GROUP INVESTMENTS
IFRS DISCLOSURES
FROM THE 2008 ANNUAL REPORT

GROUP INVESTMENTS

The following statements provide analysis of the group's investment assets, financial and insurance risks and accounting policies relating to financial instruments and insurance with a particular focus on the US Life operation together with the Group's adjusted operating results and movements in shareholders equity.

The total funds under management as at 31 December 2008 is £265 billion of which £76 billion is held to meet long-term policyholder liabilities and £189 billion is in respect of shareholders' funds and asset management business.

Group assets

Total assets are £145 billion of which £89 billion are investment assets recorded at fair value. £41 billion is at cost or amortised cost represented by loans and advances held in the Group's banking businesses. In accordance with the provisions of the October 2008 amendment to IAS 39 securities with a fair value of £1 billion were reclassified from the available–for–sale category on 1 July 2008 to the loans and receivables category on the basis that the securities were no longer regarded as being traded in an active market.

The group does not have an active trading philosophy for its investment portfolios. Investments are generally held and managed for long-term growth and to support the specific profiles and mandates of our product ranges. Our banking subsidiary, Nedbank, does manage a trading portfolio as part of its normal activities. The Group does not write reinsurance business.

Debt securities

The Group holds £32 billion of debt instruments of which 80% is investment graded AAA to BBB. Each security is valued independently by the use of current market bid process for quoted investments or by using quotations from independent third parties, such as brokers and pricing services. In certain limited circumstances, where reliable market prices are not available, fair values are determined using models which rely to the maximum extent on external data. Mark to model techniques have been applied to 17 securities in the US Life portfolio with a fair value of £180 million representing 0.6% of the total debt securities portfolio.

The Group's US Life operation holds 95% of their debt securities in categories 1 and 2, which is regarded as investment grade by nationally recognised rating agencies. Of the £1.9 billion of unrealised losses in the debt securities portfolio £1.8 billion is in respect of securities classified as investment grade.

Total fair value of securities relating to sub-prime, Alt-A, CMBS and RMBS is £1.5 billion.

Group results

Profit before tax attributable to shareholders

A supplementary analysis of profit is prepared to reflect the Directors' view of the underlying long-term performance of the Group. The adjusted operating profit before tax of £999 million excludes a number of adjusting items detailed in section 4.3 of this report.

The adjustment for short-term fluctuations in investment return includes Bermuda hedge losses of £206 million.

Movements in shareholders' equity
In addition to the profit for the year, for assets which are specific for the US Life operation, classified as 'available-for-sale' unrealised losses are accounted for as direct movements in shareholder equity

GROUP INVESTMENTS

IFRS DISCLOSURES FROM THE 2008 ANNUAL REPORT

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1. Group and segment balance sheets

As at 31 December 2008	Europe			South Africa	
	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

1. Group and segment balance sheets continued

		United States		Other			£m
M& F	Rest of Africa	US Life	USAM	Other	Inter-segment assets/ liabilities	Total 2008	Total 2007
29	4	137	1,305	24	–	5,882	5,459
10	4	–	1,271	24	–	3,081	2,629
–	–	120	–	–	–	1,950	2,008
19	–	17	1	–	–	187	162
–	–	–	33	–	–	664	660
–	–	–	–	–	–	734	615
24	13	1	26	4	–	682	608
–	8	–	–	–	179	1,478	1,479
8	–	1,036	158	3	–	1,590	683
–	–	–	–	10	–	111	81
15	3	2,041	40	8	–	3,199	2,253
15	–	2,041	–	–	–	2,107	1,422
–	3	–	–	–	–	961	717
–	–	–	40	8	–	131	114
–	–	508	–	–	–	1,148	1,394
–	–	480	–	–	–	550	727
–	–	–	–	–	–	551	636
–	–	28	–	–	–	47	31
115	–	–	–	–	–	115	-
3	–	40	–	–	–	164	213
2	10	62	–	1	–	35,745	30,687
–	10	61	–	–	–	260	204
2	–	1	–	1	–	35,485	30,483
322	626	13,960	177	88	1,455	83,522	89,627
–	64	97	–	–	1,942	8,976	7,234
1	9	7,555	–	–	1,695	14,069	12,621
2	7	2,690	–	–	175	5,047	4,281
67	253	–	–	–	7,938	14,976	21,361
5	11	118	–	–	–	1,203	963
36	128	2,093	135	–	1,310	5,215	6,198
–	–	18	42	–	(11,853)	29,831	33,400
211	150	1,389	–	–	125	3,989	3,342
–	4	–	–	88	123	216	227
–	–	–	–	2	–	118	83
–	–	–	–	–	–	220	165
68	10	1,041	139	100	419	3,137	2,774
–	–	57	–	226	1,109	4,633	1,527
56	4	11	220	89	997	2,862	3,469
–	–	–	–	–	–	7	1,623
46	14	423	99	1,632	(4,057)	–	-
688	692	19,317	2,164	2,187	102	145,347	142,740

1. Group and segment balance sheets 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.

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1. Group and segment balance sheets continued

		United States		Other			£m
M& F	Rest of Africa	US Life	USAM	Other operating segments	Consolidation adjustments	Total reportable segments	Total 2007
–	593	18,122	–	–	–	81,269	84,251
–	238	16,630	–	–	–	28,106	23,637
–	137	–	–	–	–	45,161	52,171
–	–	1,434	–	–	–	1,965	1,574
–	218	–	–	–	–	5,646	6,404
–	–	58	–	–	–	391	465
344	–	–	–	–	–	344	-
–	–	–	–	–	2,591	2,591	3,547
–	–	–	–	1,097	–	2,295	2,353
–	–	–	–	556	–	557	461
–	–	–	–	–	–	104	103
–	–	–	–	541	–	1,634	1,789
21	2	–	3	84	–	477	499
8	1	–	–	8	–	598	462
–	1	–	–	–	–	489	350
–	–	–	–	8	–	101	112
8	–	–	–	–	–	8	-
2	–	578	–	12	–	1,452	1,413
2	1	4	8	39	–	219	320
71	5	276	299	165	465	3,733	6,180
–	–	–	–	–	–	220	165
–	–	–	–	–	–	38,171	31,817
–	–	–	–	124	1,103	4,395	1,716
–	–	–	–	–	–	6	420
(1)	5	4	1,452	1,379	(4,057)	–	-
447	607	18,984	1,762	2,908	102	135,770	133,143
241	85	333	402	(721)	–	9,577	9,597
193	85	333	365	(1,140)	–	7,737	7,961
48	–	–	37	419	–	1,840	1,636
48	–	–	37	(27)	–	1,147	933
–	–	–	–	446	–	693	703
241	85	333	402	(721)	–	9,577	9,597

2. Valuation basis of group assets

2.1 Summary of valuation basis applied

The analysis of assets and liabilities into their categories as defined in IAS 39 'Financial Instruments: Recognition and Measurement' (IAS 39) is set out in the following table. For completeness, assets and liabilities of a non-financial nature, or financial assets and liabilities that are specifically excluded from the scope of IAS 39, are reflected in the non-financial assets and liabilities category.

£m

At 31 December 2008	Total	Fair value through income statement: Held–for–trading	Fair value through income statement: Designated	Available for sale financial assets	Held–to–maturity investments	Loans and receivables	Financial liabilities amortised cost	Non–financial assets and liabilities
Assets								
Goodwill and other intangible assets	5,882	–	–	–	–	–	–	5,882
Mandatory reserve deposits with central banks	734	–	–	–	–	734	–	–
Property, plant and equipment	682	–	–	–	–	–	–	682
Investment property	1,478	–	–	–	–	–	–	1,478
Deferred tax assets	1,590	–	–	–	–	–	–	1,590
Investment in associated undertakings and joint ventures	111	–	–	–	–	–	–	111
Deferred acquisition costs	3,199	–	–	–	–	–	–	3,199
Reinsurers' share of long–term business policyholder liabilities	1,148	–	–	–	–	37	–	1,111
Reinsurers' share of general insurance liabilities	115	–	–	–	–	–	–	115
Deposits held with reinsurers	164	–	121	–	–	43	–	–
Loans and advances	35,745	760	2,548	–	–	32,437	–	–
Investments and securities	83,522	627	67,703	11,732	1,494	1,966	–	–
Current tax receivable	118	–	–	–	–	–	–	118
Client indebtedness for acceptances	220	–	–	–	–	–	–	220
Other assets	3,137	73	596	–	–	2,145	–	323
Derivative financial instruments – Assets	4,633	4,633	–	–	–	–	–	–
Cash and cash equivalents	2,862	–	–	–	–	2,862	–	–
Non–current assets held–for–sale	7	–	–	–	–	–	–	7
	145,347	6,093	70,968	11,732	1,494	40,224	–	14,836
Liabilities								
Long–term business policyholder liabilities	81,269	–	53,211	–	–	–	–	28,058
General insurance liabilities	344	–	–	–	–	–	–	344
Third party interest in consolidation of funds	2,591	–	2,591	–	–	–	–	–
Borrowed funds	2,295	–	1,460	–	–	–	835	–
Provisions	477	–	–	–	–	–	–	477
Deferred revenue	598	–	–	–	–	–	–	598
Deferred tax liabilities	1,452	–	–	–	–	–	–	1,452
Current tax payable	219	–	–	–	–	–	–	219
Other liabilities	3,733	271	531	–	–	–	1,788	1,143
Liabilities under acceptances	220	–	–	–	–	–	–	220
Amounts owed to bank depositors	38,171	1,431	7,164	–	–	–	29,576	–
Derivative financial instruments – Liabilities	4,395	4,395	–	–	–	–	–	–
Non–current liabilities held–for–sale	6	–	–	–	–	–	–	6
	135,770	6,097	64,957	–	–	–	32,199	32,517

In accordance with the provisions of the October 2008 amendment to IAS 39 'Financial Instruments: Recognition and Measurement' in respect of reclassifications of financial assets, the Company's US subsidiary, US Life, has elected to reclassify 152 securities from the available–for–sale category to the loans and receivables category on the basis that the securities were no longer regarded as being traded in an active market. The reclassifications were made as at 1 July 2008 in accordance with the transitional provisions in the amendment.

The book values and fair values of the reclassified securities as at 1 July 2008 were £1,119m and £926m respectively. These securities had an aggregate carrying value and aggregate fair value as at 31 December 2008 of £1,262m and £972m respectively. The amount of accumulated unrealised losses on the reclassified securities already recognised in equity as at the date of reclassification was £263m (31 December 2007: £59m). The amount of unrealised losses that would have been recognised in equity had the reclassification not taken place would have been £284m at 31 December 2008. The changes in values between 1 July 2008 and 31 December 2008 are largely attributable to changes in the exchange rate between the USD and GBP.

The overall income statement impact of the reclassifications is nil, as the revised amortised effective interest on the reclassified securities is directly offset by the amortisation of the previously recognised unrealised losses to the income statement using the same amortisation pattern. At 1 July 2008, the effective rates of interest for the reclassified securities ranged from 4.39% to 15.23% amount that the Group expected to recover in cash flows is £2.1 billion (based on exchange rate at 1 July 2008).

