	**–**	**5**	**5**	–	–	–	5	5
Transfers from VIF and required capital to free surplus	**136**	**–**	**136**	**(136)**	**–**	136	(3)	133	(133)	–
Experience variances	**(5)**	**(6)**	**(11)**	**(10)**	**(21)**	(2)	(4)	(6)	(1)	(7)
Assumption changes	**–**	**–**	**–**	**(22)**	**(22)**	–	–	–	(49)	(49)
Other operating variance	**2**	**–**	**2**	**5**	**7**	(5)	(6)	(11)	12	1
Operating MCEV earnings	**26**	**–**	**26**	**(22)**	**4**	26	(8)	18	(11)	7
Economic variances	**11**	**(17)**	**(6)**	**(54)**	**(60)**	(2)	3	1	(7)	(6)
Other non–operating variance	**(34)**	**25**	**(9)**	**(5)**	**(14)**	(1)	–	(1)	25	24
Total MCEV earnings	**3**	**8**	**11**	**(81)**	**(70)**	23	(5)	18	7	25
Closing adjustments	**25**	**40**	**65**	**146**	**211**	(93)	10	(83)	45	(38)
Capital and dividend flows	**25**	**–**	**25**	**–**	**25**	(88)	–	(88)	–	(88)
Foreign exchange variance	**–**	**40**	**40**	**146**	**186**	(5)	10	5	45	50
Closing MCEV	**17**	**109**	**126**	**587**	**713**	(11)	61	50	522	572
Return on MCEV (RoEV) % per annum					**0.6%**					1.5%

The experience variances are mainly driven by expense overruns offset by positive mortality and morbidity experience.

The main operating assumption changes related to strengthening of retention levels in Austria and revision of expense assumptions in Southern Europe and Italy.

The other non-operating variance is mainly due to legislative changes that have been introduced in Germany in 2008 which specifies the proportion of miscellaneous profits to be shared with policyholders.

The capital and dividend flows mainly represent capital injections into Southern Europe to support new business, dividends and repayments.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in Euro.

.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

4 (iv) Analysis of covered business MCEV earnings (after tax) continued

£m

OMSA covered business *					Year ended 31 December 2008					Year ended 31 December 2007
	Free surplus	Required capital	Adjusted net worth	Value of in–force	MCEV	Free surplus	Required capital	Adjusted net worth	Value of in–force	MCEV
Opening MCEV	**266**	**1,126**	**1,392**	**1,154**	**2,546**	112	1,212	1,324	1,089	2,413
New business value	**(81)**	**68**	**(13)**	**67**	**54**	(75)	63	(12)	62	50
Expected existing business contribution (reference rate)	**23**	**98**	**121**	**142**	**263**	9	92	101	131	232
Expected existing business contribution (in excess of reference rate)	**3**	**14**	**17**	**13**	**30**	2	17	19	8	27
Transfers from VIF and required capital to free surplus	**286**	**(130)**	**156**	**(156)**	**–**	296	(131)	165	(165)	–
Experience variances	**13**	**(18)**	**(5)**	**(17)**	**(22)**	33	(30)	3	(19)	(16)
Assumption changes	**21**	**–**	**21**	**(18)**	**3**	8	–	8	(33)	(25)
Other operating variance	**161**	**(157)**	**4**	**(7)**	**(3)**	95	(120)	(25)	34	9
Operating MCEV earnings	**426**	**(125)**	**301**	**24**	**325**	368	(109)	259	18	277
Economic variances	**(139)**	**51**	**(88)**	**(135)**	**(223)**	201	21	222	8	230
Other non–operating variance	**–**	**–**	**–**	**18**	**18**	(1)	–	(1)	33	32
Total MCEV earnings	**287**	**(74)**	**213**	**(93)**	**120**	568	(88)	480	59	539
Closing adjustments	**(681)**	**(19)**	**(700)**	**(21)**	**(721)**	(414)	2	(412)	6	(406)
Capital and dividend flows	**(640)**	**–**	**(640)**	**–**	**(640)**	(419)	–	(419)	–	(419)
Foreign exchange variance	**(41)**	**(19)**	**(60)**	**(21)**	**(81)**	5	2	7	6	13
Closing MCEV	**(128)**	**1,033**	**905**	**1,040**	**1,945**	266	1,126	1,392	1,154	2,546
Return on MCEV (RoEV) % per annum					**14.4%**					11.7%

* The MCEV for South Africa is presented after the adjustment for market value of life funds' investments in Group equity and debt instruments.

The experience variances were driven by negative persistency experience and one–off and special project costs which were partially offset by favourable mortality and disability experience and positive maintenance expense experience.

The main operating assumption changes related to maintenance expense savings being reflected in the updated assumptions and the positive impact of changes in annuitant mortality assumptions which were offset by the negative impact of changes to persistency assumptions that have been reviewed in light of the recent adverse experience.

The other operating variances mainly include improvements in valuation models and methodology.

The other non–operating variances relate to reduction in the corporate tax rate from 29% to 28% and the impact of changing the asset allocation backing required capital.

The capital and dividend flows mainly include dividend payments (net of dividends received from Nedbank and Mutual & Federal) and increased investment in Old Mutual plc loan notes and the purchase of additional shares in Nedbank and Mutual & Federal. These capital flows arose from excess capital and did not adversely affect the solvency position of the South African life company.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in Rand.

4 (iv) Analysis of covered business MCEV earnings (after tax) continued

£m

United States covered business					**Year ended 31 December 2008**					Year ended 31 December 2007
	Free surplus	**Required capital**	**Adjusted net worth**	**Value of in–force**	**MCEV**	Free surplus	Required capital	Adjusted net worth	Value of in–force	MCEV
Opening MCEV	**81**	**424**	**505**	**(43)**	**462**	64	390	454	371	825
New business value	**(177)**	**93**	**(84)**	**18**	**(66)**	(181)	96	(85)	116	31
Expected existing business contribution (reference rate)	**2**	**12**	**14**	**10**	**24**	3	15	18	20	38
Expected existing business contribution (in excess of reference rate)	**–**	**1**	**1**	**20**	**21**	–	2	2	16	18
Transfers from VIF and required capital to free surplus	**128**	**(41)**	**87**	**(87)**	**–**	115	(59)	56	(56)	–
Experience variances	**113**	**(58)**	**55**	**(206)**	**(151)**	84	(15)	69	(99)	(30)
Assumption changes	**(74)**	**–**	**(74)**	**(425)**	**(499)**	26	–	26	(123)	(97)
Other operating variance	**–**	**–**	**–**	**69**	**69**	18	–	18	53	71
Operating MCEV earnings	**(8)**	**7**	**(1)**	**(601)**	**(602)**	65	39	104	(73)	31
Economic variances	**(529)**	**–**	**(529)**	**(1,047)**	**(1,576)**	(30)	–	(30)	(333)	(363)
Other non–operating variance	**–**	**–**	**–**	**–**	**–**	–	–	–	–	–
Total MCEV earnings	**(537)**	**7**	**(530)**	**(1,648)**	**(2,178)**	35	39	74	(406)	(332)
Closing adjustments	**713**	**153**	**866**	**(459)**	**407**	(18)	(5)	(23)	(8)	(31)
Capital and dividend flows	**651**	**–**	**651**	**–**	**651**	(18)	–	(18)	–	(18)
Foreign exchange variance	**62**	**153**	**215**	**(459)**	**(244)**	–	(5)	(5)	(8)	(13)
Closing MCEV	**257**	**584**	**841**	**(2,150)**	**(1,309)**	81	424	505	(43)	462
Return on MCEV (RoEV) % per annum					**-121.4%**					4.1%

The segment results of United States include Old Mutual Reassurance (Ireland) Limited (OMRe), which provides reinsurance to the United States Life Companies, and Old Mutual (Bermuda) Limited.

The negative experience variances were largely driven by higher than expected lapses on the fixed deferred and indexed annuity products and by reinsurance deals which were priced to be broadly cost-neutral on a real-world basis. Other negative experience variances included lighter than expected mortality on the immediate annuity book and an expense overrun. There was an offsetting positive tax variance.

The main operating assumption changes related to a strengthening of mortality assumptions on part of the immediate annuity book, changes to variable annuity reserving and increased expense assumptions.

