

# NEWS RELEASE

8 March 2011

Old Mutual plc

## Preliminary results for the year ended 31 December 2010

### Strong underlying results, one year into our three-year strategy

| <b>Financial Summary<sup>1</sup></b>                 | <b>2010</b>     | <b>2009<br/>(constant currency)</b> | <b>2009<br/>(as reported)</b> |
|--|-----------------|-------------------------------------|-------------------------------|
| Adjusted operating profit before tax (IFRS basis)*   | <b>£1,481m</b>  | £1,300m                             | £1,133m                       |
| Adjusted operating earnings per share (IFRS basis)** | <b>16.0p</b>    | 13.3p                               | 11.6p                         |
| Net client cash flows                                | <b>(£5.7bn)</b> | (£2.0bn)                            | (£1.8bn)                      |
| Funds under management                               | <b>£309.3bn</b> | £291.1bn                            | £275.4bn                      |
| Group ROE  | <b>12.2%</b>    |                                     | 9.1%                          |
| Adjusted MCEV per share                              | <b>202.2p</b>   |                                     | 171.0p                        |
| Total dividend for the year                          | <b>4.0p</b>     |                                     | 1.5p                          |

<sup>1</sup> All numbers refer to core continuing businesses and 2009 comparatives have been restated accordingly. Percentage movements below are shown on a constant currency basis.

### Profits up in each business unit<sup>1</sup>

- Adjusted operating profit before tax (IFRS basis) up 14%:
  - Strong growth in new business; continued focus on cost control
- EPS growth of 20%
- Long-Term Savings NCCF doubled during the year to £5 billion:
  - Emerging Markets positive overall; lower outflows from SA
  - Wealth Management NCCF up 56%
- APE sales up 7% to £1,491 million:
  - Continued momentum in sales on the UK platform, UK APE sales up 28%
  - South Africa APE sales up 7%, savings products up 10% with strong regular premiums growth in Retail Affluent
- Unit trust sales up 28% to £10.3 billion
- Headline earnings growth in Nedbank of 15%
- Funds under management up 6% from 31 December 2009

### Robust financial position

- FGD of £2.1 billion at 31 December 2010 (£1.5 billion at 31 December 2009)
- Adjusted MCEV 202.2p per share at 31 December 2010, up 18% (IFRS NAV: 151p per share)
- Board recommending a 2.9p final dividend for 2010 with a scrip alternative, making a total dividend for the year of 4.0p

### Committed to delivering the strategy

- Sale of US Life progressing with an anticipated close at or around the end of the first quarter of 2011.
- Good progress in delivering 2012 financial targets
- Run-rate cost savings of £59 million delivered to date against target of £100 million by 2012

### Julian Roberts, Group Chief Executive, commented:

*"This has been a substantially improved performance by Old Mutual in 2010, with operating profits significantly higher than last year. All our businesses have delivered increased underlying earnings and profits from our key Long-Term Savings division were up 26%.*

*"We have an attractive mix of businesses, with a strong franchise in high growth emerging markets and innovative business models in both developed and highly cash generative markets.*

*"We have made some significant operational progress and we expect 2011 to be a year of further delivery. We are committed to our three year strategy and meeting our stated operation targets"*

# Old Mutual plc

## Preliminary Results for the year ended 31 December 2010

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### Notes

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

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

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

### Cautionary statement

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

This announcement contains forward-looking statements with respect to certain of Old Mutual plc's plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond Old Mutual plc's control, including, among other things, UK domestic and global economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing and impact of other uncertainties or of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in territories where Old Mutual plc or its affiliates operate.

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

### Notes to Editors:

A webcast of the presentation and Q&A will be broadcast live at 9:00am (GMT), (10:00am (CET)/11:00am (South African time)) today on the Company's website [www.oldmutual.com](http://www.oldmutual.com). Analysts and investors who wish to participate in the call should dial the following numbers and quote the passcode 4868538:

UK/International +44 (0)20 7138 0844

US +1 212 444 0896

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Playback (available for 14 days from 8 March), using pass-code 4868538#:

UK/International +44 (0)20 7111 1244

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

A Financial Disclosure Supplement relating to the Company's Preliminary Results can be found on the website. This contains key financial data for 2010 and 2009.

### Foreign exchange rates

|               | GBP/ZAR exchange rates |                       | GBP/SEK exchange rates |                       | GBP/EUR exchange rates |                       | GBP/USD exchange rates |                       |
|---------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|------------------------|-----------------------|
|               | Average exchange rate  | Closing exchange rate | Average exchange rate  | Closing exchange rate | Average exchange rate  | Closing exchange rate | Average exchange rate  | Closing exchange rate |
| <b>FY2010</b> | <b>11.31</b>           | <b>10.28</b>          | <b>11.14</b>           | <b>10.42</b>          | <b>1.16</b>            | <b>1.16</b>           | <b>1.55</b>            | <b>1.55</b>           |
| FY2009        | 13.17                  | 11.92                 | 11.97                  | 11.56                 | 1.12                   | 1.13                  | 1.57                   | 1.61                  |

# Group Chief Executive's Review

## Review of Operations

### Introduction

Our operating results for 2010 are significantly ahead of the prior year results as reported with profits up in each of our businesses. This excellent performance was largely due to strong growth in new business sales, our continued focus on cost control, improved persistency and favourable exchange rates.

In addition to strong financial performance, we also focused on delivering our strategy and have made good progress in 2010. We have agreed to sell US Life, a business that was outside our Group risk and return profile, for \$350 million, resulting in an IFRS charge of £713 million. We are awaiting regulatory approval, and expect the transaction to close at or around the end of the first quarter of 2011. The next two years will see a continued single-minded focus to meet our strategic objectives.

The Group is in sound financial shape. At 31 December 2010 our FGD surplus was £2.1 billion and we had total liquidity headroom of £1.4 billion.

### Strategy Update

In 2010, we set out a new strategy for the Group. Our strategy is to build a long-term savings, protection and investment group by leveraging the strength of our people and capabilities in South Africa and around the world. Through the delivery of this strategy, we will drive our businesses to enhance value for both our customers and shareholders, increasing our international cash earnings and overall return on equity. During the year, we entered into exclusive negotiations to sell our shareholding in Nedbank, but these discussions did not conclude with a formal offer being made. In 2011, we will continue to work with Nedbank to build shareholder value.

We are now one year into a three-year process to deliver this strategy and are making significant operational progress. We are rationalising our activities over time, reducing the complexity of the Group and improving our structure as we manage our business with a disciplined approach to risk management, governance and allocation of capital. We have taken steps to simplify our Group by selling the US Life business, subject to regulatory clearance, and will continue to maintain our strict criteria for keeping businesses within the Group: they must meet our capital and risk targets; be capable of achieving a 15% return on equity; add value to other parts of the Group; and be capable of creating future value for shareholders.

We have previously said that we will explore the possibility of listing a minority of the US Asset Management business and this remains our intention. The timing of the IPO will be dependent on margin progression, investment performance and growth.

We have set challenging Group-wide performance targets for the end of 2012: reducing costs by £100 million; improving return on equity for our Long-Term Savings business to between 16% - 18%; and reducing debt by £1.5 billion through proceeds of rationalisation and retained earnings. We have already delivered £59 million of run-rate savings and are committed to deliver our debt reduction target. Return on equity for the LTS business was 18.5% at the year-end, as we benefited from positive, non-recurring items in both the Nordic and Wealth Management businesses. Plans are in place to ensure this performance is sustained within the target range.

We have implemented a new, more effective, governance and control system giving our businesses local autonomy but ensuring that they work within Group structures and disciplines, particularly on risk and product underwriting standards. This new approach has been implemented effectively and has resulted in the level of one-off operational losses reducing significantly across the Group in 2010. We continue to manage risk effectively and have tightly managed the US Life bond portfolio and our business in Bermuda.

We continue to assemble a strong management team, and recently appointed Peter Bain as CEO of US Asset Management, and Peter Todd as Managing Director of Mutual & Federal. These are key roles for the Group as we look to drive the growth of these businesses.

We are clear on our strategy and are committed to delivering it.

### Long-Term Savings (LTS)

Our LTS division delivered very strong results for the year with operating profits up 26% on a constant currency basis. This was driven by strong profit performance by all of the businesses within LTS. Life sales for the year were up 7% and unit trust sales were up 28% on a constant currency basis. Funds under management ("FUM") increased and margins improved.

We continued to strengthen the LTS management team and we appointed new CEOs to the Nordic business and the investment business in South Africa ("OMIGSA") as well as new heads of Product and IT, roles which are critical to leveraging our capability and delivering the strategy.

We made significant strides in implementing the LTS strategy in 2010. The business delivered run-rate savings of £44 million, against the targeted cost reduction of £75 million. This was primarily driven by Wealth Management which removed £35 million of costs in 2010 against its stated target of £45 million by 2012. We are seeking to leverage our IT and administration capabilities in South Africa to drive economies of scale and in December we opened a new office in Cape Town to provide customer service processing and IT support for Retail Europe's customers in Germany, Poland and Austria. Launching new and innovative products through easily accessible distribution channels is key to our aim of becoming our customers' most trusted partner. Whilst this work is still at an early stage, we introduced a number of new initiatives in 2010. OMSA and Mutual & Federal jointly developed a new short-term insurance product iWYZE for the retail mass market in South Africa. This product is distributed through traditional mass market models but also through digital channels and in the nine months since it launched, has already attracted nearly 5,000 customers. To date, iWYZE has also created approximately 150 new jobs in South Africa, primarily for young people.

Through our joint venture in India, Kotak Mahindra Old Mutual Life Insurance, we launched an online portal allowing customers to buy term insurance at a cheaper rate than through normal distribution channels. In Mexico, a unit-linked product was redesigned in conjunction with our team in South Africa and has since proved a key driver of our increased sales in the country. We also introduced a new Mass Retail distribution team into Mexico in December.

## LTS: Emerging Markets

In South Africa, our business delivered a strong performance with life sales up 7% and unit trust sales up 17%. There was a noticeable improvement in sales in the second half as interest rates were cut and as the economic environment in South Africa stabilised. We saw good sales growth in both the Retail Affluent and Mass Foundation segments, with a particular focus on savings products. The latest economic data is encouraging for the performance of the business in 2011.

We launched the Futuregrowth Agri-Fund focusing on responsible equity investments in agricultural land, agri-businesses and farming infrastructure. OMIGSA attracted more than R8 billion into social infrastructure investment. Responsible funds are an important part of our commitment to helping build South African infrastructure and increase jobs for all parts of society.

Mexico saw growth of 36% due to the introduction of a regular premium savings product in the first half of the year. In China, our joint venture with Guodian had a strong year with APE sales up 77% to CNY163 million in 2010, following a new channel diversification strategy.

We have set a target for our profits from our African insurance operations to be the equivalent of 10% of our South African profits by 2012, and 15% by 2015. To do this, we will leverage our experience and knowledge of the mass market sector in South Africa to grow our distribution channels through tied-agents and bancassurance and drive product development. We will also look to exploit new channels as they are established. For example, in Kenya we have seen initial success in distribution through mobile phones.

We see other opportunities for growth in Africa, but remain mindful of our strict criteria for investment and any expansion must be within appropriate risk-adjusted returns.

We have a solid foundation in South Africa from which we can drive growth in other emerging markets, and we are adapting our senior management structures, roles and responsibilities to achieve this. Our priorities for 2011 include growing our sales force; designing and adapting products for a wide range of customers; making it easier for our customers to access financial services and promoting a savings culture in the markets in which operate. We have confidence in the underlying business and are well-positioned to exploit business opportunities as the economies of the Emerging Markets grow.

## LTS: Nordic

The Nordic economies experienced positive GDP growth in 2010 and our Nordic business also had a good year, delivering a 66% uplift in profit. Life sales were down 21% on the prior year, in line with management expectations, following the closure of an unprofitable business line in 2009. Our Danish business grew strongly. FUM was up 14% on the prior year, mainly due to improved equity markets, which also contributed to strong growth in mutual funds, up 37%.

During 2010, the Nordic business focused on building distribution and product offerings, increasing efficiency and optimising its structures and risk frameworks. The management team was strengthened and a new CEO appointed.

2011 is a critical year for Nordic as it focuses on delivering its cost savings target of £10 million per annum. The cost of delivering these savings is likely to have a negative impact on the profitability of the business in the coming year. The management will continue to focus on driving sales, increasing margins and delivering an improved distribution and product offering for the future development of the businesses in a rapidly changing marketplace. The economic outlook for the year is positive across all the geographies and we expect the Nordic savings markets to grow, albeit in a more competitive and fragmented market environment.

## LTS: Retail Europe

Retail Europe delivered a very positive performance in 2010, in the context of GDP growth in all its markets. Equity markets were up, with the DAX showing a 16% gain for the year. Profits for Retail Europe were up 140% on the prior year, with APE sales up 7% and mutual funds flat. FUM was up 23%.

Retail Europe continued to focus on building an integrated organisation and reducing operating costs. As part of the focus on costs, IT and client administration services for Retail Europe are being transferred to South Africa. One-off costs associated with the transfer will impact profitability in 2011, before the benefits start to come through in 2012.

The uplift in sales was driven by new product launches in Germany, Poland and Switzerland. We also improved our marketing and sales drives to customers and built strong, more fruitful relationships with our distributors in 2010 and these proved to be significant drivers of the business' improved profits.

Macro-economic factors will continue to influence the business in 2011. Positive equity and bond market performances will raise consumer confidence although we expect there to be continued concern over unemployment levels. We have a programme of product innovation for the markets in Germany and Poland which should underpin growth in these attractive markets.

## LTS: Wealth Management

This has been a significant year for Wealth Management. APE sales were up 19%, and it delivered an 86% growth in profit, driven by delivery of £35 million of run-rate savings, against its 2012 target of £45 million.

Investor confidence was boosted by the return to growth in equity markets which led to increased funds under management in all of our businesses. In the UK, we saw a continuation of the trend of IFAs converting to platform sales, for both wrapped and unwrapped sales. This was particularly noticeable in the first half as IFAs moved large blocks of business onto our platform ahead of the tax year-end. Skandia's market share in the UK continued to grow, and at the end of the third quarter we had captured 7.4% of all industry channels, versus 6.4% in the fourth quarter in 2009. Skandia Investment Group's Spectrum risk-targeted funds had a successful year with funds under management at more than £750 million with the funds now available on all the major IFA platforms in the UK. SIG also provided the technical expertise to allow the Nordic business to launch its own risk-targeted funds, based on the Spectrum concept, into Sweden.

During 2011, Wealth Management will continue to focus on cost reduction, improving efficiency and meeting its 2012 targets, increasing risk controls and improving the functionality of the platform and the richness of the product offering. We are seeing an increasing demand from

# Group Chief Executive's Review

customers for products and services that are focused on their needs, are easy to understand and do not rely on heavy up-front commission to drive sales and with the forthcoming Retail Distribution Review, governments having to roll-back state retirement provision and the corresponding need for personal retirement savings, our Wealth Management business is well-placed to meet customer demand. We plan for the Platform to add to the profits of the Wealth Management business in 2012.