								£m
		Fair value through income statement						
At 31 December 2007	Total	Held–for–trading	Designated	Available for sale financial assets	Held–to–maturity investments	Loans and receivables	Financial liabilities amortised cost	Non–financial assets and liabilities
Assets								
Goodwill and other intangible assets	5,459	–	–	–	–	–	–	5,459
Mandatory reserve deposits with central banks	615	–	–	–	–	615	–	–
Property, plant and equipment	608	–	–	–	–	–	–	608
Investment property	1,479	–	–	–	–	–	–	1,479
Deferred tax assets	683	–	–	–	–	–	–	683
Investment in associated undertakings and joint ventures	81	–	–	–	–	–	–	81
Deferred acquisition costs	2,253	–	–	–	–	–	–	2,253
Reinsurers' share of long–term business policyholder liabilities	1,394	–	638	–	–	16	–	740
Deposits held with reinsurers	213	–	184	–	–	29	–	–
Loans and advances	30,687	1,912	1,768	–	–	27,007	–	–
Investments and securities	89,627	1,445	76,828	10,274	650	430	–	–
Current tax receivable	83	–	–	–	–	–	–	83
Client indebtedness for acceptances	165	–	–	–	–	–	–	165
Other assets	2,774	273	659	–	–	1,459	–	383
Derivative financial instruments – assets	1,527	1,527	–	–	–	–	–	–
Cash and cash equivalents	3,469	–	–	1	–	3,468	–	–
Non–current assets held–for–sale	1,623	–	–	–	–	–	–	1,623
	142,740	5,157	80,077	10,275	650	33,024	–	13,557
Liabilities								
Long–term business policyholder liabilities	84,251	–	53,745	–	–	–	–	30,506
Third party interests in consolidation of funds	3,547	–	3,547	–	–	–	–	–
Borrowed funds	2,353	–	1,676	–	–	–	677	–
Provisions	499	–	–	–	–	–	–	499
Deferred revenue	462	–	–	–	–	–	–	462
Deferred tax liabilities	1,413	–	–	–	–	–	–	1,413
Current tax payable	320	–	–	–	–	–	–	320
Other liabilities	6,180	1,955	435	–	–	–	3,184	606
Liabilities under acceptances	165	–	–	–	–	–	–	165
Amounts owed to bank depositors	31,817	1,187	4,002	–	–	–	26,628	–
Derivative financial instruments – liabilities	1,716	1,716	–	–	–	–	–	–
Non–current liabilities held–for–sale	420	–	–	–	–	–	–	420
	133,143	4,858	63,405	–	–	–	30,489	34,391

2.2 Determination of fair value

Determination of fair value

All financial instruments, regardless of their IAS 39 categorisation, are initially recorded at fair value. The fair value of a financial instrument on initial recognition is normally the transaction price, that is, the fair value of the consideration given or received. In certain circumstances, however, the initial fair value may be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only observable data.

Subsequent to initial recognition, the fair values of financial instruments measured at fair value that are quoted in active markets are based on bid prices for assets, which in certain circumstances includes using quotations from independent third parties such as brokers and pricing services, and offer prices for liabilities. When quoted prices are not available, fair values are determined by using valuation techniques that refer as far as possible to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. A number of factors such as bid–offer spread, credit profile, servicing costs and model uncertainty are taken into account, as appropriate, when values are calculated using a valuation technique. Changes in the assumptions used in such valuations could impact the reported value of such instruments.

The fair value of derivative instruments reflects the estimated amount the Group would receive or pay in an arm's length transaction. This amount is determined using quotations from independent third parties or by using standard valuation techniques. For certain derivative instruments, fair values may be determined in whole or in part using techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

In general, other than in respect of those securities that have been reclassified from available–for–sale to loans and receivables as described in note 31, none of the carrying amounts of financial assets and liabilities carried at amortised cost have a fair value significantly different to their carrying amounts. Such assets and liabilities are primarily comprised of variable–rate financial assets and liabilities that reprice as interest rates change, short-term deposits or current assets.

Loans and advances

Loans and advances principally comprise of variable rate financial assets and liabilities, which are re-priced when there are movements in the interest rates.

The Group has developed and applied a fair value methodology in respect of gross exposures of loans and advances that are measured at amortised cost. The methodology incorporates the historical interest rates per product type and the projected monthly cash flows per product type. Future forecasts for the overall probability of default (PD) and loss given defaults ('LGDs') for the years from 2009 to 2011, based on the latest internal data available, is applied to the first three years' projected cash flows. Average PDs and LGDs are applied to the projected cash flows for later years. These results are compared to both regulatory and accounting credit model values. There are no significant variances in the fair value methodology results compared to the carrying values reported in these financial statements.

For impaired advances, the carrying value as determined from the Group's credit models is considered the best estimate of fair value. The Group is satisfied that, after considering the internal credit models together with other assumptions and the variable interest rate exposure, the carrying value of loans and advances measured at amortised cost approximates fair value.

Investments and securities

The fair values of listed investments and securities are based on bid prices. For unlisted investments and securities, fair values are determined using valuation techniques that refer as far as possible to observable market data (see above).

Investment contracts

The approach to determining the fair values of investment contracts is set out in the accounting policies section for insurance and investment contract business.

Amounts owed to bank depositors

The fair values of amounts owed to bank depositors corresponds with the carrying amount shown in the balance sheet, which generally reflects the amount payable on demand.

3 Credit quality of Group's assets

3.1 Overall exposure to credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligation resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the financial loss from defaults. The Group's exposure and credit rating of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Group does not have significant credit exposure to any single counterparty or any group of counterparties having similar characteristics. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit rating agencies.

Nedbank's lending portfolio forms the substantial part of the Group's loans and advances, analysed below. Credit risk represents the most significant risk type facing Nedbank, accounting for over 70 per cent of its economic capital requirements. Nedbank's credit risk profile is managed in terms of its credit risk management framework, which encompasses comprehensive credit policy, mandate (limits) and governance structures, and is approved by the Nedbank Board.

The other major source of credit risk arises predominantly in the Group's insurance operations' portfolios of debt and similar securities along with those portfolios of debt instruments held by the banking operations. Credit risk for these portfolios is managed with reference to established credit rating agencies with limits placed on exposures to below investment grade holdings.

Other than the above, the Group has other limited credit risk exposures in respect of amounts due from policyholders, intermediaries and reinsurers. None of the long–term business operations cedes significant risk through reinsurance and any loans to policyholders are secured on the surrender value of the relevant policies. The credit risk exposure of the Group's South Africa general insurance business, classified as non–current assets held–for–sale in 2007, is included in the analysis below.

The table below represents the Group's maximum exposure to credit risk, without taking into account the value of any collateral obtained. The total credit exposure also includes potential exposure arising from financial guarantees given by the Group and undrawn loan commitments, which are not yet reflected in the Group's balance sheet.

		£m
	At 31 December 2008	At 31 December 2007
Mandatory reserve deposits with central banks	**734**	615
Reinsurers' share of long–term business policyholder liabilities	**1,148**	1,394
Reinsurers' share of general insurance liabilities	**115**	66
Deposits held with reinsurers	**164**	215
Loans and advances	**35,745**	30,690
Home loans	**14,111**	12,083
Commercial mortgages	**5,325**	4,415
Properties in possession	**58**	23
Credit cards	**556**	541
Overdrafts	**895**	990
Policyholder loans	**260**	204
Other loans to clients	**4,443**	4,729
Net finance lease and instalment debtors	**4,474**	3,866
Preference shares and debentures	**1,142**	689
Factoring accounts	**29**	36
Trade, other bills and bankers' acceptances	**78**	135
Term loans	**4,746**	2,988
Remittances in transit	**15**	14
Deposits placed under reverse repurchase agreements	**192**	429
Less: impairment of loans and advances	**(579)**	(452)
Investments and securities	**32,297**	27,705
Government and government–guaranteed securities	**8,976**	7,234
Other debt securities, preference shares and debentures	**19,116**	16,902
Short–term funds and securities treated as investments	**3,989**	3,342
Other	**216**	227
Other assets	**2,681**	2,330
Derivative financial instruments – assets	**4,633**	1,527
Cash and cash equivalents	**2,862**	3,501
Financial guarantees and other credit related contingent liabilities	**1,989**	1,691
Loan commitments and other credit related commitments	**4,165**	4,683
	86,533	74,417

3.2 Group investments and securities

	At 31 December 2008	At 31 December 2007
		£m
Government and government–guaranteed securities	**8,976**	7,234
Other debt securities, preference shares and debentures		
Listed	**14,069**	12,621
Unlisted	**5,047**	4,281
Equity securities		
Listed	**14,976**	21,361
Unlisted	**1,203**	963
Pooled investments		
Listed	**5,215**	6,198
Unlisted	**29,831**	33,400
Short–term funds and securities treated as investments	**3,989**	3,342
Other	**216**	227
Total investments and securities	**83,522**	89,627

Investments and securities are regarded as current and non–current assets based on the intention with which the financial assets are held as well as their contractual maturity profile. Of the amounts shown above, £40,905 million (2007: £42,754 million) is regarded as current and £42,617 million (2007: £46,873 million) are regarded as non–current.

3.3 Group debt instruments and similar securities

The following table shows an analysis of the carrying values of the Group's portfolio of debt and similar securities according to their credit rating (Standard & Poor's or equivalent), by investment grade.

				£m
At 31 December 2008	**Government and government–related securities**	**Other debt securities, preference shares and debentures**	**Short–term funds and securities**	**Total**
Investment grade (AAA to BBB)	**7,029**	**14,969**	**3,601**	**25,599**
Sub–investment grade (BB and lower)	**–**	**312**	**–**	**312**
Not rated	**1,947**	**3,835**	**388**	**6,170**
	8,976	**19,116**	**3,989**	**32,081**
At 31 December 2007	Government and government–related securities	Other debt securities, preference shares and debentures	Short–term funds and securities	Total
Investment grade (AAA to BBB)	5,122	14,229	2,969	22,320
Sub–investment grade (BB and lower)	–	296	–	296
Not rated	2,112	2,377	373	4,862
	7,234	16,902	3,342	27,478

In general, no collateral is taken in respect of the Group's holdings of debt instruments and similar securities.

The following table shows an age analysis of the portfolio of debt instruments and similar securities:

	At 31 December 2008	At 31 December 2007
		£m
Neither past due nor impaired	**31,875**	27,448
Impaired instruments	**206**	30
Total debt instruments and similar securities	**32,081**	27,478

3.4 US Life debt instruments and similar securities

US Life has incurred impairment losses of £414 million and net unrealised losses of £1,800 million and the following analysis on the US Life debt instruments and similar securities portfolio and of its fair value gains and losses gives further information as to the quality and spread of the investment portfolio. US Life are the only business unit where the investment portfolio is categorised as Available-for-sale.

US Life NAIC designation

For US statutory reporting, debt securities are classified into six categories specified by the National Association of Insurance Commissioners (NAIC). The categories range from class 1 (the highest) to class 6 (the lowest). Classes 1 to 5 are regarded as performing. Class 6 securities are regarded as in or near default. Generally, classes 1 and 2 are regarded as investment grade (by nationally recognised ratings agencies), classes 3, 4, 5 and 6 securities are non-investment grade securities.

£m

	At 31 December 2008		At 31 December 2007	
	Carrying value	**% of total**	Carrying value	% of total
1	**6,253**	**62.2%**	5,941	63.9%
2	**3,526**	**35.1%**	3,177	34.2%
3	**209**	**2.0%**	172	1.8%
4	**27**	**0.3%**	10	0.1%
5	**31**	**0.3%**	-	-
6	**5**	**0.1%**	-	-
	10,051	**100.0%**	9,300	100.0%

US Life Securities rating by sector

The following table analyses the securities portfolio by sector and investment rating.