The capital and dividend flows were mainly due to capital injections from Old Mutual plc during the year.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in US Dollar.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

5 Adjustments applied in determining total Group MCEV earnings before tax

£m

			Year ended 31 December 2008			Year ended 31 December 2007
Analysis of adjusting items	**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	**–**	**(12)**	**(12)**	–	(11)	(11)
Economic variances	**(2,480)**	**(72)**	**(2,552)**	(114)	(7)	(121)
Other non–operating variances	**(79)**	**–**	**(79)**	48	–	48
Acquired/divested business	**–**	**53**	**53**	(1)	25	24
Closure of unclaimed share trust	**–**	**–**	**–**	–	1	1
Dividends declared to holders of perpetual preferred callable securities	**–**	**43**	**43**	–	40	40
Adjusting items relating to US Asset Management equity plans and minority holders	**–**	**7**	**7**	–	11	11
Fair value gains on Group debt instruments	**–**	**503**	**503**	–	29	29
Adjusting items	**(2,559)**	**522**	**(2,037)**	(67)	88	21

6 Other movements in net equity impacting Group MCEV

£m

			Year ended 31 December 2008			Year ended 31 December 2007
	Covered business MCEV	**Non–covered business IFRS**	**Total Group MCEV**	Covered business MCEV	Non–covered business IFRS	Total Group MCEV
Fair value gains/(losses)	**–**	**–**	**–**	–	21	21
Net investment hedge	**–**	**(281)**	**(281)**	–	(13)	(13)
Currency translation differences/exchange differences on translating foreign operations	**(7)**	**59**	**52**	102	18	120
Aggregate tax effects of items taken directly to or transferred from equity	**–**	**(1)**	**(1)**	–	13	13
Other movements	**–**	**(49)**	**(49)**	–	29	29
Net income recognised directly into equity	**(7)**	**(272)**	**(279)**	102	68	170
Dividend for the year	**(22)**	**(373)**	**(395)**	(412)	39	(373)
Share buy back	**–**	**(175)**	**(175)**	–	(177)	(177)
Net issues of ordinary share capital by the Company	**–**	**5**	**5**	–	3	3
Exercise of share options	**–**	**5**	**5**	–	9	9
Fair value of equity settled share options	**–**	**26**	**26**	–	36	36
Other movements in net equity	**(29)**	**(784)**	**(813)**	(310)	(22)	(332)

7 Reconciliation of MCEV adjusted net worth to IFRS net asset value for the covered business

The table below provides a reconciliation of the MCEV adjusted net worth (ANW) to the IFRS net asset value (NAV) for the covered business.

£m

	Year ended 31 December 2008						
	Total	**UK**	**Nordic**	**ELAM**	**OMSA**	**Rest of Africa**	**United States**
IFRS net asset value*	**5,907**	**2,064**	**1,323**	**1,228**	**536**	**66**	**690**
Adjustment to include long–term business on a statutory solvency basis	**(2,461)**	**(1,200)**	**(973)**	**(576)**	**133**	**4**	**151**
Adjustment for market value of life funds' investments in Group equity and debt instruments	**236**	**–**	**–**	**–**	**236**	**–**	**–**
Adjustments to exclude acquisition of goodwill from the covered business	**(1,299)**	**(586)**	**(187)**	**(526)**	**–**	**–**	**–**
MCEV adjusted net worth	**2,383**	**278**	**163**	**126**	**905**	**70**	**841**

£m

	Year ended 31 December 2007						
	Total	UK	Nordic	ELAM	OMSA	Rest of Africa	United States
IFRS net asset value*	6,199	2,017	1,222	945	757	72	1,186
Adjustment to include long–term business on a statutory solvency basis	(3,055)	(1,160)	(931)	(490)	143	4	(621)
Adjustment for market value of life funds' investments in Group equity and debt instruments	492				492		
Adjustments to exclude acquisition of goodwill from the covered business	(1,215)	(581)	(169)	(405)			(60)
MCEV adjusted net worth	2,421	276	122	50	1,392	76	505

* IFRS net asset value is after elimination of intercompany loans.

The adjustment to include long–term business on a statutory solvency basis includes the following:

- The excess of the IFRS amount of the deferred acquisition cost (DAC) and value of business acquired (VOBA) assets over the statutory levels included in the VIF.
- When projecting future profits on a statutory basis, the VIF includes the shareholders' value of unrealised capital gains. To the extent that assets in IFRS are valued at market and the market value is higher than the statutory book value, these profits have already been taken into account in the IFRS equity.

8 Value of new business (after tax)

The tables below set out the geographic analysis of the value of new business (VNB) after tax. New business profitability is measured by both the ratio of the VNB to the present value of new business premiums (PVNBP) as well as to the annual premium equivalent (APE), and shown under PVNBP margin and APE margin below. APE is calculated as recurring premiums plus 10 per cent of single premiums.

As mentioned earlier for the South African business, healthcare administration business is no longer recognised as part of the VNB of covered business as previously reported under EEV. A similar consideration applies to other new business measures such as PVNBP and APE.

		£m
	Year ended 31 December 2008	Year ended 31 December 2007
Annualised recurring premiums		
UK	**202**	186
Nordic	**174**	128
Europe and Latin America	**100**	102
OMSA	**212**	213
Rest of Africa	**11**	11
United States	**33**	39
	732	679
Single premiums		
UK	**3,938**	5,540
Nordic	**384**	193
Europe and Latin America	**679**	879
OMSA	**1,248**	1,073
Rest of Africa	**51**	43
United States	**2,475**	2,962
	8,775	10,690
PVNBP		
UK	**4,902**	6,311
Nordic	**991**	690
Europe and Latin America	**1,238**	1,494
OMSA	**2,317**	2,268
Rest of Africa	**120**	98
United States	**2,694**	3,185
	12,262	14,046
PVNBP capitalisation factors*		
UK	**4.8**	4.3
Nordic	**3.5**	3.9
Europe and Latin America	**5.6**	6.1
OMSA	**5.1**	5.6
Rest of Africa	**6.0**	5.0
United States	**6.7**	5.7
APE		
UK	**596**	740
Nordic	**213**	147
Europe and Latin America	**168**	190
OMSA	**336**	321
Rest of Africa	**17**	15
United States	**281**	335
	1,611	1,748
VNB		
UK	**67**	81
Nordic	**32**	23
Europe and Latin America	**10**	38
OMSA	**54**	50
Rest of Africa	**7**	7
United States	**(66)**	31
	104	230

8 Value of new business (after tax) continued

	£m	
	Year ended 31 December 2008	Year ended 31 December 2007
PVNBP margin		
UK	**1.4%**	1.3%
Nordic	**3.3%**	3.3%
Europe and Latin America	**0.8%**	2.6%
OMSA	**2.3%**	2.2%
Rest of Africa	**5.8%**	7.1%
United States	**-2.4%**	1.0%
	0.8%	1.7%
APE margin		
UK	**11%**	11%
Nordic	**15%**	16%
Europe and Latin America	**6%**	20%
OMSA	**16%**	15%
Rest of Africa	**41%**	47%
United States	**-23%**	9%
	6%	13%

* The PVNBP capitalisation factors are calculated as follows: (PVNBP – single premiums) / annualised recurring premiums

The value of new individual unit trust linked retirement annuities and pension fund asset management business written by the South Africa long–term business, which amounted to £458 million in the year ended 31 December 2008 (year ended 31 December 2007: £435 million), is excluded as the profits on this business arise in the asset management business. The value of new business also excludes premium increases arising from indexation arrangements in respect of existing business, as these are already included in the value of in–force business.

The value of new institutional investment platform pensions business written in the United Kingdom, the gross premium of which amounted to £239 million for the year ended 31 December 2008 (year ended 31 December 2007: £165 million), is excluded as this is more appropriately classified as mutual fund business.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

9 Product analysis of new covered business premiums

UK	Year ended 31 December 2008 Recurring	Year ended 31 December 2008 Single	Year ended 31 December 2007 Recurring	Year ended 31 December 2007 Single £m
Total business	**202**	**3,938**	186	5,540
Unit–linked assurance	**202**	**3,938**	183	5,540
Life	**–**	**–**	3	–

Nordic	Year ended 31 December 2008 Recurring	Year ended 31 December 2008 Single	Year ended 31 December 2007 Recurring	Year ended 31 December 2007 Single £m
Total business	**174**	**384**	128	193
Unit–linked assurance	**174**	**384**	128	193
Life	**–**	**–**	–	–

Europe and Latin America	Year ended 31 December 2008 Recurring	Year ended 31 December 2008 Single	Year ended 31 December 2007 Recurring	Year ended 31 December 2007 Single £m
Total business	**100**	**679**	102	879
Unit–linked assurance	**94**	**401**	100	873
Life	**6**	**278**	2	6

OMSA	Year ended 31 December 2008 Recurring	Year ended 31 December 2008 Single	Year ended 31 December 2007 Recurring	Year ended 31 December 2007 Single £m
Total business	**212**	**1,248**	213	1,073
Individual business	**199**	**595**	198	617
Savings	**48**	**451**	47	472
Protection	**65**	**–**	74	5
Annuity	**–**	**143**	–	139
Retail mass market	**86**	**1**	77	1
Group business	**13**	**653**	15	456
Savings	**5**	**423**	5	376
Protection	**8**	**1**	10	1
Annuity	**–**	**229**	–	79