## Nedbank

Household finances improved in South Africa as debt started to reduce and interest rates eased to the lowest levels in 36 years. The recovery in the credit cycle has proved to be more modest compared to previous cycles. The ratio of household debt to disposable income reduced marginally and at the same time debt service levels decreased to 7.5% and are now at a level that is more conducive to improving economic growth in the consumer sector. In the corporate sector, excess capacity and uncertainty over the sustainability of the local and global recovery limited spending.

Nedbank showed solid earnings growth in a challenging economic environment. Headline earnings increased by 15% to R4,900 million, which was marginally ahead of the range guided at the third quarter trading statement, and non-interest revenue increased 11% to R13.2 billion. Net interest income increased 2% to R16.6 billion.

Nedbank's credit loss ratio improved to 1.36% for 2010, its liquidity position remains sound and its capital ratios remain above target levels. The Tier 1 capital adequacy ratio of 11.7% marginally improved from that at 31 December 2009, and the total capital adequacy ratio ended the period at 15.0%.

Nedbank is a strongly performing business and a significant contributor to the Group. We have a clear strategy for growth with the key thrusts being the repositioning of Nedbank retail, growing non-interest revenue, focusing on areas that yield higher economic profit and increased focus on the rest of Africa.

## Mutual & Federal

2010 was a good year for Mutual & Federal with profits up 27% and a strong underwriting performance following the cancellation of unprofitable business, a relatively benign claims environment and a greater focus on claims cost control.

During 2010, we introduced the step-change programme at M&F. Peter Todd has been appointed as Managing Director of M&F and will drive the delivery of the step-change programme over the next three years. The objectives of the programme are to embed profitable and sound underwriting; to develop better products; to be more customer-focused; grow our customer base by offering the right distribution models; and improve efficiency. As part of the step-change programme, we aim to improve profitability through growth in the direct and broker channels and through the reduction of claims costs and expenses. During the year, we entered the direct insurance channel via iWYZE, the joint initiative with OMSA. This is the first step in extracting greater value from M&F's position within the Old Mutual Group following the buy-out of minorities.

With its strong balance sheet and increased focus on alternative distribution channels, we are confident that we can grow revenue while improving our expense ratios.

## US Asset Management

USAM profits improved 4% over 2009 due primarily to higher average FUM. We saw net inflows into fixed income products, which were offset by outflows from equity, alternative and stable value products leading to an overall negative NCCF of \$18.0 billion. During the recent market dislocation, a number of our affiliates underperformed in certain of their strategies, but we are confident that they will deliver outperformance in time. Echo Point began operating as a USAM affiliate in October launching with \$1.7 billion funds under management in international growth equities.

Non-US clients represented more than a quarter of total funds under management and a key objective for us is to grow and diversify this base. We have expanded our global distribution through the hiring of new staff and we are expanding our distribution presence in the Middle East, resulting in US Asset Management now operating out of 13 countries. Growing the international element for US Asset Management is a priority for the business and we continue to work toward improving our margin with a target of 25-30% by the end of 2012 and improving investment performance.

Peter Bain has been appointed CEO of US Asset Management. Peter has a proven track record in growing a boutique asset management company and his appointment is a key milestone for the US Asset Management business as we look to grow the business.

We believe in our boutique model, with its 18 affiliates and 160 investment strategies. As investor confidence improves, and with our extensive diversified product portfolio including non-US equity exposure, we believe we have the opportunity to capture a share of these flows.

We continue to explore the possibility of a partial IPO by the end of 2012.

## Board changes

On 5 August 2010, Roger Marshall became a non-executive director. Mr Marshall replaced Richard Pym as Chairman of the Group Audit Committee. Mr Pym stepped down in August at the end of his three-year term.

On 3 November 2010, Alan Gillespie joined the Board as a non-executive director. Mr Gillespie will succeed Rudi Bogni as the Senior Independent Director when Mr Bogni retires at the Company's AGM in May 2011.

On 4 February 2011, Eva Castillo was appointed as a non-executive director of Old Mutual plc.

## Dividend

The Board has considered the position in respect of a final dividend for year ended 31 December 2010, and is recommending a final dividend of 2.9p per share (or its equivalent in other currencies). This makes a total dividend payment for the year of 4.0p compared to 1.5p in the previous year. A scrip alternative will be offered to eligible shareholders.

# Group Chief Executive's Review

## South African Empowerment

In South Africa in 2010, OMSA achieved and Nedbank maintained a Level 2 rating status and Mutual & Federal a Level 3 rating status as BBBEE contributors.

## Outlook

We have made some significant operational progress and we expect 2011 to be a year of further delivery. We are committed to our three-year strategy and meeting our stated operational targets.

## Julian Roberts

Group Chief Executive

8 March 2011

# Group Finance Director's Review

## GROUP RESULTS

Overview of FY 2010 results

| <b>Group Highlights (£m)<sup>1</sup></b>           | <b>FY 2010</b> | <b>FY 2009<br/>(constant<br/>currency)</b> | <b>% Change</b> | <b>FY 2009<br/>(as reported)</b> | <b>% Change</b> |
|--|----------------|--|-----------------|----------------------------------|-----------------|
| Adjusted operating profit (IFRS basis, pre-tax)    | <b>1,481</b>   | 1,300                                      | 14%             | 1,133                            | 31%             |
| Adjusted operating earnings per share (IFRS basis) | <b>16.0p</b>   | 13.3p                                      | 20%             | 11.6p                            | 38%             |
| Life assurance sales – APE basis                   | <b>1,491</b>   | 1,392                                      | 7%              | 1,312                            | 14%             |
| Unit trust/mutual fund sales                       | <b>10,305</b>  | 8,068                                      | 28%             | 7,567                            | 36%             |
| Return on equity*                                  | <b>12.2%</b>   |  |                 | 9.1%                             | 310bps          |
| Net client cash flows (£bn)                        | <b>(5.7)</b>   | (2.0)                                      | (185%)          | (1.8)                            | (217%)          |
| Funds under management (£bn)                       | <b>309.3</b>   | 291.1                                      | 6%              | 275.4                            | 12%             |
| Total dividend for the year                        | <b>4.0p</b>    | 1.5p                                       | 167%            | 1.5p                             | 167%            |

<sup>1</sup> The balances in the above table are in respect of core continuing businesses only and the 2009 comparatives have been restated accordingly.

\* ROE is calculated as IFRS AOP (post-tax) divided by average shareholders' equity of core businesses (excluding the perpetual preferred callable securities)

During the year to 31 December 2010 ("the year") Old Mutual showed a very strong improvement in results compared to the prior year. Adjusted Operating Profit ("AOP") earnings per share were 16.0p for 2010 compared to 11.6p for 2009. This was driven by improved operational performance across the Group and positive currency movements. Funds under management grew by 12% compared to the prior year, largely due to improved market conditions. Return on equity grew to 12.2%, primarily as a result of improved margins and favourable foreign exchange movements.

IFRS AOP on a pre-tax basis of £1,481 million for the year was £348 million higher than in the prior year. This was made up of £181 million (52%) due to improvement in trading results, and £167 million (48%) from the positive benefit of currency movements. On a constant currency basis, the AOP for 2009 was £1,300 million. Strong growth in new business sales, lower credit losses in banking, a close focus on overall cost control, improved persistency and higher profits in our general insurance business drove the underlying performance.

Net client cash flows ("NCCF") doubled in LTS to £5 billion, and were positive in all our European businesses and in our Retail South African businesses. This was offset by outflows in the Corporate and OMIGSA businesses in South Africa, and in certain affiliates of USAM. The NCCF contribution from Wealth Management was particularly strong, increasing by 56% to £3.9 billion largely from the UK Platform and Italy.

Funds under management increased to £309 billion although there were periods of substantial market movements in the year. Across all our principal equity markets, second quarter falls more than eclipsed first quarter rises. Markets steadily rose from August onwards, all recording their 2010 highs in the last week of the year. The JSE All Share index rose by 16% in the year, the FTSE rose by 9%, the S&P-500 by 13% and the Swedish SAX:OMX by 23%.

### Management Discussion and Analysis of Results for FY 2010

The principal businesses of the Group are the LTS division, Nedbank, Mutual & Federal and US Asset Management. During the period, Old Mutual owned on average 54% of Nedbank. At 31 December 2010 the market capitalisation of Nedbank was £6.2 billion. The results for each of the LTS businesses, Nedbank, Mutual & Federal and US Asset Management are discussed separately in the Business Review which follows this Report.

# Group Finance Director's Review

## Summary adjusted operating profit statement

| £m   | 12 months<br>ended 31 December<br>2010 | 12 months<br>ended 31 December<br>2009* | % Change   |
|--|--|---|------------|
| <b>Revenue</b>   |  |   |            |
| Net earned premiums  | 3,278                                  | 2,746                                   | 19%        |
| Investment return (non-banking)  | 10,585                                 | 10,903                                  | (3%)       |
| Banking interest and similar income  | 4,082                                  | 3,989                                   | 2%         |
| Fee & commissions  | 3,160                                  | 2,538                                   | 25%        |
| Other revenue  | 298                                    | 311                                     | (4%)       |
| <b>Total revenues</b>  | <b>21,403</b>                          | <b>20,487</b>                           | <b>4%</b>  |
| <b>Expenses</b>  |  |   |            |
| Net claims and benefits incurred   | (4,564)                                | (3,126)                                 | 46%        |
| Change in investment contract liabilities  | (6,899)                                | (8,341)                                 | (17%)      |
| Bank interest  | (2,500)                                | (2,627)                                 | (5%)       |
| Other expenses   | (5,966)                                | (5,262)                                 | 13%        |
| <b>Total expenses</b>  | <b>(19,929)</b>                        | <b>(19,356)</b>                         | <b>3%</b>  |
| Share of associated undertakings profit/(loss) after tax                         | 7                                      | 2                                       | 250%       |
| <b>Adjusted operating profit/(loss) before tax and non-controlling interests</b> | <b>1,481</b>                           | <b>1,133</b>                            | <b>31%</b> |

\* The year ended 31 December 2009 has been restated to reflect US Life as discontinued

The improvement in our AOP earnings was principally driven by increased income from rising markets, better underwriting performance in all our insurance businesses, growth in Nedbank's non-interest revenue stream, and the benefit of positive currency movements.

The 19% increase in net earned premiums reflected the growth in new business sales most notably in Emerging Markets, Mutual & Federal and Wealth Management. The majority of the fee and commission income growth arose in Wealth Management, largely attributable to the increase in FUM over the period, and in Nedbank, reflecting a growing customer base. Investment return is driven by dividend and interest income, and gains and losses on the fair value of investments and securities, a large proportion of which are held attributable to investment contract holders. The decline in investment return in the year broadly matches the corresponding movement in investment contract liabilities in Wealth Management and Nordic given the investment nature of the contracts written in those businesses. However, in Emerging Markets the increase in investment return is not closely matched by a similar change in investment contract liabilities due to its larger proportion of insurance type products, and because substantial shareholder capital is held in South Africa. Other expenses grew by 13% over the period, reflecting increased levels of new business written, FX movements (primarily the strengthening of the rand) and increased remuneration costs in South Africa.

Group net margin (measured as net profits earned on average assets) increased by 4.3 basis points over the period from 38.7bps to 43.0bps. Of this, the European LTS businesses generated 3.9 basis points as the uplift in profits significantly exceeded their average asset growth, and 0.3 basis points came from Emerging Markets where AOP grew at a marginally higher rate than growth in average assets, resulting in a small increase. The increase in profit from the non-LTS businesses resulted in a further 1.6 basis point increase, and the reduced LTIR contribution resulted in a decrease of 1.5 basis points.

### Operating profit analysis

| £m   | FY 2010      | FY 2009<br>(constant<br>currency) | % Change   | FY 2009*<br>(as reported) | % Change   |
|--|--------------|-----------------------------------|------------|---------------------------|------------|
| Long Term Savings                            | 897          | 713                               | 26%        | 636                       | 41%        |
| Nedbank                                      | 601          | 548                               | 10%        | 470                       | 28%        |
| Mutual & Federal                             | 103          | 81                                | 27%        | 70                        | 47%        |
| US Asset Management                          | 87           | 84                                | 4%         | 83                        | 5%         |
| Finance costs                                | (128)        | (104)                             | 23%        | (104)                     | 23%        |
| LTIR on excess assets                        | 31           | 91                                | (66%)      | 91                        | (66%)      |
| Interest payable to non-core operations      | (55)         | (40)                              | 38%        | (40)                      | 38%        |
| Interest receivable from non-core operations | 16           | 12                                | 33%        | 12                        | 33%        |
| Other net income and expenses                | (71)         | (85)                              | (16%)      | (85)                      | (16%)      |
| <b>Adjusted operating profit</b>             | <b>1,481</b> | <b>1,300</b>                      | <b>14%</b> | <b>1,133</b>              | <b>31%</b> |

\* The year ended 31 December 2009 has been restated to reflect US Life as discontinued

Finance costs increased mainly as a result of inclusion of a full year interest charge on the £500 million seven-year 7.125% fixed rate senior bond placed in October 2009. The interest payable to non-core operations reflects the interest payable on the loan note arrangement between Bermuda and Group following a change to the terms of the arrangement. The decline in other net income and expenses is mainly attributable to a stamp duty



## Group Finance Director's Review

reserve tax refund received in the first half of the year (£16 million) and higher dividend income (£5 million). Group costs for 2010 were £60 million (2009: £70 million).

### Long-term investment return (LTIR)

As anticipated, the LTIR on the shareholder assets decreased from £91 million to £31 million. This was a result of the 390 basis point reduction to 9.4% in the rate applied to shareholder assets within Emerging Markets. This reflected the expected return from the asset allocation of 25% equities and 75% cash in 2010. The LTIR rate in Mutual & Federal was similarly reduced by 390 basis points in 2010. The LTIR rate for Emerging Markets and Mutual & Federal has been further reduced in 2011 to 8.4% to reflect the prevailing low interest rate environment in South Africa.

### Reconciliation of Group AOP and IFRS profits

|   | <b>Year ended<br/>31 December<br/>2010</b> | <b>£m</b><br>Year ended<br>31 December<br>2009* |
|---|--|---|
| <b>Adjusted operating profit</b>                            | <b>1,481</b>                               | 1,133   |
| Adjusting items   | <b>(482)</b>                               | (973)   |
| Non-core operations – Bermuda                               | <b>(3)</b>                                 | 1   |
| <b>Profit before tax (net of policyholder tax)</b>          | <b>996</b>                                 | 161   |
| Income tax attributable to policyholder returns             | <b>149</b>                                 | 192   |
| <b>Profit before tax</b>                                    | <b>1,145</b>                               | 353   |
| Total income tax  | <b>(456)</b>                               | (400)   |
| Profit/(loss) from continuing operations after tax          | <b>689</b>                                 | (47)  |
| <b>Profit/(loss) from discontinued operations after tax</b> | <b>(713)</b>                               | (71)  |
| <b>Profit/(loss) after tax for the financial year</b>       | <b>(24)</b>                                | (118)   |
| <b>Other comprehensive income for the financial period</b>  | <b>1,151</b>                               | 1,228   |
| <b>Total comprehensive income for the financial period</b>  | <b>1,127</b>                               | 1,110   |
| Attributable to   |  |   |
| Equity holders of the parent                                | <b>594</b>                                 | 709   |
| Non-controlling interests                                   |  |   |
| Ordinary shares   | <b>428</b>                                 | 334   |
| Preferred securities  | <b>105</b>                                 | 67  |
| <b>Total comprehensive income for the financial period</b>  | <b>1,127</b>                               | 1,110   |

\* The year ended 31 December 2009 has been restated to reflect US Life as discontinued

The key adjusting items between our AOP and IFRS profits for the year are deductions of £214 million in respect of acquisition accounting (mainly the amortisation of acquired present value of in-force business), £83 million for short-term fluctuations in investment return (of which £71 million relates to the smoothing of previous years' deferred tax assets), and £203 million in respect of the impact of marking-to-market of Group debt, as the improvement in the external valuation of Group debt in the year negatively impacted profit after tax for the year. This reverses previous years' mark-to-market gains on Group debt. Other adjustments net to £18 million.