At 31 December 2008	**AAA**	**AA**	**A**	**BBB**	**BB and below**	**Total**
Finance	**0%**	**1%**	**7%**	**5%**	**1%**	**14%**
Banking	**1%**	**1%**	**7%**	**5%**	**0%**	**14%**
Utility	**0%**	**0%**	**2%**	**6%**	**0%**	**8%**
Communications	**0%**	**0%**	**3%**	**4%**	**0%**	**7%**
Insurance	**0%**	**0%**	**3%**	**3%**	**0%**	**6%**
Energy	**0%**	**0%**	**2%**	**3%**	**0%**	**5%**
Manufacturing	**0%**	**0%**	**1%**	**1%**	**0%**	**2%**
Other	**27%**	**3%**	**4%**	**8%**	**2%**	**44%**
Total	**28%**	**5%**	**29%**	**35%**	**3%**	**100%**

At 31 December 2007	AAA	AA	A	BBB	BB and below	Total
Finance	1%	2%	7%	5%	0%	15%
Banking	1%	1%	6%	5%	0%	13%
Utility	0%	0%	2%	5%	1%	8%
Communications	0%	0%	3%	5%	0%	8%
Insurance	0%	0%	3%	3%	0%	6%
Energy	0%	0%	1%	3%	0%	4%
Manufacturing	0%	0%	1%	1%	0%	2%
Other	29%	2%	4%	8%	1%	44%
Total	31%	5%	27%	35%	2%	100%

US Life Securities by industry

The following table analyses the securities portfolio by industry.

	At 31 December 2008	At 31 December 2007
Affiliated	**4%**	1%
Air transport	**1%**	1%
Asset backed	**6%**	7%
Automotive	**1%**	1%
Banking	**14%**	13%
Basic industries	**2%**	2%
CMBS	**10%**	11%
Communications	**6%**	8%
Consumer cyclical	**2%**	2%
Consumer non-cyclical	**2%**	2%
Energy	**5%**	4%
Entertainment	**1%**	1%
Finance	**14%**	16%
Insurance	**6%**	6%
International	**1%**	3%
Manufacturing	**2%**	2%
Municipal	**1%**	0%
RMBS	**10%**	9%
Technology	**1%**	1%
Transportation	**1%**	1%
Treasury	**1%**	1%
Utility	**9%**	8%
Total	**100%**	100%

Further information on the book values, fair values and unrealised gains and losses within the debt securities portfolio held by the Group's US subsidiary, US Life, is given in the following tables.

US Life fair value gains and losses

	At 31 December 2008	£m At 31 December 2007
Assets fair valued at below book value		
Book value	**9,525**	5,313
Unrealised loss	**(1,935)**	(311)
Fair value (as included in balance sheet)	**7,590**	5,002
Assets fair valued at or above book value		
Book value	**2,326**	4,163
Unrealised gain	**135**	135
Fair value (as included in balance sheet)	**2,461**	4,297
Total		
Book value	**11,851**	9,476
Unrealised loss	**(1,800)**	(176)
Fair value (as included in balance sheet)	**10,051**	9,300

The above takes account of the unrealised losses in relation to those securities that were reclassified In accordance with the provisions of the October 2008 amendment to IAS 39 'Financial Instruments: Recognition and Measurement' which had an aggregate carrying value and aggregate fair value as at 31 December 2008 of £1,262m and £972m respectively.

Included in the above are the amounts relating to sub-prime, Alt-A, CMBS and RMBS securities of:

	At 31 December 2008		At 31 December 2007 £m	
	Fair value	**Unrealised loss**	**Fair value**	Unrealised loss
Sub-prime	**312**	**(141)**	368	(16)
Alt-A	**33**	**(10)**	33	(1)
CMBS	**973**	**(288)**	1,004	(4)
RMBS	**1,036**	**(39)**	768	(4)
Total	**2,354**	**(478)**	2,173	(25)

US Life debt securities in an unrealised loss position

The following table excludes unrealised gains.

At 31 December 2008	**Fair value**	**Unrealised loss** £m
Between 90% and 100%	**2,686**	**(135)**
Between 80% and 90%	**1,814**	**(308)**
Below 80%	**3,090**	**(1,492)**
Total	**7,590**	**(1,935)**

At 31 December 2007	**Fair value**	Unrealised loss £m
Between 90% and 100%	4,252	(150)
Between 80% and 90%	583	(94)
Below 80%	167	(67)
Total	5,002	(311)

Included in the above are the amounts relating to sub-prime, Alt-A, CMBS and RMBS securities of:

At 31 December 2008	**Fair value**	**Unrealised loss** £m
Between 90% and 100%	**738**	**(34)**
Between 80% and 90%	**232**	**(38)**
Below 80%	**554**	**(428)**
Total	**1,524**	**(500)**

At 31 December 2007	**Fair value**	Unrealised loss £m
Between 90% and 100%	1,139	(25)
Between 80% and 90%	39	(7)
Below 80%	24	(8)
Total	1,202	(40)

Aged analysis of unrealised losses for the time periods indicated

The following table excludes unrealised gains.

At 31 December 2008	**Non-investment grade**	**Investment grade**	**Total**
Less than 6 months	**(5)**	**(161)**	**(166)**
6 months to 1 year	**(47)**	**(667)**	**(714)**
Over 1 year	**(49)**	**(1,006)**	**(1,055)**
	(101)	**(1,834)**	**(1,935)**

At 31 December 2007	Non-investment grade	Investment grade	Total
Less than 6 months	(2)	(35)	(37)
6 months to 1 year	(10)	(106)	(116)
Over 1 year	(12)	(146)	(158)
	(24)	(287)	(311)

3.5 Group reinsurance assets

The following table shows an analysis of the Group's balance sheet exposure to reinsurers according to the individual reinsurers' credit rating (Standard & Poor's or equivalent).

£'m

At 31 December 2008	**Reinsurers' share of long–term business policyholder liabilities**	**Reinsurers' share of general insurance liabilities**	**Deposits held with reinsurers**	**Total**
Investment grade (AAA to BBB)	**1,131**	**115**	**164**	**1,410**
Sub–investment grade (BB and lower)	**–**	**–**	**–**	**–**
Not rated	**17**	**–**	**–**	**17**
	1,148	**115**	**164**	**1,427**
At 31 December 2007	Reinsurers' share of long–term business policyholder liabilities	Reinsurers' share of general insurance liabilities	Deposits held with reinsurers	Total
Investment grade (AAA to BBB)	1,375	66	215	1,656
Sub–investment grade (BB and lower)	1	–	–	1
Not rated	18	–	–	18
	1,394	66	215	1,675

Collateral is not taken against reinsurance assets or deposits held with reinsurers other than in limited circumstances.

£m

	At 31 December 2008	At 31 December 2007
Neither past due nor impaired	**1,427**	1,656
Sub-investment grade (BB and lower)	**–**	1
Past due but not impaired, greater than 6 months but less than 1 year	**–**	18
Total reinsurance assets	**1,427**	1,675

4. Impact of investment return on group IFRS shareholders' results

4.1 Summary of movement on Group IFRS shareholders' equity

	£m	
	At 31 December 2008	At 31 December 2007
Equity holders' funds at beginning of the year	**7,961**	7,237
Changes in equity arising in the year		
Fair value gains/(losses):		
Property revaluation	**16**	95
Net investment hedge	**281**	(13)
Available-for-sale investments:		
Fair value losses	**(1,635)**	(197)
Recycled to the income statement	**414**	36
Shadow accounting	**26**	25
Currency translation differences/exchange differences on translating foreign operations	**419**	129
Other movements	**(23)**	(4)
Aggregate tax effect of items taken directly to or transferred from equity	**366**	34
Net income recognised directly in equity	**(136)**	105
Profit after tax for the financial year	**441**	972
Total recognised income and expense for the year	**305**	1,077
Dividends for the year	**(395)**	(373)
Net sale of treasury shares	**5**	149
Shares repurchased in the buyback programme	**(175)**	(177)
Issue of ordinary share capital by the Company	**5**	3
Change in participation in subsidiaries	**–**	–
Exercise of share options	**5**	9
Fair value of equity settled share options	**26**	36
Equity holders' funds at end of the year	**7,737**	7,961

4.2 Supplementary analysis of profit from continuing operations

Reconciliation of adjusted operating profit to profit after tax

		£m	
	Notes	**Year ended 31 December 2008**	Year ended 31 December 2007 Restated*
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
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.

4.3 Operating profit adjusting items summary

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

4.4 Short-term fluctuations in investment returns on shareholder backed business

£m

At 31 December 2008	UK	Nordic	ELAM	OMSA	M & F	Rest of Africa	US Life	Total
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**

£m

At 31 December 2007	UK	Nordic	ELAM	OMSA	M & F	Rest of Africa	US Life	Total
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.

4.5 Group fair value gains and losses

	Year ended 31 December 2008	Year ended 31 December 2007 Restated
		£m
Total interest income for assets not at fair value through income statement	**851**	620
The fair value gains and losses shown above are analysed according to their IAS 39 categorisations as follows:		
Held for trading (including derivatives)	**(26)**	48
Designated at fair value through income statement	**(13,787)**	3,910
Available–for–sale financial assets	**(414)**	(36)
Loans and receivables	**1**	1
	(14,226)	3,923
Investment property	**(143)**	277
Realised fair value gains and losses included in the above	**(2)**	5,928

The fair value gains/(losses) on available for sale financial assets shown above reflect the amount previously recognised as unrealised within the available for sale reserve in equity that have been recycled to the income statement on disposal or impairment of the particular assets.

Included within fair value gains and losses on available-for-sale investments and securities are impairment losses of £414 million (2007: £32 million) relating to securities held by the Group's US Life business.

4.6 Analysis of movement in impairment account

Movements in provisions for impairment of loans and advances are analysed as follows:

	Year ended 31 December 2008			Year ended 31 December 2007		£m
	Specific impairment	**Portfolio impairment**	**Total impairment**	**Specific impairment**	**Portfolio impairment**	**Total impairment**
Loans and advances						
Balance at beginning of the year	**322**	**130**	**452**	277	105	382
Income statement charge	**279**	**41**	**320**	133	23	156
Amounts written off against the provision	**(215)**	**(2)**	**(217)**	(116)	–	(116)
Recoveries of amounts previously written off	**25**	**–**	**25**	30	–	30
Foreign exchange and other movements	**(4)**	**3**	**(1)**	(2)	2	-
Balance at end of the year	**407**	**172**	**579**	322	130	452

5. Sensitivity of shareholders results to market and other risks

5.1 Market risk overview

(i) Overview

Market risk is the risk of a financial impact arising from the changes in values of financial assets or financial liabilities from changes in equity, bond and property prices, interest rates and foreign exchange rates. Market risk arises differently across the Group's businesses depending on the types of financial assets and liabilities held.

Each of the Group's business units has an established set of policies, principles and governance processes to manage market risk within their individual businesses and in accordance with their local regulatory requirements. A monitoring process established at a Group level overlies these individual approaches to the management of market risk.

The impacts of changes in market risk are monitored and managed by way of sensitivity analyses, through the business units' own regulatory processes, with reference to the Group's economic capital processes, and by other means. The sensitivity of the Group's earnings, capital position and embedded value is monitored through the Group's embedded value reporting processes.