9 Product analysis of new covered business premiums continued

£m

Rest of Africa	Year ended 31 December 2008 Recurring	Single	Year ended 31 December 2007 Recurring	Single
Total business	**11**	**51**	11	43
Individual business	**10**	**27**	10	25
Savings	**3**	**26**	3	23
Protection	**3**	**–**	3	–
Annuity	**–**	**1**	–	2
Retail mass market	**4**	**–**	4	–
Group business	**1**	**24**	1	18
Savings	**1**	**21**	1	18
Protection	**–**	**–**	–	–
Annuity	**–**	**3**	–	–

£m

United States	Year ended 31 December 2008 Recurring	Single	Year ended 31 December 2007 Recurring	Single
Total business	**33**	**2,475**	39	2,962
Fixed deferred annuity	**–**	**327**	–	97
Fixed indexed annuity	**–**	**627**	–	960
Variable annuity	**–**	**1,339**	–	1,757
Life	**33**	**43**	39	18
Immediate annuity	**–**	**139**	–	130

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

10 Drivers of new business value*

		£m
Total covered business**	**PVNBP Margin %**	**Year ended 31 December 2008 APE Margin %**
Margin at the end of comparative period	**1.7%**	**13.5%**
Change in volume	**0.1%**	**0.2%**
Change in product mix	**-0.2%**	**-1.8%**
Change in country mix	**0.0%**	**0.0%**
Change in operating assumptions	**-0.3%**	**-2.7%**
Change in economic assumptions	**-0.3%**	**-2.6%**
Exchange rate movements	**-0.2%**	**-0.5%**
Margin at the end of the period	**0.8%**	**6.1%**
UK covered business***		
Margin at the end of comparative period	**1.3%**	**11.1%**
Change in volume	**0.0%**	**-0.5%**
Change in product mix	**0.0%**	**0.2%**
Change in country mix	**0.0%**	**0.0%**
Change in operating assumptions	**0.1%**	**1.0%**
Change in economic assumptions	**0.0%**	**-0.5%**
Margin at the end of the period	**1.4%**	**11.3%**
Nordic covered business***		
Margin at the end of comparative period	**3.3%**	**15.7%**
Change in volume	**0.4%**	**2.9%**
Change in product mix	**0.2%**	**-0.2%**
Change in country mix	**0.0%**	**0.0%**
Change in operating assumptions	**-0.5%**	**-2.2%**
Change in economic assumptions	**-0.1%**	**-0.9%**
Margin at the end of the period	**3.3%**	**15.3%**
ELAM covered business***		
Margin at the end of comparative period	**2.6%**	**20.4%**
Change in volume	**-0.7%**	**-5.2%**
Change in product mix	**-0.3%**	**-1.9%**
Change in country mix	**0.0%**	**-0.3%**
Change in operating assumptions	**-0.8%**	**-6.8%**
Change in economic assumptions	**0.0%**	**-0.2%**
Margin at the end of the period	**0.8%**	**6.0%**
OMSA covered business***		
Margin at the end of comparative period	**2.2%**	**15.4%**
Change in volume	**0.2%**	**1.8%**
Change in product mix	**-0.1%**	**-0.7%**
Change in country mix	**0.0%**	**0.0%**
Change in operating assumptions	**0.1%**	**0.5%**
Change in economic assumptions	**-0.1%**	**-0.9%**
Margin at the end of the period	**2.3%**	**16.1%**
United States covered business***		
Margin at the end of comparative period	**1.0%**	**9.4%**
Change in volume	**-0.2%**	**-2.1%**
Change in product mix	**-0.7%**	**-6.5%**
Change in country mix	**0.0%**	**0.0%**
Change in operating assumptions	**-1.3%**	**-12.7%**
Change in economic assumptions	**-1.2%**	**-11.5%**
Margin at the end of the period	**-2.4%**	**-23.4%**

* Prior year MCEV comparatives of drivers of new business value are not available as no restatement was performed for VNB and PVNBP in 2006. Also note that results for the 'Rest of Africa' are included in the drivers of new business value of total covered business, but that no separate analysis is shown for such business from a materiality perspective.

** The PVNBP and APE per cent margin changes are calculated in Sterling.

*** The PVNBP and APE per cent margin changes are calculated in local currency.

11 Sensitivity tests

The tables below show the sensitivity of the MCEV, value of in–force business at 31 December 2008 and the value of new business for the year ended 31 December 2008 to changes in key assumptions. Note that no sensitivity results are shown for the 'Rest of Africa' from a materiality perspective.

For each sensitivity illustrated all other assumptions have been left unchanged except where they are directly affected by the revised conditions. Sensitivity scenarios therefore include consistent changes in cash flows directly affected by the changed assumption(s), for example future bonus participation in changed economic scenarios.

In some jurisdictions the reserving basis that underlies shareholder distributable cash flows is dynamic, and in theory some sensitivities could change not only future experience but also reserving levels. Modelling of dynamic reserves is extremely complex and the effect on value is second–order. Therefore, in performing the sensitivities, reserving bases have been kept constant whilst only varying future experience assumptions with similar considerations applying to required capital. However the sensitivities for South Africa in respect of an increase/decrease of all pre–tax investment and economic assumptions and an increase/decrease in equity and property market values allow for the change in the time value of financial options and guarantees that form part of the investment guarantee reserves.

The sensitivities for an increase/decrease in all pre–tax investment and economic assumptions (with credited rates and discount rates changing commensurately) are calculated in line with a parallel shift in risk free reference spot rates rather than risk free reference forward rates. However, the 1 per cent reduction is limited so that it does not lead to negative risk free reference rates.

The equity and property sensitivities make allowance for rebalancing of asset portfolios.

VNB sensitivities assume that the scenario arises immediately after point of sale of the contract. Therefore no allowance is made for the ability to re–price any contracts in the sensitivity scenarios, apart from the mortality sensitivities for the South African business where allowance is made for changes in the pricing basis for products with reviewable premiums.

	31 December 2008		£m
UK	**MCEV**	**Value of in–force business**	**Value of new business**
Central assumptions	**1,671**	**1,393**	**67**
Effect of:			
Required capital equal to the minimum statutory requirement	**1,674**	**1,396**	**67**
Increasing all pre–tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	**1,633**	**1,364**	**61**
Decreasing all pre–tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	**1,712**	**1,426**	**74**
Equity and property market value increasing by 10 per cent, with all pre–tax investment and economic assumptions unchanged	**1,720**	**1,442**	**–**
Equity and property market value decreasing by 10 per cent, with all pre–tax investment and economic assumptions unchanged	**1,623**	**1,345**	**–**
10bps contraction on corporate bond spreads	**1,671**	**1,393**	**–**
25 per cent multiplicative increase in equity and property implied volatilities	**1,671**	**1,393**	**67**
25 per cent multiplicative increase in swaption implied volatilities	**1,671**	**1,393**	**67**
Voluntary discontinuance rates decreasing by 10 per cent	**1,742**	**1,464**	**79**
Maintenance expense levels decreasing by 10 per cent, with no corresponding increase in policy charges	**1,703**	**1,425**	**70**
Mortality and morbidity assumptions for assurances decreasing by 5 per cent, with no corresponding increase in policy charges	**1,672**	**1,394**	**67**
Mortality assumption for annuities decreasing by 5 per cent, with no corresponding increase in policy charges	**1,671**	**1,393**	**67**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	**–**	**–**	**60**
Residual non–hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non–hedgeable risks for covered business	**1,676**	**1,398**	**68**
Economic capital for residual non–hedgeable risks calculated assuming a 99.93 per cent confidence level which is targeted by an internal economic capital model	**1,660**	**1,381**	**66**

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008 continued

11 Sensitivity tests continued

Nordic	31 December 2008		£m
	MCEV	Value of in–force business	Value of new business
Central assumptions	**1,045**	**882**	**32**
Effect of:			
Required capital equal to the minimum statutory requirement	**1,045**	**882**	**32**
Increasing all pre–tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	**1,016**	**853**	**31**
Decreasing all pre–tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	**1,076**	**914**	**33**
Equity and property market value increasing by 10 per cent, with all pre–tax investment and economic assumptions unchanged	**1,092**	**929**	**–**
Equity and property market value decreasing by 10 per cent, with all pre–tax investment and economic assumptions unchanged	**998**	**835**	**–**
10bps contraction on corporate bond spreads	**1,045**	**882**	**–**
25 per cent multiplicative increase in equity and property implied volatilities	**1,045**	**882**	**32**
25 per cent multiplicative increase in swaption implied volatilities	**1,045**	**882**	**32**
Voluntary discontinuance rates decreasing by 10 per cent	**1,077**	**914**	**40**
Maintenance expense levels decreasing by 10 per cent, with no corresponding increase in policy charges	**1,081**	**918**	**35**
Mortality and morbidity assumptions for assurances decreasing by 5 per cent, with no corresponding increase in policy charges	**1,048**	**885**	**33**
Mortality assumption for annuities decreasing by 5 per cent, with no corresponding increase in policy charges	**1,045**	**882**	**32**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	**–**	**–**	**31**
Residual non–hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non–hedgeable risks for covered business	**1,057**	**894**	**34**
Economic capital for residual non–hedgeable risks calculated assuming a 99.93 per cent confidence level which is targeted by an internal economic capital model	**1,032**	**869**	**31**