As previously reported, the prior year AOP results benefited from the structural tax efficiency applicable to UK companies writing unit-linked business in the UK, together with the smoothing of previous years' deferred tax assets. These assets arose during the significant market volatility of the preceding two years where falls in the value of policyholder assets resulted in the recognition of significant deferred tax assets in the IFRS income statement, which were spread forward under AOP. The pre-tax smoothing for 2010 gave rise to a profit of £71 million, a similar amount to 2009. For 2011, the pre-tax impact will be a profit of £27 million, falling to nil thereafter.

The profit on continuing operations of £689 million was offset by a loss on discontinued operations of £713 million, resulting from the impairment of the US Life business in anticipation of its sale at the terms agreed with the purchaser. The Group produced a loss after tax of £24 million on an IFRS basis. In addition to this the Group generated other comprehensive income of £1,151 million largely from favourable currency movements. There was therefore an increase in net assets of £1,127 million in the period.

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## Long-Term Savings

Key performance statistics for the LTS division are as follows:

|   | £m               |        |               |                   |        |
|---|------------------|--------|---------------|-------------------|--------|
| FY 2010   | Emerging Markets | Nordic | Retail Europe | Wealth Management | Total  |
| Life assurance sales (APE)                            | 487              | 201    | 69            | 734               | 1,491  |
| PVNB  | 3,269            | 1,104  | 513           | 6,380             | 11,266 |
| Value of new business                                 | 86               | 41     | 7             | 66                | 200    |
| Unit trust/mutual fund sales                          | 3,668            | 581    | 23            | 4,507             | 8,779  |
| NCCF (£bn)  | -                | 0.7    | 0.4           | 3.9               | 5.0    |
| FUM (£bn)   | 57               | 14     | 5             | 56                | 132    |
| Adjusted operating profit (IFRS basis) (pre-tax)      | 539              | 110    | 51            | 197               | 897    |
| Operating MCEV earnings (covered business) (post tax) | 344              | 45     | 66            | 112               | 567    |
| VNB + Exp Var/MCEV (covered business)                 | 4.7%             | 4.7%   | 2.2%          | 3.1%              | 4.1%   |

|   | £m               |        |               |                   |       |
|---|------------------|--------|---------------|-------------------|-------|
| FY 2009 (as reported*)                                | Emerging Markets | Nordic | Retail Europe | Wealth Management | Total |
| Life assurance sales (APE)                            | 393              | 235    | 67            | 617               | 1,312 |
| PVNB  | 2,834            | 1,150  | 537           | 5,042             | 9,563 |
| Value of new business                                 | 65               | 44     | (5)           | 49                | 153   |
| Unit trust/mutual fund sales                          | 2,765            | 393    | 24            | 3,210             | 6,392 |
| NCCF (£bn)  | (1.6)            | 1.0    | 0.5           | 2.5               | 2.4   |
| FUM (£bn)   | 44               | 11     | 4             | 47                | 106   |
| Adjusted operating profit (IFRS basis) (pre-tax)      | 446              | 62     | 22            | 106               | 636   |
| Operating MCEV earnings (covered business) (post tax) | 212              | 81     | (44)          | (4)               | 245   |
| VNB + Exp Var/MCEV (covered business)                 | 0.5%             | 7.5%   | (5.1%)        | 0.6%              | 1.3%  |

\* The year ended 31 December 2009 has been restated to reflect US Life as discontinued

LTS AOP earnings benefited from higher fees generated from positive net client cash flows particularly in Wealth Management, rising funds under management and the strengthening of the rand and Swedish krona against sterling. On a constant currency basis, earnings were up 26%.

The Emerging Markets business accounts for 60% of the LTS IFRS AOP earnings, 43% of LTS FUM, and 33% of LTS APE sales. This compares to 70% of restated AOP, 41% of FUM, and 30% of APE sales in 2009.

APE Sales increased by 14% for the LTS division as a whole, with the growth coming largely from the regular premium products in the Retail businesses of Emerging Markets, and Wealth Management single premium products, notably in the UK and Italy. A managed shift in business mix in Nordic was executed with sales decreasing from prior year levels. There was encouraging growth in both single and recurring premiums in Retail Europe. Sales for the second half of 2010 were ahead of the first half for Emerging Markets and Retail Europe, and evenly spread across the year in Nordic. Wealth Management sales were slightly higher in the first half of the year than the second given the usual seasonal weighting to the first quarter of the year, and the benefit of the short-term Italian tax shield.

Mutual fund sales were up by £2,387 million, with strong performance in Wealth Management and Emerging Markets particularly in the second half of the year.

Across LTS as a whole, new business APE margins have improved to 13% for 2010 (2009: 12%). This reflects the focus on selling more profitable products with better margins, notably in Nordic, and increased sales of a higher margin product in the first half of the year in Emerging Markets. The APE margin in Emerging Markets increased from 16% to 18%. In Nordic, the APE margin has increased from 19% to 21%, benefiting from the managed reduction of low margin product sales such as *Link regular*. In Retail Europe, the APE margin has improved considerably to 11% from a negative position in the comparative period. Across Wealth Management, the APE margin increased from 8% to 9%, with the UK increasing from 2% to 3%, and International from 18% to 19%. The most significant increase in APE margin was in respect of the Continental European markets, which increased from 3% to 8% as result of the increase in volumes in Italy. Sales of mutual funds, which make up the bulk of Wealth Management's sales, are not included in the APE margin. The IFRS operating margin rose to 38bps from 25bps for Wealth Management as a whole. For LTS as a whole the PVNB margin improved to 1.8% (2009: 1.6%).

The market-consistent value of new business (VNB) improved for all of our LTS businesses, with the exception of Nordic, where although the underlying margins of the business improved, the absolute value of new business fell as a result of the decline in new business volumes (due to the cessation of sales of an unprofitable recurring premium product) and changes in assumptions.

The LTS net client cash flows more than doubled as improvements in Wealth Management and Emerging Markets more than outweighed the lower net flows in Nordic given lower sales volumes. Funds under management for LTS at 31 December 2010 increased by 25% to £131.8 billion (31

# Group Finance Director's Review

December 2009: £105.5 billion) although there were periods of substantial market movements during the year, with notable falls in the second quarter and increases towards the end of the year.

The rand started the year at 11.92 against sterling, strengthening to 11.45 at 30 June 2010, and to 10.28 by 31 December 2010. The US dollar and Swedish krona also strengthened, although to a lesser degree, appreciating 4% and 10% respectively in the year. The average exchange rates to sterling over the year were 11.31 (2009: 13.17), 1.55 (2009: 1.57) and 11.14 (2009: 11.97) for the rand, US dollar and Swedish krona respectively. The cumulative effect of foreign exchange movements for LTS was an increase of £77 million on IFRS profitability.

Further discussion on the drivers for the movements within the individual LTS business units is given in the individual Business Reviews which follow this Review.

## Group cost savings and ROE and margin targets

At the 2009 Preliminary Results and Strategy Update, the Group introduced three-year cost saving and return on equity targets. The improvement in ROE has been driven by the achieved cost savings, and increased FUM resulting from strong growth in new business sales and positive market levels.

| ROE and margin targets         | FY 2010      | FY 2009          | External Target |
|--------------------------------|--------------|------------------|-----------------|
| Long Term Savings <sup>1</sup> |              |                  |                 |
| Emerging Markets               | 25%          | 23% <sup>2</sup> | 20%-25%         |
| Nordic                         | 11%          | 12%              | 12%-15%         |
| Retail Europe                  | 20%          | 9%               | 15%-18%         |
| Wealth Management              | 14%          | 8%               | 12%-15%         |
| <b>LTS<sup>3</sup> Total</b>   | <b>18.5%</b> | <b>14.8%</b>     | <b>16%-18%</b>  |
| USAM Operating Margin          | 18%          | 18%              | 25%-30%         |

1 ROE is calculated as IFRS AOP (post tax) divided by average shareholders' equity, excluding goodwill, PVIF and other acquired intangibles.

2 Within Emerging Markets, OMSA is calculated as return on allocated capital. Full year 2009 has been adjusted to the 2010 LTIR rate

3 Long-Term Savings 2009 restated from 14.9%.

We are in the process of delivering the reduction in the cost base of our businesses as announced in March 2010. Wealth Management have made good progress with £35 million of run-rate savings achieved to date against the 2012 target of £45 million. Retail Europe has achieved £6 million of run-rate savings as a result of reduced staff costs and centralisation of functions in Berlin. US Asset Management delivered around £15 million of actual savings in the year as a result of restructuring in 2009, and therefore on a run-rate basis, the business is already exceeding its target. Costs to achieve in 2010 totalled £45 million. Our focus in 2011 and 2012 will be on continued execution, particularly in Wealth Management, Nordic and Retail Europe, while maintaining the reductions we have achieved to date. The costs of executing the cost reduction process will restrict 2011 profits from these businesses. Nordic restructuring costs are anticipated to be approximately £30 million in 2011.

## Summary MCEV results

|  | p            |
|--|--------------|
| <b>Adjusted Group MCEV per share at 31 December 2009</b> | <b>171.0</b> |
| <b>Adjusted operating Group MCEV earnings per share</b>  | <b>15.5</b>  |
| Covered business   | 11.0         |
| Non-covered business                                     | 4.5          |
| <b>Below the line effects</b>                            | <b>15.7</b>  |
| Economic variances and other                             | 11.2         |
| Foreign exchange movements                               | 15.9         |
| Dividends to shareholders                                | (2.7)        |
| Nedbank market value adjustment                          | 1.7          |
| M&F dilution   | (7.1)        |
| BEE and ESOP adjustment                                  | 1.1          |
| Marking debt to market value                             | (4.4)        |
| <b>Adjusted Group MCEV per share at 31 December 2010</b> | <b>202.2</b> |

The adjusted Group MCEV increased 22% from £9.0 billion at 31 December 2009 to £11.0 billion at 31 December 2010. The adjusted Group MCEV per share increased by 18% (or 31.2p) from 171.0p to 202.2p over the same period.

The adjusted operating Group MCEV earnings per share increased by 4.8p from 10.7p for 2009 to 15.5p for 2010.

Non-covered business operating earnings per share, at 4.5p, were 3.2p higher for 2010 compared to the 2009 result of 1.3p, as a result of:

- Higher profits in the asset management businesses, arising from higher funds under management, and
- Higher sterling profits in the banking business due to greater fee income and lower bad debt charges.

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Covered business operating MCEV earnings of 11.0p were 1.6p higher in 2010 compared to 9.4p in 2009 as a result of:

- A strong turn-around in the contribution from experience variances, due to improved persistency experience relative to the assumption changes made at December 2009, and improved expense experience;
- Lower contribution from operating assumption changes, particularly for persistency and expenses; offset by
- A lower expected existing business contribution, mainly resulting from a reduction from the contribution made by US Life due to lower yields on the corporate bond portfolio at the start of 2010 compared to the start of 2009; and
- An adverse contribution from methodology changes and error corrections, (reflected as part of other operating variances).

The net risk-free return from investment in new business in LTS (calculated as VNB based on the risk-free return, divided by the free surplus invested in new business) has increased from 35p per £1 in 2009 to 48p per £1 in 2010, with all LTS businesses contributing to the improvement.

A substantial component of the increase in adjusted Group MCEV per share during 2010 was due to significant foreign exchange gains as a result of the strengthening of the rand, dollar and krona to sterling. The balance of the increase was due to the impact of economic variances (the increase in the equity markets and reductions in interest rates), and the expected existing business contribution from covered business. This is partially offset by the dilutionary effect of the M&F acquisition of minorities and the adjustment to mark the debt to market value.

The Mutual & Federal minority interests were acquired on 8 February 2010, in consideration for 147 million Old Mutual plc shares. This transaction diluted the adjusted Group MCEV per share by 7.1p as a result of a change of the basis of valuation of Mutual & Federal as an unlisted entity (reduction of 2.5p), and the additional shares issued as consideration to the Mutual & Federal minorities (reduction of 4.6p). Mutual & Federal is now incorporated in the adjusted Group MCEV at the IFRS net asset value (31 December 2010: £409 million). Previously it was included at the Group's share of the market value (31 December 2009: £448 million), which was higher than IFRS net asset value (31 December 2009: £265 million).

The MCEV methodology does not capitalise returns on assets in excess of the adjusted risk-free reference rates. For the US Life business, we have estimated that the present value of credit spreads not valued at December 2010 amounted to £593 million, compared to £571 million at December 2009. Taking this into account, we estimate that the value of US Life including an appropriate allowance for additional credit spreads (a proxy to the European Embedded Value basis) was £404 million at December 2010 compared to £253 million at December 2009.

## Risk management using Economic Capital and Market Consistent Embedded Value

The Group's current internal Economic Capital models form the basis of the Risk Appetite and limit-setting framework, which is applied on the basis of Market Consistent valuation methodologies and assumption setting processes. In this way the Group is able to ensure that Risk Appetite and exposures are derived with respect to a risk-neutral benchmark, which adds value by ensuring that the Group makes explicit decisions regarding risk assumption inherent in New Business and management of the in-force book. We believe that this disciplined approach facilitated better decision-making around risk assumption over the past year. The new Solvency II internal model builds on the work done under the current Economic Capital model, and will be used in future to generate benefit in respect of making decisions which formally quantify potential investment and market risk exposures, hence support better informed decision-making.

## Free surplus generation

The Group generated £759 million of free surplus in the period (2009: £434 million), of which £503 million (2009: £581 million) was generated by the LTS division. £519 million (2009: £249 million) of the £759 million was generated from covered business (which includes US Life and Bermuda). We anticipate that the value of our in-force business will generate £3 billion of free surplus from the covered business over the next five years. Free surplus generated from the in-force business is used to cover investment in new business, to pay dividends, and to provide free cashflow to the Group.

## Sources and uses of free surplus

Gross inflows from core and continuing operations were £1,016 million (2009: £1,064 million), and new business spend was £419 million (2009: £438 million). Total net free surplus generated of £645 million was lower than the £782 million in 2009 due to cash costs of restructuring in 2010 and the acceleration of cash flow in respect of the VIF financing for Skandia International in 2009.