(ii) Insurance operations

For the Group's insurance operations, equity and property price risk and interest rate risk (on the value of the securities) are modelled in accordance with the Group's risk–based capital practices, which require sufficient capital to be held in excess of the statutory minimum to allow the Group to manage significant equity exposures.

In South Africa the stock selection and investment analysis process is supported by a well–developed research function. For fixed annuities, market risks are managed where possible by investing in fixed interest securities with a duration closely corresponding to those liabilities. Market risk on policies that include specific guarantees and where shareholders carry the investment risk, principally reside in the South African guaranteed nonprofit annuity book, which is closely matched with gilts and semi–gilts. Other non–profit policies are also suitably matched based upon comprehensive investment guidelines. Market risk on with–profit policies, where investment risk is shared, is minimised by appropriate bonus declaration practices.

In the US, for fixed annuities, policyholder option risk is managed by investing in fixed securities with durations within a half–year of the duration of the liabilities. Cash flows in any period are closely aligned to ensure any mismatch is not material. In addition, extensive interest rate scenario testing is carried out, as required by US regulatory authorities, in order to ensure that the amounts reserved are sufficient to meet the guaranteed obligations. The guaranteed returns provided under equity indexed annuities are hedged to ensure a close matching of option or futures payoffs to the liability growth. Hedging is largely static with minimal trading. For variable annuities, the guaranteed returns provided are dynamically hedged. Hedging positions are reviewed daily to re–adjust them as necessary.

In Skandia's unit–linked assurance operations, the Group has limited exposure to the volatility from equity markets, because in the main, equity price risk is borne by policyholders (subject to the impact on asset–based fees charged on policyholder funds). In respect of Skandia's shareholders' funds, equity price risks are addressed in Skandia's investment policy, which provides for very limited opportunity for business units to invest their own capital in equities or in units in equity funds.

In some areas of Skandia's business, most notably its traditional life insurance business, Skandia is exposed to market risks arising from various forms of guarantees. Typically the policyholder is guaranteed a certain return regardless of the asset return achieved during the term of the policy. These risks are closely monitored and mitigated by applying asset and liability management techniques, ensuring that the proceeds from sale of assets are sufficient to meet the obligations to policyholders.

Sensitivities to adverse impacts of changes in market prices arising in the Group's insurance operations are set out in the Old Mutual Market Consistent Embedded Value supplementary basis information section of the Annual Report and Accounts.

(iii) Banking operations

The principal market risks arising in the Group's banking operations arise from:

- trading risk in Nedbank Capital; and
- banking book interest rate risk arises from repricing and/or maturity mismatches between on and off–balance sheet components in all banking businesses.

A comprehensive market risk framework is used to ensure that market risks are understood and managed. Governance structures are in place to achieve effective independent monitoring and management of market risk.

Trading risk

Market risk exposures from trading activities at Nedbank Capital are measured using Value–at–Risk (VaR), supplemented by sensitivity analysis, and stress–scenario analysis, and limit structures are set accordingly.

The VaR risk measure estimates the potential loss in pre–tax profit over a given holding period for a specified confidence level. The VaR methodology is a statistically defined, probability–based approach that takes into account market volatilities as well as risk diversification by recognising offsetting positions and correlations between products and markets. Risks can be measured consistently across all markets and products, and risk measures can be aggregated to arrive at a single risk number. The one–day 99 per cent VaR number used by Nedbank represents the overnight loss that has less than 1 per cent chance of occurring under normal market conditions. By its nature, VaR is only a single measure and cannot be relied upon on its own as a means of measuring and managing risk.

Historical VaR (one–day, 99 per cent) by risk type	Average	Minimum	Maximum	Year–end
				£m
At 31 December 2008				
Foreign exchange	**0.4**	**0.1**	**1.3**	**0.2**
Interest rate	**0.9**	**0.5**	**1.6**	**1.3**
Equity products	**0.5**	**0.2**	**1.4**	**0.4**
Other	**0.4**	**0.2**	**0.6**	**0.4**
Diversification	**(0.9)**	**–**	**–**	**(0.8)**
Total VaR exposure	**1.3**	**1.0**	**4.9**	**1.5**

Historical VaR (one–day, 99 per cent) by risk type	Average	Minimum	Maximum	Year–end
				£m
At 31 December 2007				
Foreign exchange	0.2	–	0.5	0.3
Interest rate	1.0	0.7	1.6	1.0
Equity products	0.9	0.4	2.0	0.5
Diversification	(0.3)	–	–	(0.2)
Total VaR exposure	1.8	1.1	4.1	1.6

Banking book interest rate risk at Nedbank arises because:

- the bank writes a large quantum of prime–linked assets and raises fewer prime–linked deposits;
- funding is prudently raised across the curve at fixed–term deposit rates that reprice only on maturity;
- short–term demand–funding products reprice to different short–end base rates;
- certain ambiguous maturity accounts are non–rate–sensitive; and
- the bank has a mismatch in net non–rate–sensitive balances, including shareholders' funds, that do not reprice for interest rate changes.

Nedbank uses standard analytical techniques to measure interest rate sensitivity within its banking book. This includes static reprice gap analysis and a point–in–time interest income stress testing for parallel interest rate moves over a forward–looking 12–month period. At 31 December 2008 the sensitivity of the banking book to a 1 per cent instantaneous decrease in interest rates would have led to a reduction in Net interest income and equity of £31 million (2007: £41 million).

The table below shows the repricing profile of Nedbank's banking book balance sheet, which highlights the fact that assets reprice quicker than liabilities following derivative hedging activities.

Interest rate repricing gap	Up to 3 months	3<6 months	6 months < 1 year	1<5 years	Over 5 years	Trading and non–rate	Total
							£m
At 31 December 2008							
Total assets	**30,900**	**635**	**137**	**2,759**	**1,598**	**5,301**	**41,330**
Total liabilities and shareholders' funds	**25,369**	**2,714**	**3,355**	**1,021**	**440**	**8,431**	**41,330**
Interest rate hedging activities	**(3,371)**	**1,768**	**3,093**	**(275)**	**(1,215)**	**–**	**–**
Repricing profile	**2,160**	**(311)**	**(125)**	**1,464**	**(57)**	**(3,131)**	**–**
Cumulative repricing profile	**2,160**	**1,849**	**1,724**	**3,188**	**3,131**	**–**	**–**
Expressed as a % of total assets	**5.2**	**4.5**	**4.2**	**7.7**	**7.6**	**–**	**–**

Interest rate repricing gap	Up to 3 months	3<6 months	6 months < 1 year	1<5 years	Over 5 years	Trading and non–rate	Total
							£m
At 31 December 2007							
Total assets	27,972	343	288	1,699	911	4,720	35,933
Total liabilities and shareholders' funds	21,083	1,348	3,186	1,166	407	8,743	35,933
Interest rate hedging activities	(3,122)	1,777	2,557	(998)	(214)	–	–
Repricing profile	4,166	(128)	(342)	35	291	(4,022)	–
Cumulative repricing profile	4,166	4,038	3,696	3,731	4,022	–	–
Expressed as a % of total assets	11.6	11.2	10.3	10.4	11.2	–	–

SkandiaBanken has low sensitivity to interest rate risk. The majority of SkandiaBanken's deposit taking and lending activity, after risk coverage, is short–term, which means that interest rates are changed to reflect the situation in the money market. The interest rate risk that arises from mismatching of fixed rates of interest is reduced through interest rate swap agreements.

5.2 Currency risk

The Group is exposed to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The principal foreign currency risk arises from the fact that the Group's functional currency is GBP, whereas the functional currencies of its principal operations are South African Rand, US Dollar, Swedish Krona and Euro. The Group reduces this risk through the use of currency swaps, currency borrowings and forward foreign exchange contracts. Such risk mitigation techniques are reflected in the currency analyses that follow.

The table below shows the Group's balance sheet by major currency at 31 December 2008.

							£m
At 31 December 2008	ZAR	GBP	USD	Euro	SEK	Other	Total
Assets							
Goodwill and other intangible assets	479	1,670	1,392	1,065	1,146	130	5,882
Mandatory reserve deposits with central banks	686	46	–	–	–	2	734
Property, plant and equipment	594	27	28	5	3	25	682
Investment property	1,296	181	–	–	–	1	1,478
Deferred tax assets	97	166	1,194	44	73	16	1,590
Investments in associated undertakings and joint ventures	78	26	–	–	–	7	111
Deferred acquisition costs	117	624	2,082	234	29	113	3,199
Reinsurers' share of long–term business policyholder liabilities	15	607	508	1	6	11	1,148
Reinsurers' share of general insurance liabilities	100	–	–	–	–	15	115
Deposits held with reinsurers	3	–	161	–	–	–	164
Loans and advances	29,263	468	1,398	166	1,728	2,722	35,745
Investments and securities	23,251	27,969	17,845	4,595	7,799	2,063	83,522
Current tax receivable	29	80	1	6	–	2	118
Client indebtedness for acceptances	208	–	9	1	–	2	220
Other assets	983	311	1,396	54	297	96	3,137
Derivative financial instruments – assets	3,184	32	1,210	175	30	2	4,633
Cash and cash equivalents	716	645	657	180	293	371	2,862
Non–current assets held–for–sale	7	–	–	–	–	–	7
	61,106	32,852	27,881	6,526	11,404	5,578	145,347
Liabilities							
Long–term business policyholder liabilities	23,604	20,607	23,070	5,949	6,655	1,384	81,269
General insurance liabilities	316	–	–	–	–	28	344
Third party interests in consolidation of funds	374	1,068	129	–	1,020	–	2,591
Borrowed funds	1,184	279	316	455	61	–	2,295
Provisions	142	102	124	18	58	33	477
Deferred revenue	26	394	–	128	–	50	598
Deferred tax liabilities	329	235	578	194	87	29	1,452
Current tax payable	115	64	13	2	20	5	219
Other liabilities	1,655	842	754	182	180	120	3,733
Liabilities under acceptances	208	–	9	1	–	2	220
Amounts owed to bank depositors	30,298	645	1,724	282	2,261	2,961	38,171
Derivative financial instruments – liabilities	3,135	33	1,128	7	92	–	4,395
Non–current liabilities held–for–sale	6	–	–	–	–	–	6
	61,392	24,269	27,845	7,218	10,434	4,612	135,770

At 31 December 2007	ZAR	GBP	USD	Euro	SEK	Other	£m Total
Assets							
Goodwill and other intangible assets	446	1,732	1,105	866	1,190	120	5,459
Mandatory reserve deposits with central banks	611	–	–	–	–	4	615
Property, plant and equipment	530	24	20	5	3	26	608
Investment property	1,117	361	–	–	–	1	1,479
Deferred tax assets	120	41	431	17	77	(3)	683
Investments in associated undertakings and joint ventures	66	25	–	–	–	(10)	81
Deferred acquisition costs	96	513	1,423	138	13	70	2,253
Reinsurers' share of long–term business policyholder liabilities	17	702	663	1	4	7	1,394
Reinsurers' share of general insurance liabilities	–	–	–	–	–	–	–
Deposits held with reinsurers	–	–	213	–	–	–	213
Loans and advances	24,831	373	1,610	106	1,309	2,458	30,687
Investments and securities	26,347	28,465	19,660	5,958	7,699	1,498	89,627
Current tax receivable	7	68	–	1	–	7	83
Client indebtedness for acceptances	158	–	4	–	–	3	165
Other assets	1,126	314	1,095	140	40	59	2,774
Derivative financial instruments – assets	700	98	647	66	15	1	1,527
Cash and cash equivalents	861	1,722	371	114	(174)	575	3,469
Non–current assets held–for–sale	542	6	4	6	526	533	1,617
	57,575	34,444	27,246	7,418	10,702	5,349	142,734
Liabilities							
Long–term business policyholder liabilities	25,663	31,347	13,862	2,976	7,773	2,630	84,251
General insurance liabilities	–	–	–	–	–	–	–
Third party interests in consolidation of funds	488	1,406	147	–	1,506	–	3,547
Borrowed funds	1,076	384	132	580	177	4	2,353
Provisions	155	165	79	4	82	14	499
Deferred revenue	28	340	–	58	–	36	462
Deferred tax liabilities	405	339	399	160	100	10	1,413
Current tax payable	176	119	8	6	4	7	320
Other liabilities	3,187	1,621	938	172	169	93	6,180
Liabilities under acceptances	158	1	4	–	–	2	165
Amounts owed to bank depositors	24,672	696	1,786	138	1,700	2,825	31,817
Derivative financial instruments – liabilities	949	105	621	4	37	–	1,716
Non–current liabilities held–for–sale	358	–	–	6	–	50	414
	57,315	36,523	17,976	4,104	11,548	5,671	133,137

A 10 per cent deterioration in the value of the major currencies shown above in relation to GBP would result in a reduction in the Group's consolidated equity holders' funds of £789 million (2007: £1,810 million), and a similar decline in the average exchange rates for the year (as set out in note 2) would have led to a reduction in Adjusted operating profit of £93 million (2007: £146 million).