Europe and Latin America	31 December 2008		£m
	MCEV	Value of in–force business	Value of new business
Central assumptions	**713**	**587**	**10**
Effect of:			
Required capital equal to the minimum statutory requirement	**716**	**591**	**10**
Increasing all pre–tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	**674**	**549**	**5**
Decreasing all pre–tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	**755**	**628**	**16**
Equity and property market value increasing by 10 per cent, with all pre–tax investment and economic assumptions unchanged	**728**	**602**	**–**
Equity and property market value decreasing by 10 per cent, with all pre–tax investment and economic assumptions unchanged	**699**	**574**	**–**
10bps contraction on corporate bond spreads	**713**	**587**	**–**
25 per cent multiplicative increase in equity and property implied volatilities	**713**	**587**	**10**
25 per cent multiplicative increase in swaption implied volatilities	**707**	**581**	**10**
Voluntary discontinuance rates decreasing by 10 per cent	**733**	**607**	**13**
Maintenance expense levels decreasing by 10 per cent, with no corresponding increase in policy charges	**741**	**615**	**13**
Mortality and morbidity assumptions for assurances decreasing by 5 per cent, with no corresponding increase in policy charges	**716**	**590**	**10**
Mortality assumption for annuities decreasing by 5 per cent, with no corresponding increase in policy charges	**713**	**587**	**10**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	**–**	**–**	**7**
Residual non–hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non–hedgeable risks for covered business	**715**	**589**	**10**
Economic capital for residual non–hedgeable risks calculated assuming a 99.93 per cent confidence level which is targeted by an internal economic capital model	**704**	**578**	**10**

11 Sensitivity tests continued

OMSA	MCEV	Value of in–force business	Value of new business
	31 December 2008		£m
Central assumptions	**1,945**	**1,040**	**54**
Effect of:			
Required capital equal to the minimum statutory requirement	**1,968**	**1,064**	**56**
Increasing all pre–tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	**1,920**	**1,014**	**52**
Decreasing all pre–tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	**1,967**	**1,064**	**55**
Equity and property market value increasing by 10 per cent, with all pre–tax investment and economic assumptions unchanged	**2,035**	**1,094**	**–**
Equity and property market value decreasing by 10 per cent, with all pre–tax investment and economic assumptions unchanged	**1,858**	**990**	**–**
10bps contraction on corporate bond spreads	**1,948**	**1,040**	**–**
25 per cent multiplicative increase in equity and property implied volatilities	**1,920**	**1,015**	**54**
25 per cent multiplicative increase in swaption implied volatilities	**1,919**	**1,015**	**54**
Voluntary discontinuance rates decreasing by 10 per cent	**1,975**	**1,071**	**63**
Maintenance expense levels decreasing by 10 per cent, with no corresponding increase in policy charges	**2,020**	**1,115**	**60**
Mortality and morbidity assumptions for assurances decreasing by 5 per cent, with no corresponding increase in policy charges	**2,007**	**1,102**	**61**
Mortality assumption for annuities decreasing by 5 per cent, with no corresponding increase in policy charges*	**1,932**	**1,027**	**54**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	**–**	**–**	**48**
Residual non–hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non–hedgeable risks for covered business	**1,968**	**1,063**	**56**
Economic capital for residual non–hedgeable risks calculated assuming a 99.93 per cent confidence level which is targeted by an internal economic capital model	**1,927**	**1,023**	**53**

* No impact on with–profit annuities as the mortality risk is borne by policyholders.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008 continued

11 Sensitivity tests continued

United States	31 December 2008		£m
	MCEV	Value of in–force business	Value of new business
Central assumptions	**(1,309)**	**(2,150)**	**(66)**
Effect of:			
Required capital equal to the minimum statutory requirement	**(1,308)**	**(2,148)**	**(66)**
Increasing all pre–tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	**(1,177)**	**(2,017)**	**(36)**
Decreasing all pre–tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	**(1,494)**	**(2,335)**	**(128)**
Increasing all pre–tax investment and economic assumptions by 3 per cent, with credited rates and discount rates changing commensurately	**(883)**	**(1,723)**	**41**
Decreasing all pre–tax investment and economic assumptions by 3 per cent, with credited rates and discount rates changing commensurately	**(1,874)**	**(2,715)**	**(274)**
Recognising the present value of an additional 1 per cent of credit and liquidity spreads on corporate bonds over and above the risk free reference rate over the lifetime of the liabilities with credited rates and discount rates changing commensurately	**(610)**	**(1,450)**	**(36)**
Equity and property market value increasing by 10 per cent, with all pre–tax investment and economic assumptions unchanged	**(1,276)**	**(2,116)**	**–**
Equity and property market value decreasing by 10 per cent, with all pre–tax investment and economic assumptions unchanged	**(1,339)**	**(2,180)**	**–**
10bps contraction on corporate bond spreads	**(1,246)**	**(2,087)**	**–**
25 per cent multiplicative increase in swaption implied volatilities	**(1,698)**	**(2,539)**	**(87)**
Voluntary discontinuance rates decreasing by 10 per cent	**(1,217)**	**(2,058)**	**(62)**
Maintenance expense levels decreasing by 10 per cent, with no corresponding increase in policy charges	**(1,289)**	**(2,129)**	**(63)**
Mortality and morbidity assumptions for assurances decreasing by 5 per cent, with no corresponding increase in policy charges	**(1,298)**	**(2,139)**	**(64)**
Mortality assumption for annuities decreasing by 5 per cent, with no corresponding increase in policy charges	**(1,329)**	**(2,169)**	**(66)**
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	**–**	**–**	**(72)**
Residual non–hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non–hedgeable risks for covered business	**(1,221)**	**(2,062)**	**(51)**
Economic capital for residual non–hedgeable risks calculated assuming a 99.93 per cent confidence level which is targeted by an internal economic capital model	**(1,345)**	**(2,186)**	**(71)**

11 Sensitivity tests continued

The 2007 tables are as follows:

UK	31 December 2007 MCEV	Value of in-force business	£m Value of new business
Central assumptions	**1,531**	**1,255**	**81**
Effect of:			
Required capital equal to the minimum statutory requirement	1,536	1,260	81
Increasing all pre-tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	1,497	1,230	75
Decreasing all pre-tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	1,566	1,282	89
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	1,575	1,299	–
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	1,488	1,212	–
10bps contraction on corporate bond spreads	1,531	1,255	–
25 per cent multiplicative increase in equity and property implied volatilities	1,531	1,255	81
25 per cent multiplicative increase in swaption implied volatilities	1,531	1,255	81
Voluntary discontinuance rates decreasing by 10 per cent	1,587	1,311	96
Maintenance expense levels decreasing by 10 per cent, with no corresponding increase in policy charges	1,556	1,280	84
Mortality and morbidity assumptions for assurances decreasing by 5 per cent, with no corresponding increase in policy charges	1,532	1,256	82
Mortality assumption for annuities decreasing by 5 per cent, with no corresponding increase in policy charges	1,531	1,255	81
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	–	–	72
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	1,543	1,267	84
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 per cent confidence level which is targeted by an internal economic capital model	1,510	1,234	77

Nordic	31 December 2007 MCEV	Value of in-force business	£m Value of new business
Central assumptions	**1,114**	**992**	**23**
Effect of:			
Required capital equal to the minimum statutory requirement	1,110	988	23
Increasing all pre-tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	1,092	970	22
Decreasing all pre-tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	1,137	1,016	24
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	1,183	1,061	–
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	1,045	923	–
10bps contraction on corporate bond spreads	1,114	992	–
25 per cent multiplicative increase in equity and property implied volatilities	1,114	992	23
25 per cent multiplicative increase in swaption implied volatilities	1,114	992	23
Voluntary discontinuance rates decreasing by 10 per cent	1,142	1,020	29
Maintenance expense levels decreasing by 10 per cent, with no corresponding increase in policy charges	1,145	1,023	25
Mortality and morbidity assumptions for assurances decreasing by 5 per cent, with no corresponding increase in policy charges	1,116	994	23
Mortality assumption for annuities decreasing by 5 per cent, with no corresponding increase in policy charges	1,114	992	23
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	–	–	22
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	1,131	1,009	24
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 per cent confidence level which is targeted by an internal economic capital model	1,100	978	22