## Capital, liquidity and leverage

### Capital

The Group's regulatory capital surplus, calculated under the EU Financial Groups Directive, at 31 December 2010 was £2.1 billion. The Group followed the FSA's requirements, and gave it six months advance notice of its right to call a £300 million Lower Tier 2 instrument at the first call date of 21 January 2011. The bond was subsequently called on this date. As a result of that notice, the Lower Tier 2 instrument had been excluded from the regulatory capital surplus calculations as at 31 December 2010. On a like-for-like basis, the regulatory capital surplus at 31 December 2010 was £2.4 billion (31 December 2009: £1.5 billion). The FGD of £2.1 billion represented a coverage ratio of 146%, compared to 135% at 31 December 2009. The increase in the coverage ratio since 31 December 2009 comprises statutory profits in LTS (Emerging Markets and UK) and Nedbank, reduced resilience risk capital requirement in Bermuda due to hedging and a reduction in Nedbank's capital requirement reflecting a change to the "capital floor" regime operated by the South African Reserve Bank. These positive changes have been partially offset by increased capital requirements in Emerging Markets, deduction of intangible assets in Nedbank for the first time and by the payment of Group ordinary and preferred dividends. On completion of the US Life transaction, and as previously announced, we would anticipate a reduction in FGD surplus of approximately £100 million.

Our Group regulatory capital, calculated in line with the FSA's prudential guidelines, is structured in the following way:

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|                               | £m      |      |          |      |
|-------------------------------|---------|------|----------|------|
|                               | FY 2010 | %    | FY 2009* | %    |
| Ordinary Equity               | 5,168   | 77   | 4,171    | 71   |
| Other Tier 1 Equity           | 653     | 10   | 611      | 10   |
| Tier 1 Capital                | 5,821   | 87   | 4,782    | 81   |
| Tier 2                        | 2,363   | 35   | 2,562    | 44   |
| Deductions from total capital | (1,439) | (22) | (1,497)  | (25) |
| Total Capital                 | 6,745   | 100  | 5,848    | 100  |

\* FY 2009 restated to reflect actual FSA submission

Tier 1 Capital includes £203 million of hybrid debt capital reported for accounting purposes as minority interests and Tier 2 includes £338 million of capital hybrid debt, which is reported as Group preference shares.

The Group's FGD surplus is calculated using a method called "deduction and aggregation", and is the Group's capital resources less the Group's capital resources requirement. Group capital resources is the sum of the business unit net capital resources, which is calculated as its stand-alone capital resources less the book value of the Group's investment; the Group capital resources requirement is the sum of each business unit's capital requirement.

The contribution made by each business unit to the Group's regulatory surplus will, therefore, be different from its locally reported surplus since the latter is determined without the deduction for the book value of the Group's investment. Thus, although all our major business units have robust local solvency surpluses, a number of them do not make a positive contribution to the Group's FGD position. The corollary of this is that a disposal of a business unit at a value equal to or greater than its net asset value will normally have the effect of increasing the Group's FGD surplus.

Our subsidiary businesses continue to have strong local statutory capital cover.

| Business unit    | At 31 December 2010                                 | At 31 December 2009                                |
|------------------|---|--|
|                  | Ratio   | Ratio  |
| OMLAC(SA)        | 4.1x  | 4.1x   |
| Mutual & Federal | 2.02x   | 1.53x  |
| US Life          | 350%  | 312%   |
| Nordic           | 9.8x  | 10.8x  |
| UK               | 2.8x  | 2.9x   |
| Nedbank*         | Core Tier 1: 10.1%<br>Tier 1: 11.7%<br>Total: 15.0% | Core Tier 1: 9.9%<br>Tier 1: 11.5%<br>Total: 14.9% |

\* This includes unappropriated profits.

We have set a target to reduce the Group's debt by at least £1.5 billion on a cash basis by the end of 2012, whilst ensuring also that the Group's balance sheet and the holding company's liquidity continues to be prudently managed against our internal targets. In 2010 the holding company repaid £97 million of Old Mutual senior debt and on 21 January 2011 the Group repaid its £300 million Lower Tier 2 security.

### Liquidity

As a Group we continue to maintain effective dialogue and strong commercial relationships with our banks and credit investors. As of 31 December 2010, the Group has available cash and committed facilities of £1.4 billion (31 December 2009: £1.2 billion). Of this cash on hand at the holding company was £0.4 billion (31 December 2009: £0.4 billion).

In addition to the cash and available resources referred to above at the holding company level, each of the individual businesses also maintains liquidity to support their normal trading operations.

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Holding company net debt

|   | FY 2010 | FY 2009 |
|---|---------|---------|
| Opening net debt  | (2,273) | (2,263) |
| Inflows from businesses                                   | 433     | 529     |
| Outflows to businesses and expenses                       | (201)   | (339)   |
| Debt and equity movements:                                |         |         |
| Ordinary dividends paid (net of scrip dividend elections) | (65)    | -       |
| Equity issuance   | 4       | -       |
| Other movements   | (334)   | (200)   |
| Closing net debt  | (2,436) | (2,273) |
| Net decrease/(increase) in debt                           | (163)   | (10)    |

Net inflows from businesses less expenses increased compared to 2009 and included a net remittance from US Life of £51 million. The holding company made ordinary dividend payments in the period of £65 million and offered a scrip dividend election. Of the total other movements of £334 million, £183 million is in respect of the revaluation of the fair value of Group bonds relating to improved credit spreads and the balance is foreign exchange movements and other net flows.

## Dividend

### Dividend policy

The Board intends to pursue a progressive dividend policy consistent with our strategy, having regard to overall capital requirements, liquidity and profitability, and targeting dividend cover of at least 2.5 times IFRS AOP earnings over time.

### Final dividend for 2010

The Board has carefully considered the position in respect of a final dividend for 2010, and is recommending the payment of a final 2010 dividend of 2.9p per share (or its equivalent in other applicable currencies). A scrip option is also being offered.

### Dividend timetable

The timetable for the final dividend for the year ended 31 December 2010 is set out below:

|   |   |
|---|---|
| Declaration date  | 8 March 2011  |
| Scrip calculation price determined  | Last five dealing days on each exchange ending on 31 March 2011 |
| Currency conversion date  | 31 March 2011   |
| Exchange rates, scrip calculation price and ratio announced   | 1 April 2011  |
| Last day to trade cum div for shareholders on the branch registers in Malawi, South Africa and Zimbabwe and on the Namibian section of the principal register               | 8 April 2011  |
| Ex-dividend date for shareholders on the registers in Malawi, South Africa and Zimbabwe and on the Namibian section of the principal register                               | 11 April 2011   |
| Last day to trade cum div for shareholders on the UK register   | 12 April 2011   |
| Ex-dividend date for shareholders on the UK register  | 13 April 2011   |
| Scrip dividend alternative offer closes for shareholders on the branch registers in Malawi, South Africa and Zimbabwe and on the Namibian section of the principal register | 12 noon on 15 April 2011  |
| Record date for the dividend  | 15 April 2011   |
| Scrip dividend alternative offer closes for shareholders on the UK principal register   | 12 noon on 3 May 2011   |
| Annual General meeting, when shareholders will be asked to approve the dividend   | 12 May 2011   |
| Dividend payment date and first day of dealings in new Ordinary Shares issued under the scrip dividend alternative  | 31 May 2011   |

The entitlement to receive the scrip dividend alternative is personal and non-transferable. Shareholders should note that they will not be able to trade their entitlement to new Ordinary Shares to be issued pursuant to elections under the scrip dividend alternative until 30 May 2011. The full terms of the scrip dividend alternative are available on the Company's website.

Share certificates for shareholders on the South African register may not be dematerialised or rematerialised between 11 April and 15 April 2011, both dates inclusive, and transfers between the registers may not take place during that period.

## Corporate disposals and acquisitions and related party transactions

As set out in the Strategy Update in March 2010, the Group continues to simplify its structure and reduce its spread of businesses to focus on areas of key competence and competitive strength, and drive operational improvements.

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On 6 August 2010, the Group announced the disposal of the US Life operations to Harbinger Capital Partners. In February 2011, we agreed to enter into an amended SPA with an affiliate of Harbinger Capital Partners LLC. The Board of Harbinger Group Inc. – a public company listed on the NYSE – has recently agreed to acquire this affiliate. We await regulatory approval for the transaction, and closing is expected at or around the end of the first quarter of 2011. The US Life business has been classified as a non-core discontinued operation, and as such its profits are excluded from the Group's IFRS adjusted operating profit. US Life made a trading profit of £51 million before the deduction of inter-company interest paid to Group. In accordance with IFRS 5, the assets and liabilities of US Life have been classified as held for sale in the statement of financial position for the current year. The amount recognised as the impairment on remeasuring the business to fair value (less the costs to sell) was £827 million. The loss after tax on the sale was £713 million. A summarised review of the operating performance of US Life is set out below:

## US Life

### *Life sales summary*

APE sales at \$143 million increased by 34% relative to the comparative period. Fixed indexed annuities, which represent more than half of the total APE, increased 30% in 2010 compared to 2009. The increase was driven by product revisions and competitive annuity rates. The sales levels are within the range set for the business and reflect the approach to managing capital within the business. Our top ten annuity distribution partners who have represented an average of 60% of our total sales volume over the past five years grew sales collectively by 62% in 2010.

### *IFRS Results*

The IFRS pre-tax profit for the year for the US Life business was \$50 million (2009: loss of \$195 million), with financial performance benefiting from lower impairment losses and the reversal of prior impairments, partially offset by higher deferred policy acquisition costs (DPAC) amortisation as a result of higher gross profits.

### *Value of new business*

The value of new business decreased by \$66 million relative to the comparative period. The decrease in VNB was mainly due to the extended low yield environment and a lower assumed liquidity premium. The negative VNB position is largely the result of the MCEV basis used, where credit spreads in addition to the liquidity premium are not valued in the determination of MCEV, but shown as earnings when earned. Although we believe that the VNB is positive on an EEV basis, the negative figure on the MCEV basis quantifies the extent to which the business would rely on earning credit spreads in order to provide the guarantees underwritten. Management actions taken during the period included lowering commission rates and increasing bonus on certain products, which improved consumer value.

### *MCEV Results*

The 2010 operating MCEV earnings after tax of \$72 million decreased significantly relative to the comparative period. This was mainly due to the 2009 expected returns being based off higher asset yields, higher credit spreads and a very depressed starting position. The persistency assumption changes of Universal Life insurance plans (UL) and Return of Premium term insurance plans (ROP) also contributed to the lower MCEV operating earnings. Operating experience variances were higher than 2009. Fixed Indexed Annuity (FIA) contributed most to the favourable result in 2010. The positive variance of FIA was primarily due to higher than expected surrenders of FIA contracts that are unprofitable on an MCEV basis, while in 2009, the positive impact from higher than expected surrenders were more than offset by the negative impact from lower than expected interest margins.

MCEV increased by \$220 million over the year. In addition to the effects above, other significant movements affecting the closing MCEV were the variances related to the change in economic conditions, largely due to reduced risk-free rates and lower credit spreads, partially offset by the liquidity premium reducing from 100 bps to 75 bps.

### *Funds under management*

Funds under management ended the year at \$17.2 billion, up \$0.5 billion from the opening position, primarily due to a \$0.8 billion increase in the market value of the investment portfolio for the year and increased net investment income. Net client cash flows improved by 47% in 2010 compared to 2009 primarily due to lower surrender activity and higher sales in 2010. Net cash and short term holdings at 31 December 2010 were \$630 million.

### *Investment portfolio*

The net unrealised position on the fixed income security portfolio improved to a net gain of \$309 million at 31 December 2010 (\$497 million net unrealised loss at 31 December 2009 and \$138 million net unrealised gain at 30 June 2010). Although the increase in Treasury yields during the fourth quarter of 2010 negatively affected the net unrealised position, as credit spreads were tighter overall on a year-on-year basis, the unrealised position improved compared to the prior year. In addition, management undertook selective de-risking of the investment portfolio. As at 31 December 2010, \$546 million of the total \$551 million of the specified securities in the stock purchase agreement with Harbinger Capital Partners had been sold at terms better than those expected on signing of the sale agreement. The remaining \$5 million of specified securities have been sold since the year-end.

The quality of the investment portfolio improved throughout the year and 92% of the total portfolio had a market to book value ratio greater than 90% at the end of 2010. The market to book value ratio of the fixed income portfolio improved from 97% at the beginning of the year to 102% at 31 December 2010.

There were no defaults in 2010. Net realised gains in 2010 of \$19 million include \$22 million of trading gains on previously impaired securities that had recovered in fair value and \$70 million of losses realised on the sale of securities in anticipation of the sale of the company. US Life also generated \$64 million of net gains on de-risking trades during favourable market conditions. Expected cash flows on certain previously impaired structured securities improved significantly in 2010, resulting in \$54 million of revaluation gains. These revaluation gains were partially offset by impairments.

During 2010, IFRS impairments were \$50 million, generally in line with our long-term assumption of \$48 million, and compared to \$389 million in 2009. The 2010 impairments on 42 securities related primarily to structured securities, with the losses due to adverse changes in expected cash flows, or the likelihood of diminished loss coverage from distressed monoline insurers that guaranteed the performance of the security. The impairment losses were primarily in RMBS (\$30 million), ABS (\$8 million), and CMBS (\$6 million).

# Group Finance Director's Review

## Capital

OM Financial Life's risk-based capital ratio increased from 312% as at 31 December 2009 to 350% as at 31 December 2010. Regulatory capital grew \$83 million during 2010 driven by strong statutory operating earnings. OM Financial Life's required capital decreased (at the targeted 300% level) primarily due to a lower risk investment portfolio offset by capital required for new business growth. The US Life Group distributed a total of \$109 million to OM plc in 2010 comprised of \$59 million from OM Financial Life Insurance Company and \$50 million from OM Re.

## Bermuda

As disclosed in our Announcement in March 2010, Bermuda remains a non-core business, and as such its profits are therefore excluded from the Group's IFRS adjusted operating profit. A review of the operating performance of Bermuda is set out below:

## Overview

The business continued to perform well against its strategy with significant enhancements delivered in 2010 including business service improvements, further enhancements to liability management and to management information to improve the dynamic management of exposures and further de-risk the Guaranteed Minimum Accumulation Benefits (GMABs) attached to certain of the in-force variable annuities.

Surrender activity in 2010 occurred largely in respect of variable annuity contracts without GMABs, with the business instituting a focused conservation strategy supported by high customer interaction in order to retain as much of this profitable business as possible. Surrender behaviour with respect to variable annuity contracts with GMABs is directly influenced by the differential between the value of the underlying funds and the nominal level of the guarantee, as well as the financial circumstances of the policyholder. The recovery across global equity markets, particularly in the fourth-quarter in 2010, resulted in an increase in the number of contracts where the underlying fund values were greater than the level of the guarantee. This resulted in a sharp increase in the levels of contracts with GMABs surrendering in the fourth quarter of 2010, with overall surrender activity across GMAB contracts for the year at close to double 2009 levels (2010: 1,211 policies; 2009: 638 policies). Further gains across global equity markets in 2011 would be expected to result in increased levels of surrenders across variable annuity contracts with GMABs, accelerating the run-off of these contracts. Ultimately, surrender activity will determine the speed of the run-off and the extent and timing of any associated capital, or cash release for this business. In February 2011, the business launched an offer to account holders with non-Hong Kong UGO contracts permitting them to surrender their contracts without incurring penalties. The special offer increased the rate and number of surrenders across this book, further de-risking the business. The take-up rate was 6.2% at 4 March 2011. Management will continue to assess demand for similar such offers in the future.