5.3 Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Ultimate responsibility for liquidity risk management rests with the Board of Directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long–term funding and liquidity management requirements. The Group manages liquidity by maintaining adequate reserves, banking facilities and continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. Individual businesses separately maintain and manage their local liquidity requirements according to their business needs, within the overall liquidity framework established by Old Mutual plc.

The contractual maturities of the Group's financial liabilities are set out in the appropriate notes to the financial statements.

5.4 Insurance risk

The Group assumes insurance risk by issuing insurance contracts, under which the Group agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. Insurance risk includes mortality and morbidity risk in the case of long–term business or risk of loss (from fire, accident, or other source) in the case of general insurance.

For accounting purposes insurance risk is defined as risk other than financial risk. Contracts issued by the Group may include both insurance and financial risk; contracts with significant insurance risk are classified as insurance contracts, while contracts with no or insignificant insurance risk are classified as investment contracts. The Group's approach to financial risk management has been described in note 47.

(a) Risk management objectives and policies for mitigating insurance risk

The Group's exposure to insurance risk varies depending on the nature of its operations and their location. Consequently the Group's policy is to manage insurance risk separately through its principal operations, subject to appropriate central Corporate supervision and monitoring. The Group's principal operations that incur significant insurance risk are:

> OMLAC (SA) – long–term insurance in South Africa
> Old Mutual US Life – long–term insurance in the United States
> Mutual & Federal – general insurance in South Africa

The Group's other insurance operations include long–term insurance in Skandia's unit–linked assurance operations in Scandinavia, the United Kingdom, Continental Europe and Latin America, Namibia, and Rest of World but do not give rise to significant insurance risks relative to the Group as a whole. Exposure to insurance risk in Skandia's unit–linked assurance operations is limited, as the unbundled insurance component of those products is insignificant in comparison to the rest of the Old Mutual Group.

The Group effectively manages its insurance risks through the following mechanisms:

> the diversification of business over several classes of insurance and a number of geographical segments and large numbers of uncorrelated individual risks, by which the Group seeks to reduce variability in loss experience;
> the maintenance and use of sophisticated management information systems, which provide current data on the risks to which the business is exposed;
> actuarial models, which use the above information to calculate premiums and monitor claims patterns. Past experience and statistical methods are used;
> guidelines for concluding insurance contracts and assuming insurance risks. These include underwriting principles and product pricing procedures;
> reinsurance, which is used to limit the Group's exposure to large single claims and catastrophes. When selecting a reinsurer, consideration is given to those companies that provide high security. In order to assess this, rating information from both public and private sources is used; and
> the mix of assets, which is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to ensure that there are sufficient interest bearing assets to match the guaranteed portion of liabilities. Hedging instruments are used at times to limit exposure to equity market and interest rate movements.

(b) Terms and conditions of long–term insurance business – South Africa and United States

The terms and conditions attaching to insurance contracts determine the level of insurance risk accepted by the Group. The following tables outline the general form of terms and conditions that apply to contracts sold in each category of business, and the nature of the risk incurred by the Group.

South Africa

Category	Essential terms	Main risks	Policyholder guarantees	Policyholder participation in investment return
Individual Life Flexi business with cover	Mortality/morbidity rates may be repriced (regular premium contracts)	Mortality, morbidity	Some investment performance, cover and annuity guarantees	Varies[1]
Conventional with cover	Charges fixed at inception and cannot be changed	Mortality, morbidity	Some investment performance and annuity guarantees	Varies[1]
Greenlight	Charges fixed at inception and cannot be changed for a specified term	Mortality, morbidity, expense	Rates fixed for a specified number of years	None
Group Schemes – funeral cover	Charges fixed at inception and cannot be changed for a specified number of years	Mortality including HIV/AIDS, expense	Rates fixed for a specified number of years	None
Employee Benefits – Group Assurance	Rates are annually renewable	Mortality, morbidity	No significant guarantees, except for PHI claims in payment for which benefit payment schedule is guaranteed	None
Non–profit annuity	Regular benefit payments guaranteed in return for consideration	Mortality, investment	Benefit payment schedule is guaranteed	None
With–profit annuity	Regular benefit payments participating in profits in return for consideration	Investment	Underlying pricing interest rate is guaranteed. Declared bonuses cannot be reduced	Yes

1 The extent of the Group's discretion as to the allocation of investment return to policyholders varies based on the type of contract. Where the contracts are pure risk type, there is no sharing of investment returns. For other contracts, investment return is attributed to the policyholder. Declared bonuses may be either vesting and/or non–vesting (in which case they can be removed in adverse circumstances).

Smoothed bonus products constitute a significant proportion of the business. Particular attention is paid to ensuring that the declaration of bonuses is done in a responsible manner, such that sufficient reserves are retained for bonus smoothing purposes. Investment returns not distributed after deducting charges are credited to bonus smoothing reserves, which are used to support subsequent bonus declarations.

United States

Category	Essential terms	Main risks	Policyholder guarantees	Policyholder participation in investment return
Life term	Renewable term products offering coverage for level periods ranging from 1 to 30 years	Mortality, expense	Premium guarantees from 1 to 30 years, return of premium guarantees	None
Universal life	Flexible and fixed premium interest sensitive life insurance with cash value build up	Mortality, expense, investment	Secondary non–lapse guarantees (max of 15 years or to age 95); cost of insurance (mortality charge) guarantees	Yes, through the crediting rate
Equity indexed annuities	Single and flexible premium accumulation annuities with upside potential of equity indexed returns on their account value	Mortality, investment, hedging	Minimum caps, maximum spread guarantees, maximum spread, minimum interest guarantees	Yes, through the index
Fixed deferred annuities	Single and flexible premium accumulation annuities	Mortality, investment	Minimum guaranteed accumulation rates and annuitisation rates	Limited – crediting rates are reset at specified intervals
Equity indexed universal life	Flexible premium interest sensitive whole life products with upside potential of equity indexed returns on their account value and a fixed account option	Mortality, investment, hedging	Secondary non–lapse guarantees; cost of insurance (mortality charge) guarantees; minimum caps; maximum spread guarantees	Yes, through the index and crediting rates are reset at specified intervals

United States

Category	Essential terms	Main risks	Policyholder guarantees	Policyholder participation in investment return
Immediate (Payout) Annuities	Regular benefit payments guaranteed in return for consideration	Mortality, investment	Benefit payment schedule is guaranteed	None
Variable Annuities	Accumulation annuities with policyholder investments in separate accounts and a fixed account option	Mortality, investment, hedging	Minimum guaranteed death benefit and minimum guaranteed accumulation benefit which may include a minimum rate of return or waiver of surrender charges	Yes, through separate Accounts and crediting rates are reset at specified intervals

In addition to the specific risks identified above, the Group is subject to the risk that policyholders discontinue the insurance policy, through lapse or surrender.

(c) Management of insurance risks – long–term business

The table below summarises the variety of risks to which the Group's long–term insurance business is exposed, and the methods by which the Group seeks to mitigate these risks.

Risk	Definition	Risk management
Underwriting	Misalignment of policyholders to the appropriate pricing basis or impact of anti–selection, resulting in a loss	Experience is closely monitored. For universal life business, mortality rates can be reset. Underwriting limits, health requirements, spread of risks and training of underwriters all mitigate the risk.
HIV/AIDS	Impact of HIV/AIDS on mortality rates and critical illness cover	Impact of HIV/AIDS is mitigated wherever possible by writing products that allow for repricing on a regular basis or are priced to allow for the expected effects of HIV/AIDS. Tests for HIV/AIDS and other tests for lives insured above certain values are conducted. A negative test result is a prerequisite for acceptance at standard rates.
Medical developments	Possible increase in annuity costs due to policyholders living longer	For non–profit annuities, improvements to mortality are allowed for in pricing and valuation. Experience is closely monitored. For with–profit annuity business, the mortality risk is carried by policyholders and any mortality profit or loss is reflected in the bonuses declared.
Changing financial market conditions	Lower swap curves and higher volatilities cause investment guarantee reserves to increase.	A discretionary margin is added to the value of guarantees, determined on a market–consistent stochastic basis and included in current reserves. A partial hedge is in place (South Africa). Fewer and lower guarantees are typically provided on new business (South Africa). Certain guarantees are reinsured (United States).

Policyholder behaviour	Selection of more expensive options, or lapse and re–entry when premium rates are falling, or termination of policy, which may cause the sale of assets at inopportune times	Experience is closely monitored, and policyholder behaviour is allowed for in pricing and valuation.
Catastrophe	Natural and non–natural disasters, including war/terrorism, could result in increased mortality risk and payouts on policies	Catastrophe stop loss/excess of loss reinsurance treaty in place which covers claims from one incident occurring within a specified period between a range of specified limits.
Policy lapse	A policyholder option to terminate the policy, which may cause the sale of assets at inopportune times. This creates the risk of capital losses and/or reinvestment risk if market yields have decreased	Experience is closely monitored, and policyholder behaviour is allowed for in pricing and valuation.

Many of the above risks are concentrated, either geographically (in the case of catastrophe) or by line of business (for example, medical developments, HIV/AIDS). The Group, through diversification in the types of business it writes and its geographic spread, attempts to mitigate this concentration of risk. See "Segment Analysis", in the preceding section, for illustration of this.

(d) Sensitivity analysis – long–term business

Changes in key assumptions used to value insurance contracts would result in increases or decreases to the insurance contract liabilities recorded, with a corresponding impact on profit/(loss) and/or shareholders' equity. The effect of a change in assumption is mitigated by the following factors:

> offset (partial or full) through Deferred Acquisition Costs (DAC) amortisation in the case of US business;
> the effect of locked–in assumptions for payout annuities and term insurance under US GAAP accounting, where assumptions underlying the insurance contract liabilities are not changed until liabilities are not adequate after reflecting current best estimates; and
> offset to the bonus stabilisation reserve in the case of mortality assumption changes for with–profit annuity business in South Africa.