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008 continued

Europe and Latin America	31 December 2007 MCEV	Value of in-force business	£m Value of new business
Central assumptions	**572**	**522**	**38**
Effect of:			
Required capital equal to the minimum statutory requirement	571	521	38
Increasing all pre-tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	546	497	33
Decreasing all pre-tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	598	547	43
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	588	538	–
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	556	507	–
10bps contraction on corporate bond spreads	572	522	–
25 per cent multiplicative increase in equity and property implied volatilities	572	522	38
25 per cent multiplicative increase in swaption implied volatilities	571	521	38
Voluntary discontinuance rates decreasing by 10 per cent	591	541	41
Maintenance expense levels decreasing by 10 per cent, with no corresponding increase in policy charges	588	538	41
Mortality and morbidity assumptions for assurances decreasing by 5 per cent, with no corresponding increase in policy charges	574	524	38
Mortality assumption for annuities decreasing by 5 per cent, with no corresponding increase in policy charges	572	522	38
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	–	–	36
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	576	526	38
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 per cent confidence level which is targeted by an internal economic capital model	562	512	37

OMSA	31 December 2007 MCEV	Value of in-force business	£m Value of new business
Central assumptions	**2,546**	**1,154**	**50**
Effect of:			
Required capital equal to the minimum statutory requirement	2,575	1,182	52
Increasing all pre-tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	2,522	1,127	48
Decreasing all pre-tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	2,568	1,178	50
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	2,693	1,210	–
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	2,398	1,096	–
10bps contraction on corporate bond spreads	2,549	1,154	–
25 per cent multiplicative increase in equity and property implied volatilities	2,526	1,134	50
25 per cent multiplicative increase in swaption implied volatilities	2,540	1,147	50
Voluntary discontinuance rates decreasing by 10 per cent	2,577	1,185	57
Maintenance expense levels decreasing by 10 per cent, with no corresponding increase in policy charges	2,625	1,233	55
Mortality and morbidity assumptions for assurances decreasing by 5 per cent, with no corresponding increase in policy charges	2,600	1,208	57
Mortality assumption for annuities decreasing by 5 per cent, with no corresponding increase in policy charges*	2,537	1,145	49
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	-	-	44
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	2,567	1,175	51
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 per cent confidence level which is targeted by an internal economic capital model	2,530	1,138	48

* No impact on with-profit annuities as the mortality risk is borne by policyholders.

11 Sensitivity tests continued

United States	31 December 2007 MCEV	Value of in-force business	£m Value of new business
Central assumptions	**462**	**(43)**	**31**
Effect of:			
Required capital equal to the minimum statutory requirement	485	(20)	37
Increasing all pre-tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	253	(252)	52
Decreasing all pre-tax investment and economic assumptions by 1 per cent, with credited rates and discount rates changing commensurately	580	75	2
Recognising the present value of an additional 1 per cent of credit and liquidity spreads on corporate bonds over and above the risk free reference rate over the lifetime of the liabilities	754	(22)	52
with credited rates and discount rates changing commensurately	754	(22)	52
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	463	(42)	–
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	461	(44)	–
10bps contraction on corporate bond spreads	494	(11)	–
25 per cent multiplicative increase in swaption implied volatilities	406	(99)	(17)
Voluntary discontinuance rates decreasing by 10 per cent	536	31	56
Maintenance expense levels decreasing by 10 per cent, with no corresponding increase in policy charges	465	(40)	35
Mortality and morbidity assumptions for assurances decreasing by 5 per cent, with no corresponding increase in policy charges	464	(41)	32
Mortality assumption for annuities decreasing by 5 per cent, with no corresponding increase in policy charges	447	(58)	23
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	-	-	25
Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business	493	(12)	41
Economic capital for residual non-hedgeable risks calculated assuming a 99.93 per cent confidence level which is targeted by an internal economic capital model	449	(56)	27

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

12 Key changes in MCEV methodology and assumptions

Notes 2 and 3 describe the methodology and assumptions used under the MCEV reporting framework.

The major change in Old Mutual's overall approach for deriving its MCEV compared to the approach adopted for EEV is the allowance for risk. Under MCEV a bottom–up allowance is made for financial risks (in particular asset and liability cash flows are valued using risk discount rates consistent with those applied to similar cash flows in the capital markets and financial options and guarantees are valued using market consistent models calibrated to observable market prices) and an explicit allowance is made for the cost of residual non–hedgeable risks in the covered business. In contrast, under EEV a top–down allowance was made for all risks by means of the risk margin included in the single risk discount rate applicable for each geography and the value placed on the time value of financial options and guarantees. The MCEV methodology therefore makes a more granular allowance for the differences in the risk profile of different blocks of business than the EEV methodology.

A summary of the key changes arising in the move from the EEV to MCEV reporting framework previously adopted is set out in the table below.

	EEV	MCEV
Overall allowance for risk	Risk discount rates are calibrated to produce EEV results which are equal to an Embedded Value that is approximated using bottom-up market consistent techniques that were considered acceptable market practice at the time of implementation of the EEV Principles in May 2005.	The aggregate allowance for risk across all businesses under EEV is not aligned with the requirements under the new MCEV Principles.
Economic assumptions	Investment return assumptions are set with reference to real-world assumptions, which include allowance for expected risk premiums on assets such as equities and corporate bonds, without directly adjusting for the risk inherent in these returns. A margin is added to the discount rate to reflect the risks within the business.	Both investment return and discount rate assumptions are set in relation to risk free reference rates, defined as swap yields. As a result of current dislocated markets, adjusted risk free reference rates for US onshore business include a liquidity adjustment at 31 December 2008 to reflect the large liquidity premium inherent in corporate bond spreads at that date. No up-front value is placed on any risk premiums in excess of the adjusted risk free reference rates. Such risk premiums are only recognised in MCEV reporting as and when they are earned.
Treatment of unrealised corporate bond gains/losses for US business	Any decrease/increase in credit spreads has a limited impact on Embedded Value as only the assets backing the adjusted net worth, which in the past were largely cash assets, are marked to market. For example, an increase in credit spreads would be modelled as follows: • On existing assets the only losses capitalised would be on realised losses on projected sale of assets. ▪ For new bond purchases credit is taken for the increased spread which is recognised as higher expected future income within VIF, offsetting some of the losses on the sale of existing assets.	All assets are marked to market. Since investment return assumptions are set with reference to swap rates, any increase in credit spreads will have a direct impact on the Embedded Value to the extent that such losses can not be passed onto policyholders through changes in future bonus / crediting rates (where these are set subject to contractual guarantees and taking into account competitive considerations and consequent lapse activity) over the remaining lifetime of the in-force policies.
Valuation of time value of financial options and guarantees	Not all stochastic models are required to be market consistent with real world stochastic models being used in the US.	MCEV reporting requires the use of market consistent stochastic models with volatility assumptions being set with reference to market implied volatilities, as derived from derivative quotes in the capital markets for the relevant term and instrument type.
Cost of capital vs. frictional costs	EEV includes allowance for the 'cost of required capital'.	MCEV explicitly allows for frictional costs, defined as the tax and investment expenses associated with required capital.
Cost of residual non-hedgeable risks	No explicit allowance is made for such risks, although an implicit allowance is permitted in the risk discount rate for each geography.	Explicit allowance is made for the cost of these risks which represents a charge for the uncertainty arising in the best estimate of shareholder cash flows resulting from such residual non-hedgeable risks.

PVNBP	Under EEV the PVNBP is calculated by discounting the projected premiums using single risk discount rate applicable in each geography.	Discounting uses term dependent risk free reference rates. As risk discount rates used under EEV are on average greater than the risk free reference rates used under MCEV, MCEV provides an increase in PVNBP and a corresponding decrease in PVNBP margins (assuming all other things including VNB being equal).
Presentation of earnings	The EEV Principles do not prescribe the format of the presentation of earnings. The expected existing business contribution is calculated as the sum of the unwind of the VIF at the risk discount rate and the expected real world returns on the adjusted net worth.	MCEV Principles prescribe the formats for the presentations of analyses of MCEV earnings and Group MCEV earnings. The following material changes in the presentation of the analyses of MCEV earnings have been adopted: • MCEV calculates the expected existing business contribution by projecting both actual assets and actual liabilities (including assets backing the free surplus and required capital) from the start of the reporting period to the end of the reporting period using expected real-world earned rates of return for the 1-year period. • Contrary to previous EEV treatment, the impact of changes in local regulations and taxation are excluded from operating MCEV earnings. • Changes and improvement to models and methodology are reflected as other operating variances rather than being included as part of operating assumption changes.
Sensitivities	EEV Principles prescribe less mandatory sensitivities than the MCEV Principles.	Apart from the mandatory sensitivities, a number of additional sensitivities are disclosed in order for users of the supplementary information to better understand the impact of adopting MCEV.
Adjusted Group MCEV	The treatment of all business other than the covered business is the same as in the primary financial statements.	Adjusted Group MCEV includes the impact of marking all Group debt to market value, the market value of the Group's listed banking and general insurance subsidiaries as well as marking the value of deferred consideration due in respect of the Black Economic Empowerment arrangements in South Africa ('the BEE schemes') to market.