## IFRS Results

The IFRS pre-tax profit for the year for the Bermuda business was \$34 million (2009: \$34 million), with financial performance benefiting from lower guarantee losses as a result of the improved effectiveness of the hedging programme, improved basis risk management, favourable equity markets and currency movements. The impact of the dynamic hedging programme over the course of 2010 was also beneficial in reducing losses in respect of GMABs and favourable equity markets over the course of the year further resulted in lower GMAB reserve requirements at the end of the year.

## MCEV Results

The 2010 operating MCEV earnings resulted in a loss after tax of \$36 million, a marginal decrease relative to the comparative period. Operating earnings include negative corrections and modelling changes in 2010 compared to significant positive corrections and modelling changes in 2009. This is however partially offset by much improved persistency experience variances in 2010 and large negative persistency assumption changes in 2009 that were not repeated.

In addition to the effects above, other significant movements affecting the closing MCEV related to the movement in GMAB reserve requirements due to market performance and changes in economic conditions, net of the effects of hedging guarantees. Performance benefited from favourable equity and currency markets, with improved basis risk management and effectiveness of the hedging programme. This was dampened by reductions in interest rates as hedges were lifted early on in the year.

## Reserves

Of total insurance liabilities of \$6,106 million (2009: \$6,741 million), \$4,495 million (2009: \$4,688 million) is held in the separate account, relating to variable annuity investments where all risk is borne by policyholders. The remaining reserves amount to \$1,611 million (2009: \$2,053 million), which is split into \$672 million (2009: \$766 million) in respect of GMAB / GMDB liabilities on the variable annuity business, and \$939 million (2009: \$1,290 million) in respect of policyholder liabilities which are supported by the fixed income portfolio (these liabilities include deferred and fixed indexed annuity business as well as variable annuity fixed interest investments). Non-separate account reserves are calculated on a policy-by-policy basis, updated frequently and verified independently.

GMAB / GMDB reserve calculations rely on the mapping of policyholder investment funds to hedgeable indices to determine market-consistent assumptions. Fund mapping updates are performed at least quarterly, the results of which better allocate exposures to Asian and other emerging markets (which require higher levels of reserving given their higher inherent volatility) thereby improving the accuracy of the reserve calculations. Overall, this market-consistent valuation methodology is guided by the fund mapping process. Throughout the year, the business continued to maintain a very significant statutory capital surplus against its minimum required capital of \$250,000, ending the year with statutory surplus capital of \$625 million (2009: \$586 million).

## Investment portfolio

No defaults or impairments were recorded during 2010 (2009: \$20 million). The net unrealised position improved to a gain of \$31 million as at 31 December 2010 (\$29 million loss as at 31 December 2009) as a result of de-risking efforts within the portfolio through the sale of a number of holdings offsetting gains and losses and the narrowing of corporate spreads. The book value of the portfolio reduced from \$1.0 billion at the end of 2009 to \$0.8 billion as at 31 December 2010, largely as investments were sold to meet surrender activity and withdrawals. The fixed income portfolio remained at an average credit quality of A2 (Moody's rating scale), with investment grade quality holdings continuing to represent more than 90% of the portfolio. As at 31 December 2010, the book value of the investment portfolio with a market value to book value ratio of 80% or less was \$3 million (compared to \$71 million at 31 December 2009).



## Management of hedging

Over the course of 2010, the business continued to dynamically manage the underlying economics of the hedging programme in order to strike a balance between the potential changes in the income statement, available cash, liquidity and transactional costs arising from movements in market levels. A number of adjustments to the hedging programme were made over the course of 2010 as a result of turbulent market conditions, with the business ending the year approximately 57% hedged against adverse equity and foreign exchange market movements. The accumulated unrealised profit or loss, as measured by the stop-loss metric from the time the current hedge framework was implemented on 17 September 2009 was a gain of \$145 million by 31 December 2010 (2009: \$104 million). The hedging team evaluates the hedging strategy, including the most appropriate level of hedges on a continuing basis, with any proposed changes to the strategy subject to strict oversight. The stop-loss protocol established in September 2009 remains in place, and continues to be monitored daily by Group to ensure that a common understanding of the resultant impact on capital, cash and profit and loss on a timely basis.

## Outlook

Whilst turbulent market conditions could have a material impact, the business has performed credibly over the past year, with the key priorities for 2011 focused on continuing this momentum through continued efforts to de-risk the GMAB exposure in the variable annuity book, through a range of measures. These include execution against the stated dynamic hedging strategy to contain key risk exposures; continued implementation of the conservation strategy to better retain profitable non-guaranteed business, supported by enhanced customer and service offerings; ongoing prudent management of capital and liquidity; ongoing evaluation of risk management and key business decision-making processes across the business to align with Group's Enterprise Risk Management framework; and maintenance of cost discipline, with a focus on delivering further planned expense reductions.

## Solvency II, Risk Allocation and iCRaFT and Financial Controls Initiative project update

Our integrated Capital, Risk and Finance Transformation ("iCRaFT") project is progressing well. The Group has entered the FSA's internal model approval process, and is on track to deliver all requirements for Solvency II compliance. We were the first major UK retail group to submit our Group QIS5 results and the Self Assessment Questionnaire in respect of the internal model to the FSA. In 2011, we will enter the "Use Test" phase, during which we will demonstrate the extent to which we have embedded the new tools and processes, and will hold dry runs of selected Solvency II processes. We expect to be ready to make our full internal model application at the earliest date that the FSA is ready to accept such submissions.

In the LTS showcase presented on 13 October 2010, we published the Group's target risk profile versus current risk profile, along with a range of risk preferences, which considered the trade-offs between capital required to back different classes of liabilities, the risk assumed when underwriting these liabilities, and the margins available from doing so. The work that we have done is focused on ensuring that we deploy capital to underwrite risks that increase shareholder value, within a framework that fully protects promises made to policyholders. The Business Planning process requires Business Units to define and adopt their risk strategies, indicating how they intend to manage their existing liabilities and which products they wish to offer in future, within the framework of applying capital to these risks in order to create value at the BU level. We are satisfied that we are making good progress with this activity, and that we are achieving our objective to delivering better outcomes, within a stronger risk, capital and value framework.

In 2010, we completed the implementation of our Financial Controls Initiative project putting in place an internal certification framework across all the Group's financial reporting processes to a standard broadly equivalent to the US Sarbanes-Oxley requirements.

## Tax and non-controlling interests

The effective tax rate on adjusted operating profits was 23% (2009: 25%). The effective rate reduced as an increased proportion of profits were earned on low-taxed dividends and capital profits, utilisation of group relief against taxable UK income in appreciating markets, and the benefit of secondary tax on companies (STC) credits in OMSA. This was partially offset by increased provisions and deferred tax assets not being recognised on losses arising in the UK. Looking forward, and depending on profit mix, we would anticipate the long term effective tax rate on AOP returning to the 25% to 28% range.

The non-controlling interests' share of adjusted operating profit increased by £34 million reflecting the minority share of higher Nedbank earnings, supported by the strengthening of the rand.

## Risks and Uncertainties

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

Whilst world economic conditions have improved from a year ago a number of other factors could impact the Group's ability to create value. Increasingly, governments are recognising the need for effective retirement provision, which provides future opportunities. At the same time, the regulatory environment is moving towards more transparency and providing consumers with more choice, protection and better value for money. Whilst we believe that many of our products align with this requirement, increased consumerism could lead to adverse reputational outcomes across the industry, which may have an impact on our business even though our products may not be the ones leading to such outcomes. Regulatory developments are also impacting on commission structures. The increased regulatory activity may increase the cost of doing business and drive margins down, resulting in a more competitive environment and competition for customers is increasing from both traditional and new players in all markets.

Continued economic uncertainty has contributed to lower consumer confidence, and may influence product preferences to lower risk investment products and affect termination experience in respect of existing and new business. There is also an increased drive from consumers for products with increased capital protection rather than complexity. Movements in asset prices lead to changes in funds under management and the fees that the Group earns from those funds. In instances where these lead to reduced fund values and fees, such movements will have an adverse impact on earnings.

The Group monitors these uncertainties, takes appropriate actions wherever possible, and continues to meet Group and individual entity capital requirements and day to day liquidity needs. Progress has been made with the US Life sale, effective management of Bermuda Variable Annuity guarantee risks and initial activity to explore the US Asset Management IPO.

## Group Finance Director's Review

The implementation of the new operating model is almost complete. Changes designed to implement the "strategic controller" model at the Group level through revision of the governance structure and processes, clarifying roles and responsibilities of Group and Business Units, and increasing Group presence on Business Unit Boards and Committees are progressing. Risks remain and may arise from the implementation of cost reduction programmes, streamlining of businesses and processes and other strategic initiatives. Business Performance Executives were appointed in 2010 and form a key part of the Operating Model, increasing engagement and understanding between the Group Head Office and Business Units, focusing on strategic delivery and informing the appropriate decisions.

The Group continues to strengthen and embed its risk management framework, with increasing importance placed upon ensuring business decisions are within Risk Appetite, and that risk exposures are monitored against Appetite, allocated limits and budgets. Risk Appetite limit allocation is now a key part of the Business Planning Process and the Group is progressing in embedding the Risk Appetite process by increased challenge on risks and management actions, as part of the Quarterly Business Reviews.

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

**Philip Broadley**

Group Finance Director

8 March 2011

# Group Finance Director's Review

## Summarised Financial Information

|  | £m      | £m      |          |
|--|---------|---------|----------|
|  | FY 2010 | FY 2009 | % Change |
| <b>IFRS results</b>  |         |         |          |
| Adjusted operating profit (IFRS basis)(pre-tax)*                                       | 1,481   | 1,133   | 31%      |
| Adjusted operating earnings per share (IFRS basis)*                                    | 16.0    | 11.6    | 38%      |
| Basic loss per share   | (6.5p)  | (7.8p)  | 17%      |
| IFRS profit/(loss) after tax   | (24)    | (118)   | 80%      |
| <b>Sales statistics</b>  |         |         |          |
| Life assurance sales – APE basis   | 1,583   | 1,381   | 15%      |
| Life assurance sales – PVNBP basis   | 12,155  | 10,217  | 19%      |
| Value of new business  | 172     | 167     | 3%       |
| Unit trust/mutual fund sales   | 10,305  | 7,567   | 36%      |
| <b>MCEV results</b>  |         |         |          |
| Adjusted Group MCEV (£bn)  | 11.0    | 9.0     | 22%      |
| Adjusted Group MCEV per share  | 202.2p  | 171.0p  | 18%      |
| Adjusted operating profit Group MCEV earnings (post-tax and non-controlling interests) | 830     | 562     | 48%      |
| Adjusted operating Group MCEV earnings per share                                       | 15.5p   | 10.7p   | 45%      |
| <b>Financial metrics</b>   |         |         |          |
| Return on equity*  | 12.2%   | 9.1%    |          |
| Return on Group MCEV   | 10.9%   | 10.7%   |          |
| Net client cash flows (£bn)  | (6.2)   | (2.7)   | (130%)   |
| Funds under management   | 322.8   | 285.0   | 13%      |
| Interim dividend   | 1.1p    | -       | -        |
| Final dividend   | 2.9p    | 1.5p    | 93%      |
| FGD (£bn)  | 2.1     | 1.5     | 40%      |

\* The year ended 31 December 2009 has been restated to reflect US Life as discontinued

## Long-Term Savings: Emerging Markets

Good results combined with strong growth in regular premium sales

| Highlights (Rm)                                       | 2010          | 2009   | % Change |
|---|---------------|--------|----------|
| Adjusted operating profit (IFRS basis, pre-tax)       | <b>6,099</b>  | 5,879  | 4%       |
| Return on local equity                                | <b>25%</b>    | 25%    |          |
| Return on allocated capital (OMSA only)               | <b>25%</b>    | 26%    |          |
| Life assurance sales (APE)                            | <b>5,505</b>  | 5,178  | 6%       |
| Unit trust/mutual fund sales                          | <b>41,488</b> | 36,421 | 14%      |
| PVNBP   | <b>36,975</b> | 37,339 | (1%)     |
| Value of new business                                 | <b>972</b>    | 853    | 14%      |
| APE margin  | <b>18%</b>    | 16%    |          |
| PVNBP margin  | <b>2.6%</b>   | 2.3%   |          |
| Operating MCEV earnings (covered business, post-tax)  | <b>3,877</b>  | 2,794  | 39%      |
| Return on embedded value (covered business, post-tax) | <b>13.2%</b>  | 9.8%   |          |

| Highlights (Rbn)             | 2010         | 2009   | % Change |
|------------------------------|--------------|--------|----------|
| Net client cash flows (NCCF) | <b>0.2</b>   | (20.5) | 101%     |
| Total funds under management | <b>585.7</b> | 518.4  | 13%      |

### Overview

Equity markets in the Emerging Markets have enjoyed a strong year, with the JSE increasing by 16%. The South African rand appreciated 13% against the US dollar and 14% against sterling. Low inflation contributed to interest rate cuts in South Africa from 10.5% to 9%.

We continue to focus on innovation and product improvements which will benefit our customers. In South Africa we developed and launched a new direct short-term insurance product, iWYZE, in conjunction with Mutual & Federal – and its success has exceeded expectations. Old Mutual Corporate launched *Old Mutual SuperFund*, the largest multi-employer or umbrella fund in South Africa with over 300,000 members, to provide a simple, affordable and strictly-governed platform enabling employees to save for their retirement. We launched the *Futuregrowth Agri-Fund* in March, focusing on responsible equity investments in agricultural land, agri-businesses and farming infrastructure. As a Socially Responsible Investment fund, it seeks long-term returns and tangible social and developmental impacts.

We have made progress towards our goal of becoming our customers' most trusted partner, evidenced by the number of awards received during the year – including our third Ask Afrika Orange Index award for service excellence in the long-term insurance business category, and the number one position in South Africa's 500 best managed companies.

We are integrating social, environmental and economic principles into our core business. Old Mutual South Africa (OMSA) achieved Level 2 Broad Based Black Economic Empowerment (BBBEE) status in October 2010. Furthermore, OMIGSA attracted more than R8 billion from institutional investors into social infrastructure investment.

Our sales improved in the year, notably in the second half. This resulted in a 6% increase in APE sales compared to 2009, and we benefited from improved persistency. Our NCCF improved significantly, and we see increasing contributions from new markets, with non-South African NCCF higher than South African NCCF (excluding PIC flows).

We made good progress towards implementation of Solvency II as part of the overall Group programme, and also in respect of the South African equivalent framework known as SAM (Solvency Assessment and Management), launched in 2010 by the South African regulator.