The impact on Group equity resulting from a change in insurance contract liabilities or DAC balances at 31 December 2008 for long–term business has been estimated as follows (negative impact shown as positive figure):

Assumption	% Change	£m South Africa	£m US
Mortality and morbidity rates – assurance	+10	187	11
Mortality rates – annuities	–10	41	(3)
Discontinuance rates	+10	(9)	23
Expenses (maintenance)	+10	50	23

The insurance contract liabilities recorded for the South African business are also impacted by the valuation discount rate assumed. Lowering this rate by 1 per cent would result in a net increase to the insurance contract liabilities, and decrease to profit, of £66 million (2007: £41 million). There is no impact for the US businesses as the valuation rate is locked–in.

South Africa

The changes in insurance contract liabilities shown are calculated using the specified increase or decrease to the rates, with no change in charges paid by policyholders.

The valuation interest rate sensitivity reflects a change in the valuation interest rates without any corresponding change in investment returns or in the expense inflation rate. It should be noted that where the assets and liabilities of a product are closely matched (e.g. non–profit annuity business), the net effect has been shown since the assets and liabilities move in parallel.

United States

The assumption changes have relatively little impact on the US net IFRS insurance contract liabilities or DAC on life and immediate annuities, as assumptions are generally locked in. For universal life and deferred annuities, assumptions supporting the Present Value Future Profits (PVFP)/ Deferred Acquisition Costs (DAC) amortisation are periodically updated for actual experience. Each of these assumption changes would trigger a DAC unlocking. The assumption changes specified do not approach the levels necessary to trigger a change in liabilities or DAC.

(e) Guarantees and options – long–term business

Many of the insurance contracts issued by the Group contain guarantees and options to policyholders, the ultimate liability for which will depend significantly on the number of policyholders exercising their options and on market and investment conditions applying at that time.

South Africa

Certain life assurance contracts include the payment of guaranteed values to policyholders on maturity, death, disability or survival. The published liabilities include the provision for both the intrinsic and time–value of the options and guarantees. The time–value of options and guarantees has been valued using a market–consistent stochastic asset model that is in keeping with the applicable professional guidance notes issued by the Actuarial Society of South Africa (ASSA), PGN 110 in particular. The options and guarantees that could have a material effect on the amount, timing and uncertainty of future cash flows are described below.

Product category	Description of options and guarantees
Individual business	
Death, disability, point and/or maturity guarantees	A closed block of unit–linked type and smoothed bonus business with an underlying minimum growth rate guarantee (4.28 per cent per annum for life and endowment business and 4.78 per cent per annum for retirement annuity business), and smoothed bonus business with vested bonuses, applicable when calculating death,disability and maturity claims. A small block of smoothed bonus savings business in Group Schemes that has death guarantees of premiums (net of fees) plus 4.25 per cent per annum investment return.
Guaranteed annuity options	Retirement annuities sold prior to June 1997 contain guaranteed annuity options, whereby the policyholder has an option to exchange the full retirement proceeds for a minimum level of annuity income at maturity.
Group business	
Vested bonuses in respect of pre–retirement with–profits business	There is a significant pre–retirement savings smoothed bonus portfolio. Vested bonuses affect the calculation of benefit payments when a member exits from the scheme as the face value is paid out. If, however, a scheme terminates, the lower of face and market value is paid out and the vested bonuses are not guaranteed.

United States

Product category	Description of options and guarantees	Required shock to bring out–of–the–money policies in–the–money
Death, disability, surrender point and/or maturity guarantees	Crediting rates declared for the fixed deferred annuity block of business vest fully. They are subject to a minimum crediting rate which is specified in the contract. Minimum surrender values are determined by this rate.	24% of policies are currently in–the–money and being credited the minimum rate. A 300 basis points drop in interest rates would bring 79% of policies in–the–money.
	Equity indexed annuities offer minimum crediting rates on the fixed portion of the product, minimum surrender values based on this and credit equity participation annually as a percentage of equity growth subject to a maximum %. This equity participation, which is subject to a minimum of 0% therefore vests annually.	The minimum surrender values of 17% of policies are currently in–the–money. A year of flat equity markets with no equity credits would bring an additional 24% in–the–money. Two years of no equity credits would result in 26% of the portfolio being in–the–money. The equity exposure is hedged using a hedging strategy.
	The variable annuities offered to off–shore customers through Old Mutual Bermuda can offer minimum death benefit guarantees. Death benefits are subject to a minimum of the sum invested or value at any anniversary date if greater. A minimum guaranteed account value on maturity, and at certain points in time, is also available on most policies (the most common being 5 and 10 year guarantees).	The minimum death benefit on 96.6% of policies is currently in–the–money. These risks are hedged. The minimum accumulation benefit on 92.3% of policies is currently in the money.
	The universal life policies specify a minimum crediting rate to accumulate account balances.	The minimum rate is currently being credited on 77% of the block.
Guaranteed annuity options	All deferred annuities offer a guaranteed annuitization option on maturity. The rates are set conservatively and typically have very low utilisation as customers in the United States value the choice inherent in a lump–sum payment.	The extent to which the policies are currently in–the–money is negligible.
No–lapse guarantees	Certain universal life contracts contain a feature that guarantees that the contract will continue, even if values would otherwise be insufficient, provided the customer has paid at least a stated amount of premium.	17% of policies are currently in–the–money. This risk is reinsured.

(f) General insurance risks and sensitivities

Mutual & Federal writes the following types of business within its commercial, risk finance and personal divisions:

	Commercial	Risk finance	Personal
Fire	✓	✓	✓
Accident	✓	✓	✓
Personal accident	✓	✓	✓
Motor	✓	✓	✓
Engineering	✓	×	×
Crop	✓	×	×
Marine	✓	×	✓
Credit	✓	×	✓

Underwriting guidelines are designed to ensure that underwritten risks are well diversified, and that terms and conditions, including premium rates, appropriately reflect the risk.

Reinsurance plays an extremely important role in the management of risk and exposure at Mutual & Federal. The Group makes use of a combination of proportional and non–proportional reinsurance to limit the impact of both individual and event losses and to provide insurance capacity.

Involvement in any property catastrophe loss is limited to approximately £5 million for any one event and the level of catastrophe cover purchased is based on estimated maximum loss scenarios, in keeping with accepted market norms. (Provisional: This is based on a limit of R75m for one event at an estimated exchange rate of R15 to the pound)

General insurance risk includes the following risks:

> occurrence risk – the possibility that the number of insured events will differ from those expected;
> severity risk – the possibility that the costs of the events will differ from those expected; and
> development risk – the possibility that changes may occur in the amount of an insurer's obligation at the end of a contract period.

An increase of 10 per cent in the average cost of claims would require the recognition of an additional loss of £37 million (£32 million net of reinsurance). Similarly, an increase of 10 per cent in the ultimate number of claims would result in an additional loss of £37 million (£32 million net of reinsurance).

The majority of the Group's general insurance contracts are classified as 'short–tailed', meaning that any claim is settled within a year after the loss date. This contrasts with the 'long–tailed' classes where the claims costs take longer to materialise and settle. The Group's long–tailed business is generally limited to personal accident, third party motor liability and some engineering classes. In total the long–tail business comprises less than 5 per cent of an average year's claim costs.

5.5 Fiduciary activities

The Group provides custody, trustee, corporate administration, and investment management and advisory services to third parties that involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of misadministration or under–performance. Total funds under management are disclosed in note 3(v).

6. Accounting policies

6.1 Insurance and investment contracts

Long-term business

(i) Classification of contracts

Contracts sold as long-term business (with the exception of unit-linked assurance contracts) are categorised into insurance contracts, contracts with a discretionary participation feature or investment contracts in accordance with the classification criteria set out in the following paragraphs.

For the Group's unit-linked assurance business, contracts are separated into an insurance component and an investment component (known as 'unbundling'), and each unbundled component is accounted for separately in accordance with the accounting policy for that component.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant are classified as investment contracts.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is risk other than financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, security index, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts with a discretionary participating feature are those under which the policyholder holds a contractual right to receive additional payments as a supplement to guaranteed minimum payments. These additional payments, the amount or timing of which is at the Group's discretion, represent a significant portion of the total contractual payments and are contractually based on (1) the performance of a specified pool of contracts or a specified type of contract, (2) realised and/or unrealised investment returns on a specified pool of assets held by the Group or (3) the profit or loss of the Group. Investment contracts with discretionary participating features are accounted for in the same manner as insurance contracts.

(ii) Premiums on long-term insurance

Premiums and annuity considerations receivable under insurance contracts and investment contracts with a discretionary participating feature are stated gross of commission, and exclude taxes and levies. Premiums in respect of linked insurance contracts are recognised when the liability is established. Premiums in respect of other insurance contracts and investment contracts with a discretionary participation feature are recognised when due for payment.

Outward reinsurance premiums are recognised when due for payment.

Amounts received under investment contracts other than those with a discretionary participating feature are recorded as deposits and credited directly to investment contract liabilities.

(iii) Revenue on investment management service contracts

Fees charged for investment management services provided in conjunction with an investment contract are recognised as revenue as the services are provided. Initial fees, which exceed the level of recurring fees and relate to the future provision of services are deferred and amortised over the anticipated period in which services will be provided. Fees charged for investment management service contracts in our asset management businesses are also recognised on this basis.

(iv) Claims paid on long-term insurance

Claims paid under insurance contracts and investment contracts with a discretionary participating feature include maturities, annuities, surrenders, death and disability payments.

Maturity and annuity claims are recorded as they fall due for payment. Death and disability claims and surrenders are accounted for when notified.

Reinsurance recoveries are accounted for in the same period as the related claim.

Amounts paid under investment contracts other than those with a discretionary participating feature are recorded as deductions from investment contract liabilities.

(v) Insurance contract provisions

Insurance contract provisions for African businesses have been computed using a gross premium valuation method. Provisions in respect of African business have been made in accordance with the Financial Soundness Valuation basis as set out in the guidelines issued by the Actuarial Society of South Africa in Professional Guidance Note (PGN) 104 (2001). Under this guideline, provisions are valued using realistic expectations of future experience, with margins for prudence and deferral of profit emergence.

Provisions for investment contracts with a discretionary participating feature are also computed using the gross premium valuation method in accordance with the Financial Soundness Valuation basis. Surplus allocated to policyholders but not yet distributed (i.e. bonus smoothing reserve) related to these contracts is included as a provision.

For the US business, the insurance contract provisions are calculated using the net premium method, based on assumptions as to investment yields, mortality, withdrawals and policyholder dividends. For the term life products, the assumptions are set at the time the contracts are issued, whereas the assumptions are updated annually, based on experience for the annuity products.

Universal life and deferred annuity reserves are computed on the retrospective deposit method, which produces reserves equal to the cash value of the contracts.

Reserves on immediate annuities and guaranteed payments are computed on the prospective deposit method, which produces reserves equal to the present value of future benefit payments.

For other territories, the valuation bases adopted are in accordance with local actuarial practices and methodologies.

Derivatives embedded in an insurance contract are not separated and measured at fair value if the embedded derivative itself qualifies for recognition as an insurance contract. In this case the entire contract is measured as described above.