13 Restatement of adjusted Group Embedded Value per share

The table below provides a restatement of the adjusted Group Embedded Value per share as at 31 December 2007 from an EEV to MCEV basis.

	At 31 December 2007
Previously published adjusted Group EEV per share	**173.3p**
Change in Embedded Value of covered business as a consequence of the move to MCEV	-9.4p
Marking the present value of future BEE scheme deferred consideration to market	+0.2p
Adjustment to bring external debt to market value	+2.2p
Total impact	**-7.0p**
Adjusted Group MCEV per share	**166.3p**
Percentage impact	**-4.2%**

The change in the adjusted Group Embedded Value per share from 173.3p on an EEV basis to 166.3p on an MCEV basis is driven mainly by the change in the Embedded Value of the covered business which is analysed in detail in note 15.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

14 Restatement of adjusted Group MCEV operating earnings per share

The table below provides a restatement of the adjusted Group operating earnings per share for the year ended 31 December 2007 from an EEV to MCEV basis.

	Year ended 31 December 2007
Previously published adjusted Group EEV operating earnings per share	17.2p
Change in operating earnings of covered business as a consequence of the move to MCEV	-0.2p
Adjusted Group MCEV operating earnings per share	17.0p
Percentage impact	-1.2%

The conversion from EEV to MCEV reporting has no impact on the operating earnings of our non–life business and hence the small change in the adjusted Group operating earnings per share from 17.2p on an EEV basis to 17.0p on an MCEV basis is driven entirely by the change in the operating earnings of the covered business which is analysed in more detail in note 18.

15 Restatement of Embedded Value of covered business

The tables below reconcile the Embedded Value of the covered business as at 31 December 2007 and 31 December 2006 from the previously published EEV basis to the MCEV basis. The transition from the top-down real-world EEV approach to the bottom-up MCEV approach can be broken down into the following key steps:

a. Release of cost of required capital in published EEV – The cost of required capital under the previous EEV approach is released and this component of EEV is replaced by frictional costs (see step c) under the MCEV approach. This step increases the Embedded Value.
b. Economic assumption changes incorporate a combination of the following:
   - Any risk margins in the single weighted average EEV discount rate for each of the geographies are removed and the EEV discount rates are replaced by term dependent risk free reference rates. This step increases the Embedded Value for profitable business as expected future profits are discounted at lower rates, and gives rise to a greater Embedded Value loss for loss making business, as a result of discounting losses at lower rates.
   - Any risk margins in real-world EEV investment return assumptions are removed and the real-world EEV investment return assumptions are replaced by term dependent risk free reference rates and thereby removing any capitalisation of investment risk margins. This step decreases the Embedded Value as expected future investment returns are projected at lower rates.
   - Other related model refinements including updating all stochastic models to be market consistent. For the United States business such model refinements also include a revision of assumptions for dynamic policyholder behaviour within the stochastic models to allow for lower average returns from risk-neutral market consistent scenarios compared to the scenarios in the real-world stochastic model that was used under EEV.
c. Allowance for frictional costs – As mentioned in step (a) above, the cost of required capital under the previous EEV approach is released and replaced by an allowance for frictional costs under the MCEV approach. This step decreases the Embedded Value.
d. Explicit allowance for cost of residual non-hedgeable risks – Previously under the EEV approach an implicit allowance was permitted for such risks in the determination of the risk discount rate for each geography. This step decreases the Embedded Value.

In-force covered business							**£m At 31 December 2007**
	Total	**UK**	**Nordic**	**ELAM**	**OMSA**	**Rest of Africa**	**United States**
Previously published EEV	**6,861**	**1,451**	**1,084**	**580**	**2,549**	**128**	**1,069**
Release of cost of required capital in published EEV	377	50	27	30	175	4	91
Economic assumption changes	(433)	80	69	13	12	(1)	(607)
Allowance for frictional costs	(192)	(10)	(9)	(10)	(122)	(2)	(38)
Allowance for cost of residual non-hedgeable risks	(264)	(40)	(57)	(41)	(68)	(5)	(53)
Total impact	**(512)**	**80**	**30**	**(8)**	**(3)**	**(4)**	**(607)**
MCEV	**6,349**	**1,531**	**1,114**	**572**	**2,546**	**124**	**462**
Percentage impact	**-7.5%**	**+5.5%**	**+2.8%**	**-1.4%**	**-0.1%**	**-3.1%**	**-56.8%**

15 Restatement of Embedded Value of covered business continued

£m

At 31 December 2006

In-force covered business	Total*	UK *	Nordic *	ELAM *	OMSA	Rest of Africa	United States*
Previously published EEV	**6,413**	**1,255**	**846**	**600**	**2,433**	**135**	**1,144**
Release of cost of required capital in published EEV	393	69	23	49	179	4	69
Economic assumption changes	(225)	50	56	(8)	–	2	(325)
Allowance for frictional costs	(186)	(14)	(8)	(9)	(129)	(2)	(24)
Allowance for cost of residual non-hedgeable risks	(250)	(35)	(54)	(47)	(70)	(5)	(39)
Total impact	**(268)**	**70**	**17**	**(15)**	**(20)**	**(1)**	**(319)**
MCEV	**6,145**	**1,325**	**863**	**585**	**2,413**	**134**	**825**
Percentage impact	**-4.2%**	**+5.6%**	**+2.0%**	**-2.5%**	**-0.8%**	**-0.7%**	**-27.9%**

* Gross of minority interests

The impact as at 31 December 2007 of moving from an EEV to an MCEV methodology is a reduction in Embedded Value of the covered business of 7.5 per cent (31 December 2006: 4.2 per cent) from £6,861 million to £6,349 million (31 December 2006: from £6,413 million to £6,145 million). Most of the reduction in Embedded Value is attributable to the United States business which decreased by -56.8 per cent at 31 December 2007 (31 December 2006: -27.9 per cent) from £1,069 million to £462 million (31 December 2006: from £1,144 million to £825 million).

The frictional costs calculated under MCEV are significantly less than the cost of required capital under EEV which reflects the difference between the risk discount rate in each geography, inclusive of an explicit risk margin, and the expected post-tax investment return on the assets backing the required capital. Under MCEV risks are modelled explicitly and the risk margin in each geography is not required.

The impact of the transition from EEV to MCEV also varies by product type. Under EEV a weighted average risk discount rate was applied to all products within a specific geography whereas under MCEV separate explicit allowances are made for financial and non-financial risks for each product.

- Risk products, for example term assurance, generally increase in value under MCEV compared to EEV. Product profitability is mainly driven by non-financial pricing margins which are discounted at lower risk free reference rates under MCEV.
- The impact on savings products, for example unit-linked policies, is broadly neutral as the reduced assumed future investment returns which are set in relation to risk free reference rates are largely offset by the increase in value due to the lower discount rates (which are also set in relation to risk free reference rates) that are applied to future cash flows.
- Products with a high proportion of financial risk, for example spread-based contracts such as immediate annuities where profitability relies on achieving a return in excess of the risk free reference rates to support the pricing bases, tend to reduce in value under MCEV. No risk premiums in excess of the risk free reference rates are recognised under MCEV until realised in a particular year, when it emerges as a combination of expected existing business contribution and economic variance in that year. In contrast EEV recognises the capitalised expected profits from taking on financial risk, i.e. capitalises returns on more risky assets, without necessarily making appropriate adjustments at a per product level for the fact that the returns under these assets have a greater degree of inherent risk.

Further commentary on the impact of moving from an EEV to an MCEV methodology for each geography, in particular for United States business, is provided below.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

15 Restatement of Embedded Value of covered business continued

Europe and Africa

Within the European and African businesses, the aggregate allowance for risk within the EEV and MCEV approaches is broadly aligned and hence relatively minor impacts are experienced on these businesses when moving from an EEV to an MCEV approach for valuing the covered business.

United States

The aggregate allowance for risk under EEV was not aligned with the requirements under the new MCEV Principles and the major contributors are discussed below.