### IFRS AOP results

IFRS AOP (pre-tax) increased by 4% from R5,879 million to R6,099 million, with strong asset management profits (up 62% to R1,550 million), partially offset by lower long-term investment return (R1,221 million compared to R1,658 million in 2009).

| Rm  | 2010         | 2009  | % Change |
|---|--------------|-------|----------|
| Long-term business adjusted operating profit            | <b>3,328</b> | 3,263 | 2%       |
| Asset management adjusted operating profit              | <b>1,550</b> | 958   | 62%      |
| Long-term investment return (LTIR)                      | <b>1,221</b> | 1,658 | (26%)    |
| <b>Adjusted operating profit (IFRS basis) (pre-tax)</b> | <b>6,099</b> | 5,879 | 4%       |

The growth in long-term business profits is mainly due to the significant improvement in Retail persistency in 2010 following the significant strengthening of the basis in 2009 as well as continued business effort to improve retention experience. Good investment performance in the annuity and permanent health insurance (PHI) portfolios and increased asset-based fees due to higher equity market levels also contributed to profit growth. The comparable 2009 life profits benefited from a number of large non-recurring items, including the impact of assumption changes and profits from the Nedbank joint ventures in the first five months of 2009. Excluding these items, underlying life profits increased by 37% over the comparative period.

## Business Review

Asset management profits grew significantly as a result of higher fees being earned from higher funds under management (FUM), stronger performance fees in OMIGSA, a first full-year contribution from ACSIS (acquired in the second half of 2009), a higher contribution from OMF due to growth in the business, and mark-to-market profits in Old Mutual Specialised Finance (OMSFIN). These were partially offset by lower transactional income.

The LTIR decreased by 26% to R1,221million in 2010 reflecting the reduced rate applied to OMLAC(SA) assets due to the implementation of a higher ratio of cash to equity in the asset portfolio backing the Capital Adequacy Requirement.

### Life APE sales summary

APE sales increased by 6% from R5,178 million to R5,505 million, driven largely by strong growth in regular premium sales across the majority of our Emerging Markets businesses.

| By Cluster:                   | Gross single premiums |        |       | Gross regular premiums |       |      | Total APE    |       |      | Total PVNBP   |        |       |
|-------------------------------|-----------------------|--------|-------|------------------------|-------|------|--------------|-------|------|---------------|--------|-------|
| <b>New business (Rm)</b>      | <b>2010</b>           | 2009   | +/-%  | <b>2010</b>            | 2009  | +/-% | <b>2010</b>  | 2009  | +/-% | <b>2010</b>   | 2009   | +/-%  |
| <b>OMSA</b>                   |                       |        |       |                        |       |      |              |       |      |               |        |       |
| Mass Foundation Cluster*      | 14                    | 16     | (13%) | 1,571                  | 1,452 | 8%   | 1,572        | 1,454 | 8%   | 6,994         | 6,767  | 3%    |
| Retail Affluent               | 9,620                 | 8,751  | 10%   | 1,381                  | 1,213 | 14%  | 2,343        | 2,088 | 12%  | 16,345        | 15,413 | 6%    |
| Institutional**               | 7,892                 | 9,205  | (14%) | 454                    | 360   | 26%  | 1,244        | 1,281 | (3%) | 11,788        | 12,831 | (8%)  |
| <b>Total OMSA</b>             | <b>17,526</b>         | 17,972 | (2%)  | <b>3,406</b>           | 3,025 | 13%  | <b>5,159</b> | 4,823 | 7%   | <b>35,127</b> | 35,011 | 0%    |
| <b>Rest of Africa***</b>      | <b>475</b>            | 528    | (10%) | <b>196</b>             | 195   | 1%   | <b>244</b>   | 247   | (1%) | <b>1,363</b>  | 1,653  | (18%) |
| <b>Total New Markets****</b>  | <b>231</b>            | 432    | (47%) | <b>79</b>              | 64    | 23%  | <b>102</b>   | 108   | (6%) | <b>485</b>    | 675    | (28%) |
| <b>Total Emerging Markets</b> | <b>18,232</b>         | 18,932 | (4%)  | <b>3,681</b>           | 3,284 | 12%  | <b>5,505</b> | 5,178 | 6%   | <b>36,975</b> | 37,339 | (1%)  |

By Product:

| <b>OMSA</b>                   | <b>2010</b>   | 2009   | +/-%  | <b>2010</b>  | 2009  | +/-% | <b>2010</b>  | 2009  | +/-%  | <b>2010</b>   | 2009   | +/-%  |
|-------------------------------|---------------|--------|-------|--------------|-------|------|--------------|-------|-------|---------------|--------|-------|
| Savings                       | 14,062        | 13,874 | 1%    | 1,654        | 1,390 | 19%  | 3,060        | 2,773 | 10%   | 22,441        | 21,785 | 3%    |
| Protection                    | 6             | 2      |       | 1,752        | 1,635 | 7%   | 1,753        | 1,639 | 7%    | 9,228         | 9,132  | 1%    |
| Annuity                       | 3,458         | 4,096  | (16%) | -            | -     |      | 346          | 411   | (16%) | 3,458         | 4,094  | (16%) |
| <b>Total OMSA</b>             | <b>17,526</b> | 17,972 | (2%)  | <b>3,406</b> | 3,025 | 13%  | <b>5,159</b> | 4,823 | 7%    | <b>35,127</b> | 35,011 | 0%    |
| <b>Rest of Africa***</b>      | <b>475</b>    | 528    | (10%) | <b>196</b>   | 195   | 1%   | <b>244</b>   | 247   | (1%)  | <b>1,363</b>  | 1,653  | (18%) |
| <b>Total New Markets****</b>  | <b>231</b>    | 432    | (47%) | <b>79</b>    | 64    | 23%  | <b>102</b>   | 108   | (6%)  | <b>485</b>    | 675    | (28%) |
| <b>Total Emerging Markets</b> | <b>18,232</b> | 18,932 | (4%)  | <b>3,681</b> | 3,284 | 12%  | <b>5,505</b> | 5,178 | 6%    | <b>36,975</b> | 37,339 | (1%)  |

\* Previously described as Retail Mass

\*\* Institutional sales include Corporate and OMIGSA life sales

\*\*\* Rest of Africa represents Namibia only

\*\*\*\* New Markets represents Latin America only

### OMSA

#### Regular premium sales

Regular premium sales grew by 13% compared to 2009 and by 25% in the second half of 2010 compared to the first half, with particularly strong growth in savings sales in the second half in the Mass Foundation Cluster which benefited from lower overall cancellation rates, higher average premiums, improved adviser productivity and significant improvement in the direct channel sales performance.

Retail Affluent sales growth was driven by *Max Investments* savings products, experiencing 21% and 31% growth for Life and LISP wrappers respectively in 2010, following the stabilisation of the economic outlook. *Greenlight* experienced a lower than expected growth of 6% over 2009 in some measure due to increased turnover of the Retail Affluent sales force. Corporate sales increased by 26% in 2010 – driven primarily by savings sales in the umbrella market, where the *Evergreen* umbrella fund grew its membership by two thirds to just over 56,000. Corporate risk sales grew strongly due to our success in selling a number of new policies to large schemes in this highly competitive market. Corporate sales have more than doubled since 2008 due to innovative product introductions.

## Single premium sales

Single premium sales decreased by 2% relative to 2009, due mainly to lower institutional flows. Retail Affluent achieved strong *Investment Frontiers Fixed Bond* sales in the first half and an increase in new contracts issued to clients with unclaimed maturities. Annuity sales declined by 16%, driven by lower CPI-linked annuity sales in the Corporate segment as very few annuity tenders floated in 2010 were concluded. With-profit annuity sales did show a marked improvement, increasing by 48% as we continued to lead in this market segment. Retail Affluent annuity sales stabilised in the fourth quarter, following improvements in annuity rates, to end marginally below the 2009 level.

## Rest of Emerging Markets

Namibian regular premium sales in the Retail Mass and Retail Affluent segments increased by 6% and 5% respectively, mainly as a result of solid sales growth from tied agents despite difficult economic conditions. Corporate segment regular premium sales decreased by 14% due to lower Orion sales volumes. Single premium sales decreased by 10%, with lower new business inflows from both Retail Affluent and Corporate businesses.

Sales growth of 36% in Mexico was largely driven by the introduction of a minimum premium for the regular premium savings product in the first half of 2010, implemented as a consequence of working closely with South Africa. We introduced a Retail Mass distribution team in December. We will continue to grow this team in the coming months and its pipeline is very promising. Included in the 2009 comparative is R28 million APE relating to the Chilean business which was sold in 2009.

APE sales in China increased by 77% from CNY92 million in 2009 to CNY163 million in 2010, despite poor sales during the first half. The significant improvement in the second half is mainly due to increased management focus on sales, supported by execution of our joint venture's product and channel diversification strategy (new bank, broker and telemarketing products were launched during the second half). The reopening of the Bank of China distribution channel in Beijing (with the assistance of our JV partner), following a three-month suspension of sales during the first half of 2010, further contributed to this improvement. Sales at our Indian Joint Venture, Kotak Mahindra Old Mutual Life Insurance, increased by 6% compared to 2009.

A more detailed analysis of sales by segment is included in the Financial Disclosure Supplement, available at [www.oldmutual.com](http://www.oldmutual.com).

## Unit Trust Sales

### Unit trust / mutual fund sales summary

| New business (Rm)             | 2010          | 2009          | +/-%       |
|-------------------------------|---------------|---------------|------------|
| OMSA                          | 21,452        | 18,384        | 17%        |
| Rest of Africa                | 5,360         | 4,546         | 18%        |
| New Markets                   | 14,676        | 13,491        | 9%         |
| <b>Total Emerging Markets</b> | <b>41,488</b> | <b>36,421</b> | <b>14%</b> |

In South Africa, unit trust sales recovered in the second half of 2010 following a weak first half. We achieved growth of 17% from the 2009 level, mainly due to significant flows into Old Mutual Unit Trust money market funds during the third quarter and improved flows into OMIGSA's Marriott affiliate following revised asset allocations.

In the rest of Emerging Markets, unit trust sales also performed well. Namibian sales increased by 18% to R5.4 billion following strong inflows from institutional and corporate clients as a result of more competitive investment returns. Unit trust sales in Mexico and Colombia (COLMEX) were 9% ahead of the prior year in rand (25% in US\$), with strong growth in Colombia resulting from a successful marketing campaign and stronger relationships with corporate and institutional customers. We increased productivity, with greater sales from fewer advisers. Mexico benefited from a large scheme acquired in September 2010 and improved performance in both fixed income and equity portfolios.

## Value of new business and margins

The value of new business increased by 14% to R972 million, with a strengthening performance during the course of the year. The APE margin increased from 16% to 18% due to a higher proportion of sales of higher-margin smoothed-bonus and with-profit annuities in OMSA's Corporate business and *Investment Frontier Fixed Bonds* in Retail Affluent.

## MCEV results

Operating MCEV earnings (post-tax) increased by 39% from the 2009 level. This was mainly due to positive experience variances and operating assumption changes in 2010, compared to negative variances in 2009. The improvement in experience variances is mainly due to an improvement in persistency, partly due to the 2009 assumption changes, and partly because management actions improved persistency. These were partially offset by a significant decrease in the expected existing business contribution due to the reduction in 1 year swap yields during 2009.

In addition to the effects above, other significant movements affecting the closing MCEV include a large positive impact from economic variances due to a combination of better than assumed equity returns and the effect of the changes in the shape of the swap yield curve. This was partially offset by modelling enhancements to the economic scenario generator used to calculate the investment guarantee reserve, which caused a decrease in the margin (buffer) held to protect against future market volatility, resulting in less value being released as profits in the future. The net impact of these resulted in a growth in MCEV of 16% over 2010.

## Net client cash flow

NCCF for the year was R0.2 billion, a significant improvement on 2009 outflows of R20.5 billion.

South African NCCF benefited from significantly lower PIC outflows of R5.1 billion (R16.2 billion in 2009), improved inflows across a number of OMIGSA boutiques (mainly Electus and Futuregrowth), improved net flows in retail businesses and lower outflows in Corporate. Excluding PIC outflows, OMSA's NCCF for the second half of 2010 was positive R1.8 billion compared to negative R6.3 billion in the second half of 2009. Further PIC outflows are expected in 2011.

## Business Review

Overall, OMIGSA investment performance (over three years) was average, with satisfactory performance in specialist areas contrasted against mixed performance in our balanced capabilities.

The rest of our Emerging Markets business delivered R7.6 billion in NCCF. NCCF in Colombia and Mexico increased by 12% from R4.3 billion in 2009 to R4.8 billion in 2010. The Colombian business attracted new customers within targeted segments, experiencing lower surrenders on core products and improved sales of Retail voluntary products. In Namibia, NCCF increased by R1.0 billion to R1.4 billion due to improved unit trust inflows and R672 million inflows from the rebalancing of the Government Institutions Pension Fund portfolios.

### Funds under management

FUM increased by 13% to R586 billion as a result of higher market levels and overall neutral NCCF for the year. Of the total, R498 billion (2009: R449 billion) is in South Africa.

### Outlook

We have confidence in the underlying performance of the business, despite the low investment return assumptions in 2011 and mark-to-market gains recorded in the asset management results in 2010. We will continue to strive for a balance that combines strong risk management and governance with a culture that encourages innovation, across our four main strategic themes:

- Continuing to invest in our Emerging Market business
- Improving OMIGSA's investment performance and value creation for customers
- Putting the customer at the centre of our business
- Enhancing our high-performance culture and further developing our Emerging Markets management team

Growing our sales force remains a priority, as does promoting a savings culture in Emerging Markets, designing and adapting products that are relevant to a wide range of customers, and providing easier access to financial services for our customers across our businesses.

With these strategies in place we are well positioned to optimise business opportunities in 2011 and further strengthen a highly successful Emerging Markets business.

## Long-Term Savings: Nordic

### Improved profitability, higher funds under management and strong APE margin

| Highlights (SEKm)                                     | 2010   | 2009   | % Change |
|---|--------|--------|----------|
| Adjusted operating profit (IFRS basis, pre-tax)       | 1,227  | 737    | 66%      |
| Return on local equity*                               | 11%    | 12%    |          |
| Life assurance sales (APE)                            | 2,238  | 2,819  | (21%)    |
| Unit trust/mutual fund sales                          | 6,466  | 4,708  | 37%      |
| PVNBP   | 12,292 | 13,774 | (11%)    |
| Value of new business                                 | 460    | 526    | (13%)    |
| APE margin  | 21%    | 19%    |          |
| PVNBP margin  | 3.7%   | 3.8%   |          |
| Operating MCEV earnings (covered business, post-tax)  | 503    | 965    | (48%)    |
| Return on embedded value (covered business, post-tax) | 3.3%   | 8.1%   |          |

| Highlights (SEKbn)            | 2010  | 2009  |       |
|-------------------------------|-------|-------|-------|
| Net client cash flows (SEKbn) | 7.4   | 11.6  | (36%) |
| Funds under management        | 145.4 | 127.2 | 14%   |

\* Return on local equity is IFRS AOP (post-tax) divided by average shareholders' equity, excluding goodwill, PVIF and other acquired intangibles

### Overview

The economies in the Nordic countries experienced a strong recovery in 2010, with positive GDP growth (estimated at 5.6% in Sweden, 2.0% in Denmark and 2.2% in Norway). The Swedish equity market grew by 23% in 2010.