The Group performs liability adequacy testing on its insurance liabilities to ensure that the carrying amount of its liabilities (less related deferred acquisition costs and intangible assets) is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the Group discounts all contractual cash flows and compares this amount to the carrying value of the liability at discount rates appropriate to the business in question. Where a shortfall is identified, an additional provision is made.

The provision estimation techniques and assumptions are periodically reviewed, with any changes in estimates reflected in the income statement as they occur.

Whilst the directors consider that the gross insurance contract provisions and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amount provided.

The Group applies shadow accounting in relation to certain insurance contract provisions in the South Africa long-term business, and DAC and PVIF assets in the United States long-term business, in respect of owner occupied properties or available-for-sale financial assets, in order for recognised unrealised gains or losses on those assets to affect the measurement of the insurance contract provisions, DAC or PVIF assets in the same way that recognised realised gains or losses do.

In respect of the South Africa long-term business, shadow accounting is applied to insurance contract provisions where the underlying measurement of the policyholder liability depends directly on the value of owner-occupied property and the unrealised gains and losses on such property, which are recognised in equity. The shadow accounting adjustment to insurance contract provisions is recognised in equity to the extent that the unrealised gains or losses on owner-occupied property backing insurance contract provisions are also recognised directly in equity.

In respect of the United States long-term business, shadow accounting adjustments are made to the amortisation of DAC and PVIF assets in respect of unrealised gains and losses on available-for-sale financial assets to the extent that those unrealised gains and losses would impact the calculation of DAC or PVIF amortisation were they recognised in income. The shadow DAC and PVIF amortisation charge is recognised in equity in line with the unrealised gains and losses on the relevant financial assets until such time as those assets are sold or otherwise disposed of, at which point the accumulated amortisation recognised in equity is recycled to the income statement in the same way as the unrealised gains or losses on those financial assets.

Financial guarantee contracts are recognised as insurance contracts. Liability adequacy testing is performed to ensure that the carrying amount of the liability for financial guarantee contracts is sufficient.

(vi) Investment contract liabilities

Investment contract liabilities in respect of the Group's US long-term non-linked business are measured at fair value. Investment contract liabilities for non-linked business in the Group's other territories are measured at fair value, determined by reference to the fair value of the underlying assets.

For linked liabilities, including the deposit component of unbundled unit-linked assurance contracts, fair value is calculated as the account balance, which is the value of the units allocated to the policyholder, based on the bid price of the assets in the underlying fund (adjusted for tax).

Investment contract liabilities measured at fair value are subject to a "deposit floor" such that the liability established cannot be less than the amount repayable on demand.

Derivatives embedded in investment contracts are separated and measured at fair value, when their risks and characteristics are not closely related to those of the host contract and the host contract liability is calculated on an amortised cost basis.

(vii) Acquisition costs

Acquisition costs for insurance contracts comprise all direct and indirect costs arising from the sale of insurance contracts.

As the gross premium valuation method used in African territories to determine insurance contract provisions makes implicit allowance for the deferral of acquisition costs, no explicit deferred acquisition cost asset is recognised in the balance sheet for the contracts issued in these areas.

For the US life insurance business, an explicit deferred acquisition cost asset is established in the balance sheet. Deferred acquisition costs are amortised over the period that profits on the related insurance policies are expected to emerge. Acquisition costs are deferred to the extent that they are deemed recoverable from available future profit margins.

Deferral of costs on insurance business in other territories is limited to the extent that they are deemed recoverable from available future margins.

(viii) Costs incurred in acquiring investment management service contracts

Incremental costs that are directly attributable to securing an investment management service contract are recognised as an asset if they can be identified separately and measured reliably and it is probable that they will be recovered. Deferred acquisition costs represent the contractual right to benefit from providing investment management services and are amortised as the related revenue is recognised. Costs attributable to investment management service contracts in the asset management businesses are also recognised on this basis.

General insurance business

All classes of general insurance business are accounted for on an annual basis.

(ix) Premiums on general insurance

Premiums stated gross of commissions exclude taxes and levies and are accounted for in the period in which the risk commences. The proportion of the premiums written relating to periods of risk after the balance sheet date is carried forward to subsequent accounting periods as unearned premiums, so that earned premiums relate to risks carried during the accounting period.

Outward reinsurance premiums are accounted for in the same accounting period as the premiums for the related direct insurance.

(x) Claims on general insurance

Claims incurred comprise the settlement and handling costs of paid and outstanding claims arising during the year and adjustments to prior year claim provisions. Outstanding claims comprise claims incurred up to, but not paid, at the end of the accounting period, whether reported or not.

Outstanding claims do not include any provision for possible future claims where the claims arise under contracts not in existence at the balance sheet date.

The Group performs liability adequacy testing on its claim liabilities to ensure that the carrying amount of its liabilities (less related deferred acquisition costs and the unearned premium reserve) is sufficient in view of estimated future cash flows.

Whilst the directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events, and may result in significant adjustments to the amount provided. Adjustments to the amounts of claims provisions established in prior years are reflected in the financial statements for the period in which the adjustments are made, and disclosed separately if material. The methods used and estimates made are reviewed regularly.

(xi) Acquisition costs on general insurance

Acquisition costs, which represent commission and other related expenses, are deferred and amortised over the period in which the related premiums are earned.

(xii) Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets. Rights under contracts that do not transfer significant insurance risk are accounted for as financial instruments.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. For general insurance business, reinsurance premiums are expensed over the period that the reinsurance cover is provided based on the expected pattern of the reinsured risks. The unexpensed portion of ceded reinsurance premiums is included in reinsurance assets.

The net amounts paid to a reinsurer at the inception of a contract may be less than the reinsurance assets recognised by the Group in respect of its rights under such contracts. Any difference between the premium due to the reinsurer and the reinsurance asset recognised is included in the income statement in the period in which the reinsurance premium is due.

The amounts recognised as reinsurance assets are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts. Reinsurance assets include recoveries due from reinsurance companies in respect of claims paid.

Reinsurance assets are assessed for impairment at each balance sheet date. An asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

6.2 Financial instruments

(i) Recognition and de-recognition

A financial asset or liability is recognised when, and only when, the Group becomes a party to the contractual provisions of the financial instrument.
The Group de-recognises a financial asset when, and only when:

> The contractual rights to the cash flows arising from the financial assets have expired or been forfeited by the Group; or
> It transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
> It transfers and no longer controls the financial asset, regardless of whether it has retained or transferred substantially all the risks and rewards of ownership.

A financial liability is de-recognised when and only when the liability is extinguished, that is, when the obligation specified in the contract is discharged, assigned, cancelled or has expired.

The difference between the carrying amount of a financial liability (or part thereof) extinguished or transferred to another party and consideration received, including any non-cash assets transferred or liabilities assumed, is recognised in the income statement.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. Otherwise such transactions are treated as derivatives until settlement occurs. Loans and receivables are recognised (at fair value plus attributable transaction costs) when cash is advanced to borrowers.

(ii) Initial measurement

Financial instruments are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through the income statement, transaction costs that are directly attributable to the acquisition or issue of the financial asset of financial liability.

Where the transaction price of a financial instrument in a non-active market is different to the fair value from other observable current market transactions in the same instrument, or based on a valuation technique whose variables include only data from observable markets, the Group defers such differences (day-one gains or losses). Day-one gains or losses are amortised on a straight-line basis over the life of the instrument. To the extent that the inputs determining the fair value of the instrument become observable, or when the instrument is de-recognised, day-one gains or losses are recognised immediately in the income statement.

(iii) Derivative financial instruments

Derivative financial instruments are recognised in the balance sheet at fair value. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Changes in the fair value of derivatives not designated as hedges for hedge accounting purposes are included in investment income or finance costs as appropriate.

(iv) Hedge accounting

Qualifying hedging instruments must either be derivative financial instruments or non derivative financial instruments used to hedge the risk of changes in foreign currency exchange rates, changes in fair value or changes in cash flows. Changes in the value of the financial instrument should be expected to offset changes in the fair value or cash flows of the underlying hedged item.

The Group designates certain qualifying hedging instruments as either (1) a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment (fair value hedge); (2) a hedge of a future cash flow attributable to a recognised asset or liability, or a forecasted transaction, and could affect profit or loss (cash flow hedge); or, (3) a hedge of a net investment in a foreign operation. Hedge accounting is used for qualifying hedging instruments designated in this way provided certain criteria are met.

The Group's criteria for a qualifying hedging instrument to be accounted for as a hedge include:

> Upfront formal documentation of the hedging instrument, hedged item or transaction, risk management objective and strategy, the nature of the risk being hedged and the effectiveness measurement methodology that will be applied is prepared before hedge accounting is adopted;
> The hedge is documented showing that it is expected to be highly effective in offsetting the changes in the fair value or cash flows attributable to the hedged risk, consistent with the risk management and strategy detailed in the upfront hedge documentation;
> The effectiveness of the hedge can be reliably measured;
> The hedge is assessed and determined to have been highly effective on an ongoing basis; and
> For cash flow hedges of a forecast transaction, an assessment that it is highly probable that the hedged transaction will occur and will carry profit and loss risk.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that prove to be highly effective in relation to hedged risk, are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges or hedges of a net investment in a foreign operation and that prove to be highly effective in relation to the hedged risk are recognised in equity.

If the hedge no longer meets the criteria for hedge accounting, hedge accounting is discontinued prospectively. Any previous adjustment to the carrying amount of a hedged interest-bearing financial instrument carried at amortised cost, (as a result of previous hedge accounting), is amortised in the income statement from the date hedge accounting ceases, to the maturity date of the financial instrument, based on the effective interest method.

For hedges of a net investment in a foreign operation, any cumulative gains or losses recognised in equity are recognised in the income statement on disposal of the foreign operation.

(v) Embedded derivatives

Certain derivatives embedded in other financial and non-financial instruments (other than investment contracts), such as the conversion option in a convertible bond, are treated as separate derivatives and recognised as such on a stand alone basis, when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in the income statement. If it is not possible to determine the fair value of the embedded derivative, the entire hybrid instrument is categorised as fair value through the income statement and measured at fair value.

(vi) Offsetting financial instruments and related income

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Income and expense items are offset only to the extent that their related instruments have been offset in the balance sheet, with the exception of those relating to hedges, which are disclosed in accordance with the income statement effect of the hedged item.

(vii) Interest income and expense

Interest income and expense in relation to financial instruments carried at amortised cost or held as available-for-sale is recognised in the income statement using the effective interest method taking into account the expected timing and amount of cash flows. Interest income and expense include the amortisation of any discount or premium or other differences between the initial carrying amount of an interest-bearing instrument and its amount at maturity calculated on an effective interest basis.

Interest earned on financial assets carried at fair value through the income statement is presented as part of interest income.

(viii) Non-interest revenue

Non-interest revenue in respect of financial instruments principally comprises fees and commission and other operating income. These are accounted for as set out below:

Fees and commission income

Loan origination fees for loans that are probable of being drawn down, are deferred (together with related direct costs) and recognised as an adjustment to the effective yield on the loan. Fees and commission arising from negotiating, or participating in the negotiation of a transaction for a third party, such as the acquisition of loans, shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction.

Other

Revenue other than interest, fees and commission (including fees and insurance premiums), which includes exchange and securities trading income, dividends from investments and net gains on the sale of banking assets, is recognised in the income statement when the amount of revenue from the transaction or service can be measured reliably, it is probable that the economic benefits of the transaction or service will flow to the Group and the costs associated with the transaction or service can be measured reliably.