- *Treatment of unrealised corporate bond losses*
  - Under EEV any increase in credit spreads has a limited impact on Embedded Value as only the assets backing the adjusted net worth, which in the past were largely cash assets, are marked to market. This methodology is largely driven by the book-value accounting basis used for statutory reporting in the United States. Therefore on existing assets the only losses capitalised following an increase in credit spreads would be on realised losses on projected sale of assets. The EEV is only reduced to the extent that the losses realised in the projections are not passed on to policyholders by reducing future crediting / bonus rates (subject to contractual guarantees and competitive considerations that impact on policyholder persistency behaviour) over the remaining lifetime of the in-force policies. For new bond purchases credit is taken from the increased spread which is recognised as higher expected future income within VIF, offsetting some of the losses on existing assets.
  - However under MCEV all assets are marked to market and any increase in credit spreads will be fully recognised in the value of the asset portfolio. Since investment return assumptions are set with reference to swap rates under MCEV, in the modelling of future liability cash flows such losses can not necessarily be passed onto policyholders through changes in future crediting (bonus) rates, which are subject to contractual guarantees and constrained by competitive considerations, over the remaining lifetime of the in-force policies.

- *Pricing basis vs. MCEV basis*
  - Many of the United States Life products are priced on the basis that a part of the spread between risk free or swap rates and corporate bonds will be passed onto policyholders in the form of better crediting (bonus) rates. The spread of corporate bond yields over risk free rates is assumed to consist of both a credit default component and a non-credit component. The credit default component compensates the holder of the instrument for the risk that the issuer may default. The non-credit related component, generally referred to as the liquidity premium, compensates the holder of the instrument for the fact that they may not be able to trade out of the instrument at their choosing.
  - For many of the products sold by the US business, profitability therefore depends on the spread, over risk free rates, earned on corporate bond assets. For such spread-based business, there is no recognition in the MCEV at 31 December 2007 or 31 December 2006 of any liquidity or credit risk premiums in excess of risk free reference rates until such profits have been realised. The earnings from corporate bond spreads in excess of the risk free reference rates, which had previously been capitalised at point of sale under EEV, are now only recognised as an additional source of earnings in each future time period as the margin over risk free reference rates is earned. Hence the timing of recognition of profits under EEV and MCEV for such business is materially different.
  - A similar issue occurs with the deferred tax assets currently held. As earnings are expected to emerge over time, it is anticipated that these assets could be utilised to offset future tax liabilities. However since in the current economic environment taxable profits are not projected in aggregate on an MCEV basis, these deferred tax assets are not recognised in the MCEV. Hence it is expected that the benefit of this asset will emerge over future periods as returns in excess of risk free reference rates are earned.
  - It is important to appreciate that the change in reporting basis does not change the underlying profitability of spread-based business, but merely the representation of profitability, particularly early in the life of such contracts.

- *Financial guarantees*
  - To expand further on why the impact of the move to MCEV reporting is so marked on spread-based business, crediting (bonus) rates are generally set with anticipation of earning some risk premiums over and above the risk free reference rates. However this non-recognition of projected investment risk premiums under MCEV reporting can not necessarily be offset by reduced policyholder crediting rates as, once these crediting rates are locked in or guaranteed over a future period, they must be valued at that level. For example, for annuities in payment claim payments are locked in for the duration of the contract at a level which was priced taking into account the expected future corporate bond spreads to be earned. Hence an initial loss will be shown under MCEV as the annuity payments are larger than can be supported by risk free reference returns on the asset portfolio on a prospective basis, and the Embedded Value valuation assumes that none of these future margins are earned.
  - For other spread-based products (such as fixed indexed annuities where there is an accumulation phase), the loss of capitalised risk premiums upfront can be partially offset to the extent that crediting (bonus) rates are not fixed for the full term of the contract and that management can adjust future crediting rates relative to modelled investment returns – generally aiming to target a margin to cover profit and expenses. However future investment returns based on risk free reference rates are much lower than expected real-world returns, which means that any underlying guarantees in the policies (including any crediting rates that have been declared prospectively until the next reset date) are more likely to

take effect in risk-neutral market consistent stochastic scenarios. There may thus be a shortfall of projected profits relative to profits that are expected to emerge on a real world pricing basis, which we refer to as 'spread compression'. Additionally some of the deferred annuities still have crediting rates locked in for several years (e.g. Multi-Year Guaranteed Annuities).

  - Market volatility assumptions that are used to calculate the time value of financial options and guarantees under MCEV are higher than the long-term expected volatilities assumed under EEV. This has increased the time value of financial options and guarantees under MCEV.

- *Discounting of projected MCEV losses*
  - Under MCEV reporting the discount rate is set in relation to risk free reference rates which are lower than the risk discount rates used under EEV reporting. In the instance where low risk free projected investment returns under MCEV lead to lower investment income, but overall still reflect profitable products, the discounting effect of using a lower rate tends to offset the removal of the risk premium in investment returns. However in instances where low risk free projected investment returns under MCEV lead to a projected loss on the business, the resulting losses are also discounted at a lower rate, which has the effect of increasing the present value of the projected future losses.
  - As a consequence, MCEV results at a time of very low risk free reference rates of return need to be carefully considered:
    - An increase in risk free yields can rapidly turn a market consistent VIF that is negative into a positive VIF if the risk free reference rate starts at a level below guaranteed crediting (bonus) rates and increases to one which leads to a surplus in investment income relative to crediting rates.
    - In the event that an increase in risk free reference rates does not fully cover the required guaranteed crediting rate, the resulting loss will still be smaller than the starting point, and the effect of discounting this at a higher rate could be that the VIF loss reduces substantially.
    - There is hence a severely 'non-linear' outcome when risk free reference rates are close to guaranteed crediting rates, with small changes in risk free rates (up or down) leading to large changes in VIF.

Considering the above, the more pronounced impact of the move from EEV to MCEV reporting at 31 December 2007 of -7.5 per cent compared to the impact at 31 December 2006 of -4.2 per cent results mainly from the following changes in economic conditions:

- A widening of corporate bond spreads and reductions in market values of such assets - marking all assets to market value means that unrealised capital losses are no longer expected to remain largely unrealised even if portfolio cash flow matching means that those assets are held to maturity. Or practically, it is assumed that at 31 December 2007 a larger portion of corporate bond assets will default before maturity than assumed at 31 December 2006.
- Reductions in risk free reference rates and as a consequence all guarantees being in the money to a greater extent.
- An increase in implied market volatilities which are used to assess the time value of financial options and guarantees, relative to the real-world approach of using historic volatilities that was previously adopted under EEV.

In conclusion, compared to EEV reporting, MCEV reporting merely changes the timing of recognition of profits and not the ultimate profitability that will emerge on covered business. Over time it is therefore expected that risk premiums in excess of risk free reference rates will be realised and will contribute to MCEV earnings.

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

16 Comparison of components of Embedded Value on EEV and MCEV bases

The tables below provide a comparison of the components of Embedded Value of the covered business as at 31 December 2007 and 31 December 2006 between the previously published EEV basis and the MCEV basis. The change in MCEV to a bottom-up evaluation of the risks inherent in the business requires a change in the presentation of the components underlying the MCEV.

£m

In-force covered business							At 31 December 2007
	Total	**UK**	**Nordic**	**ELAM**	**OMSA***	**Rest of Africa**	**United States**
Previously published EEV	**6,861**	**1,451**	**1,084**	**580**	**2,549**	**128**	**1,069**
Adjusted net worth	**2,423**	**276**	**122**	**50**	**1,394**	**76**	**505**
Free surplus	516	89	47	(12)	268	43	81
Required capital	1,907	187	75	62	1,126	33	424
Value of in-force business	**4,438**	**1,175**	**962**	**530**	**1,155**	**52**	**564**
Present value of future profits	4,864	1,225	989	561	1,330	56	703
Additional time value of financial options and guarantees	(49)	-	-	(1)	-	-	(48)
Cost of required capital	(377)	(50)	(27)	(30)	(175)	(4)	(91)
MCEV	**6,349**	**1,531**	**1,114**	**572**	**2,546**	**124**	**462**
Adjusted net worth	**2,421**	**276**	**122**	**50**	**1,392**	**76**	**505**
Free surplus*	515	89	47	(11)	266	43	81
Required capital	1,906	187	75	61	1,126	33	424
Value of in-force business	**3,928**	**1,255**	**992**	**522**	**1,154**	**48**	**(43)**
Present value of future profits	4,584	1,305	1,059	574	1,344	55	246
Additional time value of financial options and guarantees	(199)	-	-	(1)	-	-	(198)
Frictional costs	(193)	(10)	(10)	(10)	(122)	(2)	(38)
Cost of residual non-hedgeable risks	(264)	(40)	(57)	(41)	(68)	(5)	(53)

* For the South African business, the value of the asset related to the deferred CGT liability recognised in the adjusted net worth was recalculated on a market consistent basis.