The Nordic business delivered a strong IFRS AOP result in 2010. With changes in the management team, including a new CEO Mårten Andersson, we are delivering on our key priorities of strengthening distribution power and product offerings, stimulating future NCCF growth, increasing operational efficiency to secure profitable growth, and optimising structures and risk frameworks to unlock value. However, we face a challenging year of change for the business in delivering our 2011 operating sales, efficiency and profitability targets in a rapidly changing business environment.

The Nordic business is making good progress towards the implementation of Solvency II, as a component of the overall Group Solvency II initiative.

### Life sales summary

APE sales at SEK2,238 million were down by 21% compared to 2009, following management action in the Swedish Retail segment to close the unprofitable *Link Regular* product in late 2009. The APE of the Corporate business decreased by 14%, mainly due to slower sales of the highly competitive *TPS Regular* product. Denmark performed strongly, with product success in the unit-linked and healthcare markets. APE grew by 22% to SEK514 million.

| New business (SEKm)  | Gross single premiums |              |              | Gross regular premiums |              |              | Total APE    |              |              | Total PVNBP   |               |              |
|----------------------|-----------------------|--------------|--------------|------------------------|--------------|--------------|--------------|--------------|--------------|---------------|---------------|--------------|
|                      | 2010                  | 2009         | +/-%         | 2010                   | 2009         | +/-%         | 2010         | 2009         | +/-%         | 2010          | 2009          | +/-%         |
| <b>Sweden</b>        |                       |              |              |                        |              |              |              |              |              |               |               |              |
| Corporate            | 1,429                 | 1,471        | (3%)         | 1,033                  | 1,221        | (15%)        | 1,176        | 1,368        | (14%)        |               |               |              |
| Retail               | 3,672                 | 4,288        | (14%)        | 181                    | 601          | (70%)        | 548          | 1,030        | (47%)        |               |               |              |
| <b>Total Sweden</b>  | <b>5,101</b>          | <b>5,759</b> | <b>(11%)</b> | <b>1,214</b>           | <b>1,822</b> | <b>(33%)</b> | <b>1,724</b> | <b>2,398</b> | <b>(28%)</b> | <b>9,001</b>  | <b>11,260</b> | <b>(20%)</b> |
| <b>Denmark</b>       |                       |              |              |                        |              |              |              |              |              |               |               |              |
| <b>Total Denmark</b> | <b>1,280</b>          | <b>547</b>   | <b>134%</b>  | <b>386</b>             | <b>366</b>   | <b>5%</b>    | <b>514</b>   | <b>421</b>   | <b>22%</b>   | <b>3,291</b>  | <b>2,514</b>  | <b>31%</b>   |
| <b>Total Nordic</b>  | <b>6,381</b>          | <b>6,306</b> | <b>1%</b>    | <b>1,600</b>           | <b>2,188</b> | <b>(27%)</b> | <b>2,238</b> | <b>2,819</b> | <b>(21%)</b> | <b>12,292</b> | <b>13,774</b> | <b>(11%)</b> |



# Business Review

## Unit trust / mutual fund sales summary

Mutual fund sales of SEK6,466 million were up 37% on 2009. This was driven by improved retail investment activity spurred by rising global equity markets. However, fourth quarter sales showed a decrease compared to the same period in 2009 due to changing product demand and customer behaviour in Skandiabanken.

| New business (SEKm) | 2010         | 2009         | +/-%       |
|---------------------|--------------|--------------|------------|
| Skandiafonder       | 2,431        | 1,510        | 61%        |
| Skandiabanken       | 4,035        | 3,198        | 26%        |
| <b>Total Nordic</b> | <b>6,466</b> | <b>4,708</b> | <b>37%</b> |

## IFRS AOP results

The IFRS AOP (pre-tax) increased by 66% to SEK1,227 million compared to 2009. The key driver behind the improvement was higher client funds, which increased fund-based fees and rebates in the long-term business. In particular the unit-linked business performed strongly in the second half. A gain realised from divestment of a private equity holding in the first half contributed profit of SEK126 million.

| SEKm   | 2010         | 2009       | % Change   |
|--|--------------|------------|------------|
| Long-term business adjusted operating profit           | 1,016        | 502        | 102%       |
| Banking business adjusted operating profit             | 181          | 193        | (6%)       |
| Asset management adjusted operating profit             | 30           | 42         | (29%)      |
| <b>Adjusted operating profit (IFRS basis, pre-tax)</b> | <b>1,227</b> | <b>737</b> | <b>66%</b> |

The Healthcare business showed a strong turnaround in 2010 as pricing and product changes and underwriting discipline helped stabilise claims costs in the Lifeline business – which delivered AOP of SEK26 million compared to a negative SEK42 million in 2009. The 2010 figure includes divestment costs of SEK20 million for the Lifeline branch in Norway.

Skandiabanken results were below 2009 levels, due mainly to lower net interest income and increased development costs. Skandiabanken Sweden suffered from the exceptionally low base interest rate during the first half, although this increased towards the end of the year. Credit losses remain very low (0.09% in 2010 compared to 0.14% in 2009), reflecting the traditionally low-risk nature of our lending business. Skandiabanken Norway grew its profits, due mainly to higher net interest income.

## Value of new business and margins

The value of new business decreased compared to 2009 – driven by lower new sales, negative operating assumption changes for anticipated price pressure in the Corporate segment, and expectations of more adverse persistency in the future. The APE margin increased from 19% to 21% due to a more profitable business mix resulting from a higher proportion of TPS business sales in Sweden and Match product sales in Denmark.

## MCEV results

Operating MCEV earnings after tax declined to SEK503 million, due to the negative assumption changes driving the decline in the value of new business. However, total MCEV increased over the year, due mainly to positive client fund performance.

## Net client cash flow

NCCF for the year was SEK7.4 billion, a decrease of 36% compared to 2009. This was driven by a combination of higher surrenders (because of higher fund value and an increase in partial surrenders), lower single premium sales and higher paid-ups in the occupational pension business.

## Funds under management

FUM were SEK145.4 billion at 31 December 2010, up 14% from the previous year. The increase is mainly due to the positive movement of equity markets.

The investment performance in the Swedish unit-linked portfolio was good in the fourth quarter, and our average client enjoyed investment performance of 6.2% for the quarter and 10.9% for the year. Clients have generally increased their risk exposure, with the majority of all net investments being allocated to Swedish, Asian and Emerging Markets equity funds. Fund performance has been strong over the 12-month period, with 63% of our funds performing above average compared to their peers.

## Outlook

The economic outlook for 2011 is positive, with forecast GDP growth of over 3% in Sweden and Norway and around 2% in Denmark, and public spending is under control. We believe household incomes will increase, that the debate over credit expansion is turning the emphasis towards savings, and increased activity in the equity market is attracting inflows. As a result of this, the Nordic savings market is expected to grow despite some ongoing concerns around the continued high level of unemployment. The competitive environment will continue to be challenging, with competition pushing down fee levels. The market is heading towards further fragmentation into two main segments: the advised market, with high levels of added value from financial advisers, and the 'self-service' market.

Management action continues to focus on improved sales, healthy margins over the long-term, reductions in the cost base, and improvement of the distribution and product offerings to enhance NCCF. We delivered cost savings of £2.5 million in 2010. In 2011, cost reduction activity will increase and we estimate restructuring costs of £30 million in the year.

## Long-Term Savings: Retail Europe

### Foundations laid for further development of the business

| Highlights (€m)                                       | 2010  | 2009   | % Change |
|---|-------|--------|----------|
| Adjusted operating profit (IFRS basis) (pre-tax)      | 60    | 25     | 140%     |
| Return on local equity*                               | 20%   | 9%     |          |
| Life assurance sales (APE)                            | 80    | 75     | 7%       |
| Unit trust/mutual fund sales                          | 27    | 27     | -        |
| PVNBP   | 597   | 603    | (1%)     |
| Value of new business                                 | 9     | (6)    | 150%     |
| APE margin  | 11%   | (8%)   | -        |
| PVNBP margin  | 1.4%  | (1.0%) |          |
| Operating MCEV earnings (covered business, post-tax)  | 77    | (49)   | 157%     |
| Return on embedded value (covered business, post-tax) | 12.8% | (7.9%) |          |

| Highlights (€bn)       | 2010 | 2009 | % Change |
|------------------------|------|------|----------|
| Net client cash flows  | 0.5  | 0.6  | (17%)    |
| Funds under management | 5.8  | 4.7  | 23%      |

\* Return on local equity is IFRS AOP (post-tax) divided by average shareholders' equity, excluding goodwill, PVIF and other acquired intangibles

### Overview

GDP growth improved in all our markets throughout 2010 following government stimulus packages and better conditions in export markets. Although labour markets improved in Germany and Switzerland, unemployment in Austria and Poland increased slightly. Equity markets rebounded from their 2009 lows, with the German DAX index posting a 2010 gain of 16%. Our customers continued to demand primarily guaranteed products and IFAs still view unit-linked policies with caution, preferring traditional life policies.

In the light of these challenges, Retail Europe's performance in 2010 has been very positive. Our sales improved on 2009 levels, primarily driven by Germany and Poland, we continued the formation of the Retail Europe organisation, and we reduced operating costs.

In addition to our sales and marketing activities, which were focused on the end customer, we also developed initiatives to maintain and grow relationships with our existing distribution partners. These initiatives, underpinned by strong cost containment, ensured significant improvement in our IFRS, MCEV and value of new business, with IFRS profits more than doubling. The transfer of our IT and client administration functions to South Africa continues, and our office in South Africa was officially opened in December 2010.

Although the Retail Europe business expects to be a Standard Formula entity under Solvency II, we have made excellent progress as part of the Group iCRaFT programme in ensuring that all of our processes and governance structures will be Solvency II compliant.

### Life sales summary

APE sales reached €80 million, an increase of 7% compared to 2009. Sales in Poland increased markedly, while Austria and Switzerland showed a slight decline. Although the unit-linked market in Germany has declined slightly, we increased our share of this market from 1.9% in the fourth quarter of 2009 to 2.2% in the fourth quarter of 2010.

| New business (€m)          | Gross Single Premiums |           |            | Gross Regular Premiums |           |           | Total APE |           |           | Total PVNBP |            |             |
|----------------------------|-----------------------|-----------|------------|------------------------|-----------|-----------|-----------|-----------|-----------|-------------|------------|-------------|
|                            | 2010                  | 2009      | +/-%       | 2010                   | 2009      | +/-%      | 2010      | 2009      | +/-%      | 2010        | 2009       | +/-%        |
| Germany                    | 31                    | 24        | 29%        | 29                     | 27        | 7%        | 32        | 30        | 7%        | 278         | 260        | 7%          |
| Poland                     | 21                    | 14        | 50%        | 18                     | 12        | 50%       | 20        | 14        | 43%       | 114         | 87         | 31%         |
| Austria                    | 7                     | 6         | 17%        | 17                     | 19        | (11%)     | 18        | 19        | (5%)      | 109         | 142        | (23%)       |
| Switzerland                | 14                    | 15        | (7%)       | 9                      | 11        | (18%)     | 10        | 12        | (17%)     | 96          | 114        | (16%)       |
| <b>Total Retail Europe</b> | <b>73</b>             | <b>59</b> | <b>24%</b> | <b>73</b>              | <b>69</b> | <b>6%</b> | <b>80</b> | <b>75</b> | <b>7%</b> | <b>597</b>  | <b>603</b> | <b>(1%)</b> |

The main driver of increased sales was new product launches. In Germany we launched the new single premium *Investmentpolice* product towards the end of the year, combining the tax benefits of a unit-linked contract with the transparency of a pure investment contract. In Poland we launched a new regular premium product, and in Switzerland we launched *Easy Combi*. All these launches were successful and we expect their impact to continue in 2011. We also made concerted efforts to improve our distributor relationships through marketing campaigns designed to support our partners during these difficult times.

### IFRS AOP results

IFRS AOP has increased significantly to €60 million, due to improved results in all countries. The main factors were lower administration expenses and higher fees – driven by higher fund-based fees resulting from improved equity markets.

### Net client cash flow

NCCF was €465 million for the year. The decline of €86 million on 2009 reflected the increase in fund values of surrenders due to positive equity markets, although persistency levels were broadly stable year-on-year.

# Business Review

## Funds under management

FUM of €5.8 billion at 31 December 2010 reflected a rise of 23% compared to 2009, largely driven by positive stock market performance.

## Value of new business and margins

The value of new business increased by €15 million to €9 million, with a PVNBP margin for the year of 1.4% and an APE margin of 11%. The main reasons for the improvement were higher new sales and successful expense management.

## MCEV results

The operating MCEV earnings after tax increased by over €100 million to €77 million compared to 2009, driven by positive experience variances and positive assumption changes for rebates and persistency.

## Outlook

We anticipate that macro-economic factors will continue to have a significant impact on our markets in 2011. The development of equity and bond markets will continue to be the key to restoring consumer confidence after the financial crisis. Our customers will also be impacted by unemployment levels and their own sense of job security. Ongoing Solvency II developments and the low interest rate environment will also provide challenges for traditional insurers. While this should be positive for the unit-linked market, it may intensify competition.

Our focus in 2011 is to extend our product range and distribution through growth initiatives in Germany and Poland. At the same time we will maintain our focus on capital efficiency and cost containment through our consolidated base in Berlin and our operations in South Africa. We will incur further implementation costs for outsourcing the administration and IT support teams to South Africa but will gain scope for operational leverage in due course.

## Long-Term Savings: Wealth Management

### A very positive year for Wealth Management

| Highlights (£m)                                       | 2010  | 2009   | % Change |
|---|-------|--------|----------|
| Adjusted operating profit (IFRS basis, pre-tax)       | 197   | 106    | 86%      |
| Return on local equity*                               | 14%   | 8%     |          |
| Life assurance sales (APE)                            | 734   | 617    | 19%      |
| Unit trust/mutual fund sales                          | 4,507 | 3,210  | 40%      |
| PVNBP   | 6,380 | 5,042  | 27%      |
| Value of new business (post-tax)                      | 66    | 49     | 35%      |
| APE margin  | 9%    | 8%     |          |
| PVNBP margin  | 1.0%  | 1.0%   |          |
| Operating MCEV earnings (covered business, post-tax)  | 112   | (4)    |          |
| Return on embedded value (covered business, post-tax) | 6.1%  | (0.3%) |          |

| Highlights (£bn)            | 2010 | 2009 | % Change |
|-----------------------------|------|------|----------|
| Net client cash flows (£bn) | 3.9  | 2.5  | 56%      |
| Funds under management      | 55.9 | 46.9 | 19%      |

\* Return on local equity is IFRS AOP (post-tax) divided by average shareholders' equity, excluding goodwill, PVIF and other acquired intangibles

### Overview

Wealth Management enjoyed a very positive year in 2010. We achieved significant year-on-year sales growth, margins improved and the cost reduction programme delivered £35 million of run-rate savings which contributed to improved profitability. The FTSE100 grew by 9% during the year, contributing to continued positive investor sentiment which in turn led to strong growth in FUM across our markets.