(ix) Financial assets

Financial assets (other than derivatives) are recorded as held-for-trading, designated as fair value through the income statement, loans and receivables, held-to-maturity or available-for-sale. An analysis of the Group's balance sheet, showing the categorisation of financial assets, together with financial liabilities is set out in note 31.

Held-for-trading financial assets

Held-for-trading financial assets are those that were either acquired for generating a profit from short-term fluctuations in price or dealer's margin, or are securities included in a portfolio in which a pattern of short-term profit taking exists, or are derivatives that are not designated as effective hedging instruments.

Financial assets designated as fair value through the income statement

Financial assets that the Group has elected to designate as fair value through the income statement are those where the treatment either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise when using a different measurement basis (for instance with respect to financial assets supporting insurance contract provisions) or are managed, evaluated and reported using a fair value basis (for instance financial assets supporting shareholder funds).

All financial assets carried at fair value through the income statement, whether held-for-trading or designated, are initially recognised at fair value and subsequently re-measured at fair value based on quoted bid prices. If quoted bid prices are unavailable the fair value of the financial asset is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the balance sheet date.

Realised and unrealised fair value gains and losses on all financial assets carried at fair value through the income statement are included in Investment return (non-banking) or in Banking trading, investment and similar income as appropriate.

Interest earned whilst holding financial assets at fair value through the income statement is reported within Investment return (non-banking) or Banking interest and similar income, as appropriate. Dividends receivable are included separately in dividend income, within Investment return (non-banking) or Banking trading, investment and similar income, when a dividend is declared.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those classified by the Group as fair value through income statement or available-for-sale. Loans and receivables are carried at amortised cost, less any impairment write-downs. Third party expenses such as legal fees incurred in securing a loan are treated as part of the cost of the transaction.

Held-to-maturity financial assets

Financial assets with fixed maturity dates which are quoted in an active market and where management has both the intent and the ability to hold the asset to maturity are classified as held-to-maturity. These assets are carried at amortised cost using the effective interest method, less any impairment write-downs. Interest earned on held-to-maturity financial assets is reported within Investment return (non-banking) or Banking interest and similar income, as appropriate.

Available-for-sale financial assets

Financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices other than those designated fair value through income statement or as loans and receivables are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of the purchase.

Available-for-sale financial assets are measured at fair value based on quoted bid prices. If quoted bid prices are unavailable or determined to be unreliable, the fair value of the financial asset is estimated using pricing models or discounted cash flow techniques. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the balance sheet date.

Unrealised gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in equity. When available-for-sale financial assets are disposed the related accumulated fair value adjustments are included in the income statement as gains and losses from available-for-sale financial assets. When available-for-sale assets are impaired the resulting loss is shown separately in the income statement as an impairment charge.

Interest earned on available-for-sale financial assets is reported within Investment return (non-banking) or Banking interest and similar income, as appropriate. Dividends receivable are included separately in dividend income, within Investment return (non-banking) or Banking trading, investment and similar income, as appropriate when a dividend is declared.

(x) Sale and repurchase agreements and lending of securities

Securities sold subject to linked repurchase agreements are retained in the financial statements as appropriate when considering the de-recognition criteria contained within IAS 39. The securities that are retained in the financial statements are reflected as trading or investment securities and the counterparty liability is included in amounts owed to other depositors, deposits from other banks, or other money market deposits, as appropriate. Securities purchased under agreements to resell at a pre-determined price are recorded as loans and advances to other banks or customers as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the lives of agreements using the effective interest method. Securities lent to counter parties are also retained in the financial statements and any interest earned recognised in the income statement using the effective interest method.

Securities borrowed are not recognised in the financial statements, unless these are sold to third parties, in which case the purchase and sale are recorded with the gain or loss included in trading income. The obligation to return them is recorded at fair value as a trading liability.

(xi) Impairments of financial assets

Loans and advances categorised as loans and receivables

A provision for impairment of loans and advances categorised as loans and receivables is established if there is objective evidence that the Group will not be able to collect all amounts due from the asset. The amount of the impairment is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the effective interest rate at inception.

The impairment provision also covers losses where there is objective evidence that losses are present in components of the loan portfolio at the balance sheet date, but these components have not yet been specifically identified. When a loan is uncollectable, it is written-off against the related impairment provision. Subsequent recoveries are credited to the income statement.

If the amount of impairment subsequently decreases due to an event occurring after the write-down, the release of the impairment provision is credited to the income statement. Impairment reversals are limited to what the carrying amount would have been, had no impairment losses been recognised.

Interest income on impaired loans and receivables is recognised on the impaired amount using the original effective interest rate before the impairment.

Other financial assets carried at amortised cost, and available-for-sale financial assets

Other financial assets are deemed to be impaired when there is objective evidence to suggest that one or more events has occurred subsequent to the initial recognition of the asset and that event(s) has an impact on the estimated future cash flows of the asset that can be reliably measured. The amount of the impairment loss for other financial assets carried at amortised cost is calculated as being the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the financial asset's original effective interest rate. The carrying amount, for assets classified as available-for-sale and measured at fair value, is the present

value of expected future cash flows discounted at the current market rate of interest for a similar financial asset. All such impairments are recognised in the income statement.

Where there is evidence of the reversal of the impairment of a financial asset held at amortised cost, the release of the impairment allowance is credited to the income statement. This is consistent with the initial recognition of impairment charges.

Where there is evidence of a reversal of the impairment of an available-for-sale financial asset the accounting presentation of the release of the corresponding impairment allowance depends on the type of instrument concerned. The release of an impairment allowance in respect of a debt instrument categorised as available-for-sale is credited to the income statement, the release in respect of an equity instrument categorised as available-for-sale is credited to the available-for-sale reserve within equity.

(xii) Financial liabilities (other than investment contracts)

Financial liabilities, including borrowed funds, amounts owed to depositors and liabilities under acceptances, are recorded as held-for-trading, designated as fair value through the income statement or as financial liabilities at amortised cost.

Liabilities that the Group has elected to designate as fair value through the income statement are those where the treatment either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise when using a different measurement basis and are managed, evaluated and reported using a fair value basis.

For financial liabilities recorded at fair value and which contain a demand feature, the fair value of the liability is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Financial liabilities categorised at amortised cost are recognised initially at fair value, which is normally represented by the transaction price, less directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are stated at amortised cost with any difference between cost and redemption value being recognised in the income statement over the period of the borrowings on an effective interest basis.

Conversion options included within financial liabilities are recorded separately in shareholders' equity. The Group does not recognise any change in the value of this option in subsequent periods. The remaining obligation to make future payments of principal and interest to bondholders is calculated using a market interest rate for an equivalent non-convertible bond and is presented on the amortised cost basis in other borrowed funds until extinguished on conversion or maturity of the bonds.

If the Group purchases its own debt, it is removed from the balance sheet and the difference between the carrying amount of a liability and the consideration paid is included in other income.

(xiii) Reclassifications of financial assets

A non-derivative financial asset that would have met the definition of loans and receivables at initial recognition that was required to be categorised as held-for-trading (on the basis that it was held for the purpose of selling or repurchasing in the near term) may be reclassified out of the fair value through income statement category if the Group intends and is able to hold the financial asset for the foreseeable future or until maturity. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. The fair value at the date of reclassification becomes its new cost or amortised cost, as applicable.

Other non-derivative financial assets that were required to be categorised as held-for-trading at initial recognition may be reclassified out of the fair value through income statement category in rare circumstances. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. Any gain or loss already recognised in profit or loss is not reversed. Measurement of the asset after reclassification depends on the subsequent categorization.

A non-derivative financial asset that would have met the definition of loans and receivables at initial recognition that was designated as available-for-sale may be reclassified out of the available-for-sale category to the loans and receivables category if it meets the loans and receivables definition at the date of reclassification and if the Group intends and is able to hold the financial asset for the foreseeable future or until maturity. If a financial asset is so reclassified, it is reclassified at its fair value on the date of reclassification. The fair value at the date of reclassification becomes its new cost or amortised cost, as applicable. In the case of a financial asset with a fixed maturity, the gain or loss already recognised in the available-for-sale reserve in equity is amortised to profit or loss over the remaining life using the effective interest method together with any difference between the new amortised cost and the maturity amount. In the case of a financial asset that does not have a fixed maturity, the gain or loss already recognised in the available-for-sale reserve in equity is recognised in profit or loss when the financial asset is sold or otherwise disposed of.

In accordance with the transitional provisions of the amendments, issued in October 2008 to IAS39 'Financial Instruments: Recognition and Measurement' relating to the reclassification of financial assets, certain qualifying financial assets held by the Group during the period up to and including 1 July 2008 have been reclassified as of that date and based on the fair value at that date. This represents a change of accounting policy in the current financial year. As the amendment applied from 1 July 2008, there were no retrospective changes to the financial statements.

Details of all reclassifications of financial assets in accordance with the above accounting policies are shown in note 31.

(xiv) Parent Company investments in subsidiary undertakings and associates

Parent Company investments in subsidiary undertakings and associates are recorded at cost. Impairments of Parent Company investments in subsidiary undertakings and associates are accounted for in the same way as impairments of other non-financial assets (see section 1(h)).

Report of KPMG Audit Plc to Old Mutual plc (“the Company”) on agreed procedures relating to information included in the Group Investments IFRS Disclosures from the 2008 Annual Report document (“the Disclosures Summary”)

In accordance with the agreed terms of engagement, we have completed those procedures which we have agreed with the directors of the Company relating to the information included in the Disclosures Summary.

The financial information set out in the Disclosures Summary is the responsibility of the Company’s directors. Our responsibility is to report to the Company the findings based on our work.

This report has been prepared solely for the Company and solely for the purpose of reporting our findings to the Company in connection with the preparation by the Company of the Disclosures Summary. We permit the publication of this report with the Company’s announcement of its annual results for the year ended 31 December 2008 (“the announcement”), to enable readers of the announcement to verify that a report on performance of the procedures set out below has been commissioned by the Company and issued by us.

Our report was designed to meet the agreed requirements of the Company determined by the Company’s needs at the time. Our report should not therefore be regarded as suitable to be used or relied on by any party wishing to acquire rights against us other than the Company for any purpose or in any context. Any party other than the Company who obtains access to our report or a copy and chooses to rely on our report (or any part of it) will do so at its own risk. To the fullest extent permitted by law, KPMG Audit Plc will accept no responsibility or liability in respect of our report to any other party.

The agreed procedure that we have performed does not constitute either an audit or a review and, as such, no assurance is expressed. Had we been engaged to perform and had performed additional procedures, an audit or a review, other matters might have come to light that would have been reported.

The agreed procedure that we performed was as follows:

- Compare the financial information in sections 1 to 6 in the Disclosures Summary with the audited group financial statements and related notes of the Company and its subsidiaries for the year ended 31 December 2008 to check whether it has been properly extracted from those financial statements.

As a result of our work we can report that, in respect of the agreed procedure that:

- The financial information in sections 1 to 6 in the Disclosures Summary has been properly extracted from the audited group financial statements and related notes of the Company for the year ended 31 December 2008.

Our findings related only to the Disclosures Summary and do not extend or apply to the rest of the announcement, nor to any financial statements of the Company or its subsidiaries which have been audited on a statutory basis and for a different purpose, as stated in the respective audit reports.

KPMG Audit Plc
Chartered Accountants
London, 4 March 2009