£m

In-force covered business							At 31 December 2006
	Total	**UK***	**Nordic***	**ELAM***	**OMSA****	**Rest of Africa**	**United States**
Previously published EEV	**6,413**	**1,255**	**846**	**600**	**2,433**	**135**	**1,144**
Adjusted net worth	**2,104**	**235**	**(108)**	**115**	**1,326**	**82**	**454**
Free surplus	202	73	(154)	59	115	45	64
Required capital	1,902	162	46	56	1,212	37	390
Value of in-force business	**4,309**	**1,020**	**954**	**485**	**1,107**	**53**	**690**
Present value of future profits	4,782	1,089	1,004	538	1,286	57	806
Additional time value of financial options and guarantees	(51)	-	-	(4)	-	-	(47)
Cost of required capital	(421)	(69)	(50)	(49)	(179)	(4)	(69)
MCEV	**6,145**	**1,325**	**863**	**585**	**2,413**	**134**	**825**
Adjusted net worth	**2,102**	**235**	**(108)**	**115**	**1,324**	**82**	**454**
Free surplus**	199	73	(154)	59	112	45	64
Required capital	1,903	162	46	56	1,212	37	390
Value of in-force business	**4,043**	**1,090**	**971**	**470**	**1,089**	**52**	**371**
Present value of future profits	4,644	1,139	1,033	531	1,333	60	548
Additional time value of financial options and guarantees	(165)	-	-	(5)	(45)	(1)	(114)
Frictional costs	(186)	(14)	(8)	(9)	(129)	(2)	(24)
Cost of residual non-hedgeable risks	(250)	(35)	(54)	(47)	(70)	(5)	(39)

* Gross of minority interests.

** For the South African business, the value of the asset related to the deferred CGT liability recognised in the adjusted net worth was recalculated on a market consistent basis.

17 Restatement of value of new business (after tax) of covered business

The table below reconciles the value of new business and new business margins for the year ended 31 December 2007 from the previously published EEV basis to the MCEV basis. The same steps have been applied in the reconciliations as for the total in-force covered business as set out in note 16.

Value of new business

£m Year ended 31 December 2007

	Total	UK	Nordic	ELAM	OMSA*	Rest of Africa	United States
Previously published VNB under EEV basis	**266**	**76**	**19**	**38**	**53**	**8**	**72**
Release of cost of required capital in published EEV basis	32	2	2	3	11	0	14
Economic assumption changes	(9)	10	7	2	–	–	(28)
Allowance for frictional costs	(20)	0	(1)	(2)	(8)	0	(9)
Allowance for cost of residual non-hedgeable risks	(39)	(7)	(4)	(3)	(6)	(1)	(18)
Total impact	**(36)**	**5**	**4**	**1**	**(4)**	**(1)**	**(41)**
VNB on MCEV basis	**230**	**81**	**23**	**38**	**50**	**7**	**31**
Percentage impact	**-13.6%**	**6.6%**	**21.1%**	**2.7%**	**-6.7%**	**-10.4%**	**-56.9%**
EEV PVNBP	13,878	6,297	643	1,465	2,224	99	3,150
EEV APE	1,760	740	147	190	333	15	335
EEV PVNBP margin	**1.9%**	**1.2%**	**2.9%**	**2.5%**	**2.4%**	**7.9%**	**2.3%**
EEV APE margin	**15%**	**10%**	**13%**	**20%**	**16%**	**51%**	**21%**
MCEV PVNBP	14,046	6,311	690	1,494	2,268	98	3,185
MCEV APE	1,748	740	147	190	321	15	335
MCEV PVNBP margin	**1.7%**	**1.3%**	**3.3%**	**2.6%**	**2.2%**	**7.1%**	**1.0%**
MCEV APE margin	**13%**	**11%**	**16%**	**20%**	**15%**	**47%**	**9%**

* Note that OMSA healthcare administration business was included in the EEV basis, but is excluded on an MCEV basis.

The impact on VNB of the covered business written in 2007 due to moving from an EEV to MCEV basis is a decrease of 13.6 per cent from £266 million to £230 million. Most of the reduction is attributable to the United States business where VNB decreased by 56.9 per cent from £72 million to £31 million.

The EEV risk discount rate for each geography was calibrated for total in-force business and hence the EEV methodology did not make allowance for different levels of risk for different portfolios of asset and liability risks. The MCEV methodology makes a more granular allowance for the differences in the risk profile of different product lines and different generations of policies. The relative impacts on VNB of each of the steps outlined above therefore differ from the impacts on VIF as outlined in note 16 because the risk profiles of new business are different to the risk profiles of in-force business.

Also note that in calculating PVNBP, the projected premiums are discounted with risk free reference rates under MCEV rather the higher risk discount rate which is applicable in each geography under the previous EEV methodology. PVNBP under MCEV reporting is therefore greater than under EEV reporting with a corresponding decrease in PVNBP margins (assuming all other things including VNB being equal).

Notes to the Old Mutual Market Consistent Embedded Value basis supplementary information

For the year ended 31 December 2008

18 Restatement of Return on Embedded Value of covered business

Return on Embedded Value (RoEV) for covered business is calculated as the operating earnings after tax divided by opening Embedded Value in local currency. The table below provides summaries of the drivers in the change of RoEV for the year ended 2007 from the previously published EEV basis to the MCEV basis. For this purpose the impact on RoEV of the recalibration of risk margins under EEV has been treated as an assumption change.

No results are shown for the 'Rest of Africa' from a materiality perspective.

In-force covered business					Year ended 31 December 2007
	UK	Nordic	ELAM	OMSA	United States
Previously published RoEV% on an EEV basis	**17.2%**	**4.6%**	**6.1%**	**11.2%**	**3.8%**
MCEV RoEV%	**15.5%**	**7.6%**	**1.5%**	**11.7%**	**4.1%**
Difference	**-1.7%**	**3.1%**	**-4.6%**	**0.5%**	**0.3%**
Drivers of change for the covered business:					
New business value	0.0%	0.4%	0.4%	-0.2%	-2.5%
Expected existing business contribution	0.5%	-0.9%	-0.3%	1.2%	0.6%
Experience variances	0.5%	1.2%	0.3%	-0.6%	-1.5%
Assumption changes	-2.7%	2.4%	-5.2%	-0.3%	-5.2%
Other operating variances*	0.0%	0.0%	0.2%	0.4%	8.9%

* Changes and improvement to models and methodology are reflected as other operating variances under MCEV rather than being included as part of assumption changes as treated under EEV.

The impact on VNB as a result of moving from an EEV to MCEV basis has been outlined in note 18. Other key drivers of the change in RoEV for each geography are discussed below.

UK and ELAM

As mentioned earlier in note 13, contrary to previous EEV treatment, the impact of changes in taxation under MCEV is excluded from operating earnings. Such reallocation of tax changes to non-operating variances is the major reason for the significantly reduced contribution of assumption changes.

Nordic

The contribution from assumptions changes is impacted positively by treating the negative impact of the recalibration of risk margins under EEV as an assumption change. In addition the impact from the introduction of annuitisation of the corporate business is higher under MCEV than under EEV since the MCEV effects are discounted at risk free reference rates rather than the higher risk discount rate under EEV.

South Africa

The major reasons for the change in RoEV from an EEV to MCEV basis is the significantly higher expected existing business contribution. As mentioned earlier in note 4, the expected existing business contribution under MCEV is now derived with reference to the one-year forward risk free reference rate at the start of the reporting period as opposed to the 10-year government bond yield curve. The downwards sloping swap yield curve in South Africa therefore leads to a higher expected existing business contribution under MCEV.

United States

The positive impact of model improvements and changes in methodology on an MCEV basis has been re-classified from assumption changes to other operating variances.

Going forward, rates of return on Embedded Value for the US should be higher than under EEV as the opening MCEV is starting from a much lower base value compared to EEV and, other things being equal, higher actual operating earnings will emerge than projected under MCEV at the valuation date as corporate bond credit spreads are realised and margins (such as the cost of residual non-hedgeable risks) are released.

Shareholder information

Listings and shares in issue

The Company's shares are listed on the London, Malawi, Namibian and Zimbabwe Stock Exchanges and on the JSE Limited (JSE). The primary listing is on the London Stock Exchange and the other listings are all secondary listings. The Company's secondary listing on the Stockholm Stock Exchange ended on 7 September 2007, but the Company's shares may still be traded on the Xternal list of the Nordic Exchange in Stockholm. The ISIN number of the Company's shares is GB0007389926.

At 31 December 2008, the Company had 5,516,141,360 ordinary shares of 10p each in issue (31 December 2007: 5,510,272,537). 239,434,888 shares were held by the Company in treasury, at 31 December 2008 (31 December 2007: 97,074,907)

Websites

Further information on the Company can be found on the following websites:

www.oldmutual.com

www.oldmutual.co.za