Sales grew across the business, particularly in the UK and Continental Europe. We continue to see a rapid shift in the UK towards both platform business with an insurance wrapper and mutual fund products. Although we do not target growth in market share as a KPI, Skandia UK's market share continued to grow in the third quarter of 2010, to 7.4% across all industry channels compared to 6.4% in the fourth quarter of 2009, suggesting the increased importance of the platform model. This is a record for Skandia in the UK and compares to a range of 3.5% to 5.5% over 2001-2007. The scale of our UK Platform, and our investment to deliver reliability and flexibility, position us ideally to lead and benefit from this industry shift; we are actively looking at how to further enhance our platform offering and rationalise our suite of products over the coming year. We are making good progress in building the Wealth Management operations and systems on a single operating model. We have also made excellent progress in implementing our Solvency II readiness programme, in conjunction with the Group-led iCRaFT initiative.

Throughout 2010, SIG's highly successful *Spectrum* range of risk-targeted funds has been launched on all the UK's major financial adviser platforms. The FUM of *Spectrum* exceeded the £750 million mark, and this range has now been successfully exported to Sweden as the *Skala* range.

# Business Review

## Life covered sales summary

APE sales were £734 million, a 19% increase on 2009. This is mainly attributable to sales on the UK and in Continental Europe, which improved by 28% (£76 million) and 50% (£52 million) respectively compared to 2009.

| New business (£m)              | Gross single premiums |              |            | Gross regular premiums |            |              | Total APE  |            |             | Total PVNBP  |              |            |
|--------------------------------|-----------------------|--------------|------------|------------------------|------------|--------------|------------|------------|-------------|--------------|--------------|------------|
|                                | 2010                  | 2009         | +/-%       | 2010                   | 2009       | +/-%         | 2010       | 2009       | +/-%        | 2010         | 2009         | +/-%       |
| <b>UK</b>                      |                       |              |            |                        |            |              |            |            |             |              |              |            |
| Pensions                       | 2,021                 | 1,452        | 39%        | 71                     | 70         | 1%           | 273        | 216        | 26%         |              |              |            |
| Bonds                          | 597                   | 473          | 26%        | -                      | -          |              | 60         | 47         | 28%         |              |              |            |
| Protection                     | -                     | -            |            | 10                     | 8          | 25%          | 10         | 8          | 25%         |              |              |            |
| Savings                        | -                     | -            |            | 9                      | 5          | 80%          | 9          | 5          | 80%         |              |              |            |
| <b>Total UK</b>                | <b>2,618</b>          | <b>1,925</b> | <b>36%</b> | <b>90</b>              | <b>83</b>  | <b>8%</b>    | <b>352</b> | <b>276</b> | <b>28%</b>  | <b>3,023</b> | <b>2,289</b> | <b>32%</b> |
| <b>International</b>           |                       |              |            |                        |            |              |            |            |             |              |              |            |
| Unit-linked                    | 324                   | 190          | 71%        | 44                     | 63         | (30%)        | 77         | 83         | (7%)        |              |              |            |
| Bonds                          | 1,253                 | 1,154        | 9%         | 23                     | 39         | (41%)        | 148        | 153        | (3%)        |              |              |            |
| <b>Total International</b>     | <b>1,577</b>          | <b>1,344</b> | <b>17%</b> | <b>67</b>              | <b>102</b> | <b>(34%)</b> | <b>225</b> | <b>236</b> | <b>(5%)</b> | <b>1,826</b> | <b>1,741</b> | <b>5%</b>  |
| <b>Continental Europe</b>      |                       |              |            |                        |            |              |            |            |             |              |              |            |
| Unit-linked                    | 1,490                 | 971          | 53%        | 9                      | 6          | 50%          | 157        | 105        | 50%         | 1,531        | 1,012        | 51%        |
| <b>Total Wealth Management</b> | <b>5,685</b>          | <b>4,240</b> | <b>34%</b> | <b>166</b>             | <b>191</b> | <b>(13%)</b> | <b>734</b> | <b>617</b> | <b>19%</b>  | <b>6,380</b> | <b>5,042</b> | <b>27%</b> |

## Unit trust / mutual fund sales summary

| New business (£m)              | 2010         | 2009         | +/-%       |
|--------------------------------|--------------|--------------|------------|
| UK                             | 3,256        | 2,090        | 56%        |
| International                  | 1,228        | 1,100        | 12%        |
| Continental Europe             | 23           | 20           | 15%        |
| <b>Total Wealth Management</b> | <b>4,507</b> | <b>3,210</b> | <b>40%</b> |

The strong UK Platform performance reflects the continued conversion of IFAs to platform business and particularly strong sales during the first half in the lead-up to the end of the tax year. APE sales of £239 million were up £100 million on 2009. Second half volume growth decreased, with re-registering activity slowing and a greater impact from the UK holiday season. The majority of the mutual fund sales growth is from the platform, where buoyant markets and increased ISA allowances made positive contributions in 2010 and late 2009. Gross inflows onto the platform were £5.2 billion in 2010 (2009:£3.3 billion) – an indicator of our proposition's success.

Continental Europe APE sales volumes of £157 million were strongly ahead of 2009's £105 million. Italy has been the main contributor to increased Europe sales, with very high sales earlier in the year partially driven by changes in tax legislation. The period covered by these tax changes has now expired, and volume growth has returned to normal levels as we continue to make progress through good distributor relationships.

APE sales volumes of £225 million in the offshore International market were 5% lower than the £236 million achieved in 2009, impacted by a managed decline in regular premium sales in Finland as a result of legislation changes in 2009.

The UK Legacy business APE sales volumes of £113 million were down by £24 million compared to 2009, due to a shift in market sentiment towards platform offers. Following a review of the legacy products, we decided to close some legacy products to new business.

## IFRS AOP results

IFRS AOP (pre-tax) increased by 86% to £197 million – primarily due to higher FUM, which provided a healthy boost to returns on equity because of the operating leverage in the business. FUM growth remains strongly positive, driven by NCCF and market growth.

As previously reported, the prior year AOP results benefited from the structural tax efficiency applicable to UK companies writing unit-linked business in the UK, together with the smoothing of previous years' deferred tax assets. These assets arose during the significant market volatility of the preceding two years where falls in the value of policyholder assets resulted in the recognition of significant deferred tax assets in the IFRS income statement, which were spread forward under AOP. The pre-tax smoothing for 2010 gave rise to a profit of £71 million, a similar amount to 2009. For 2011, the pre-tax impact will be a profit of £27 million, falling to nil thereafter. Within the MCEV earnings, these profits are recognised as they arise as investment variances.

With continued equity and bond market growth, the UK Life Companies have moved into a full XSI tax position. This raises the effective tax rate because it means that only a relatively small proportion of the Life dividend income is treated as belonging to the shareholder. This has increased the overall effective tax rate for Wealth Management to 22% in 2010. (2009: 19%)

## Value of new business and margins

The value of new business increased by £17 million to £66 million due to strong sales in UK Platform and Continental Europe combined with operating assumption changes at year-end 2010 across all markets in Wealth Management. This was partially offset by economic assumption changes in UK and Continental Europe (as a result of decreased assumed growth rates and increased future inflation) and the shift from UK Legacy to UK Platform offerings.

2010 PVNBP margin was level with 2009 at 1.0%, as growth in volumes and cost reductions were fully offset by the shift to the UK Platform offering, the decline in regular premium business sales and higher acquisition expenses in International.

## MCEV results

Covered business adjusted operating MCEV post-tax earnings increased by £116 million to £112 million. 2009 was significantly impacted by operating assumption changes reflecting surrender experience in International and UK Legacy. In 2010 VNB was higher and overall we saw a significant improvement in experience effects, especially persistency and rebates. However, persistency has worsened on the UK Legacy pension business as the market anticipates the implementation of the Retail Distribution Review. This has resulted in some product closures and consequently the MCEV assumptions have been strengthened. Planned return on MCEV was lower than in 2009 as a result of the reduction in the one-year yield on risk-free investments.

## Net client cash flow

NCCF for the year was £3.9 billion – up 56% on 2009, driven by strong contributions from the UK Platform and Italy, which outweighed surrenders in the UK Legacy book.

## Funds under management

FUM grew 19% to £55.9 billion, driven by strong NCCF and the positive market movements.

## Outlook

Our outlook for 2011 is optimistic, based on continuing positive investor sentiment. So far 2011 sales are in line with our expectations but below those of the prior year which included the one-off positive impact of the Italian tax shield and particularly significant UK Platform sales in the build up to the 2010 tax year-end. These were helped by April 2010 changes in pension rules coupled with rising investor confidence at the time of the 2010 ISA season.

We anticipate continued strong support for the platform model in all our markets and the shift in the UK market towards a simplified investment and pension product suite. Following the closure of a number of our UK Legacy products during 2010, we have put retention strategies in place for this part of the business – anticipating that we will continue to see net client outflows from this book of business in the build-up to implementation in 2013 of the changes resulting from the Retail Distribution Review. We expect final clarification of the review in a Policy Statement during the first half of 2011. We believe that we are well-placed for the RDR changes since a large proportion of our new business is already written on the basis of client-agreed adviser remuneration. In addition, we are considering plans to introduce a fully unbundled charging structure, under which we will pass on rebates to the customer in advance of December 2012.

Our focus on cost reduction will continue and we remain confident that we will meet our 2012 expense and ROE targets.

# Business Review

## Nedbank Group (Nedbank)

### Solid earnings growth

| Highlights (Rm)                                 | 2010          | 2009   | % Change |
|---|---------------|--------|----------|
| Adjusted operating profit (IFRS basis, pre-tax) | <b>6,799</b>  | 6,192  | 10%      |
| Headline earnings**                             | <b>4,900</b>  | 4,277  | 15%      |
| Net interest income**                           | <b>16,608</b> | 16,306 | 2%       |
| Non-interest revenue**                          | <b>13,215</b> | 11,906 | 11%      |
| Net interest margin**                           | <b>3.35%</b>  | 3.39%  |          |
| Credit loss ratio**                             | <b>1.36%</b>  | 1.52%  |          |
| Cost to income ratio**                          | <b>55.7%</b>  | 53.5%  |          |
| ROE**   | <b>11.8%</b>  | 11.8%  |          |
| ROE (excluding goodwill)**                      | <b>13.4%</b>  | 13.4%  |          |
| Core Tier 1 ratio                               | <b>10.1%</b>  | 9.9%   |          |

| As reported (£m)                                 | 2010       | 2009 | % Change |
|--|------------|------|----------|
| Adjusted operating profit (IFRS basis) (pre-tax) | <b>601</b> | 470  | 28%      |

\*\* As reported by Nedbank in its report to shareholders as at 31 December 2010

Certain of the Nedbank's reporting ratio calculations have been adjusted. The ratios for ROE have been restated with the denominator changing from simple average to daily average for equity and total asset values, respectively. The calculation of the credit loss ratio has been changed from simple - average advances to daily-average banking advances (thereby excluding trading advances from the calculation). Comparatives have been restated accordingly.

The full text of Nedbank's results for the year ended 31 December 2010, released on 28 February 2011, can be accessed on Nedbank's website <http://www.nedbankgroup.co.za/financial/2010AnnualResults/downloads/NedbankGroup.pdf>. The following is an extract:

### Banking environment

"Real gross domestic product (GDP) in South Africa grew by 2.8% in 2010 compared with a decline of 1.7% in 2009. The local economy had a strong start to the year, primarily driven by improved global demand for commodities and a rebound in manufacturing production off the depressed levels of 2009.

Economic activity was also boosted by strong infrastructural spending ahead of the FIFA 2010 World Cup and by the event itself, with consumer spending rising steadily for most of the year. However, fixed investment by the private sector contracted for the second year off the elevated levels seen in 2008.

Growth in both the emerging and some parts of the developed world surprised on the upside, underpinned by China's economic strength and continued demand for commodities and capital goods. Massive liquidity injections by major central banks and historically low interest rates helped to stimulate economic growth further, particularly in emerging economies. In contrast, the underlying economic and financial environment remained fragile in the developed world, with fiscal difficulties in parts of Europe and America, continued weakness in credit markets, limited employment growth and inflationary concerns returning in emerging economies.

Household finances improved in South Africa as debt started to decrease and interest rates eased to the lowest levels in 36 years. The recovery in the credit cycle has proved to be more modest compared with previous cycles. Household demand for credit was contained by the consumer debt burden remaining relatively high, increased regulatory requirements, policy uncertainty and employment growth only resuming late in the year. Against this background the ratio of household debt to disposable income declined marginally to 78.2% from just over 80% at the end of 2009. At the same time debt service costs decreased to 7.5%, the lowest level since June 2006, and are now at a level that is more conducive to improving economic growth in the consumer sector.

In the corporate sector excess capacity and uncertainty over the sustainability of the local and global recovery limited spending. Government fixed-investment spending, although continuing to contract, emerged as the main foundation for growth.

### Review of results

Nedbank showed solid earnings growth in a challenging economic environment. After a strong fourth quarter Nedbank finished the year with earnings marginally ahead of management's expectations set out in the third-quarter trading update. Headline earnings increased by 14.6% from R4,277 million to R4,900 million. Diluted headline earnings per share increased by 8.7% from 983 cents to 1,069 cents, slightly above the forecast range of 0% to 8% provided in the third-quarter trading update. Diluted earnings per share (DEPS) decreased by 5.3% from 1,109 cents to 1,050 cents. As previously reported, 2009 DEPS included a once-off International Financial Reporting Standards (IFRS) revaluation gain of R547 million (after taxation) from the acquisition and consolidation of the Nedbank Wealth joint ventures.

Nedbank recorded a return on average ordinary shareholders' equity (ROE), excluding goodwill, of 13.4% and a ROE of 11.8%.

Nedbank maintained its well-capitalised balance sheet with core Tier 1 capital at 10.1% (2009: 9.9%), while advances grew by 5.5%, with market share gains in most lending classes aside from home loans.

The net asset value per share grew by 8.0% from 9,100 cents in December 2009 to 9,831 cents in December 2010. This is a pleasing result given the increase in the average number of shares in issue following the acquisition of the joint ventures from Old Mutual and scrip dividend distributions last year.

## Financial performance

### Net interest income (NII)

NII increased by 1.9% to R16,608 million (2009: R16,306 million) and Nedbank's net interest margin held up well at 3.35% (2009: 3.39%), despite the impact of lower interest rates. Average interest-earning banking assets increased by 3.0% (2009 growth: 9.0%).

Margin compression was less than expected. Margin pressure primarily resulted from a smaller endowment from lower average interest rates and the cost of lengthening the funding profile. This was partially offset by the widening of margins from asset pricing and a change in asset mix, including strong growth in Nedbank's retail motor finance and personal loans businesses, a relative prime/Johannesburg Interbank Agreed Rate (JIBAR) reset benefit as a result of less aggressive interest rate cuts during 2010 compared with 2009, and a decline in the market cost of term liquidity during the last quarter of the year.

### Impairments charge on loans and advances

The credit loss ratio on the banking book improved to 1.36% for the period (2009: 1.52% (restated)).

The reduction in the impairments charge was driven mostly by Nedbank Retail, particularly in the secured portfolios that had lagged the recovery in the unsecured portfolios. Lower interest rates and the stabilising of job losses contributed to the retail credit loss ratio improving significantly from 3.17% in 2009 to 2.67%. Nedbank further strengthened its provisioning by reducing certain security assumptions in specific impairments, increasing levels of portfolio provisioning on debt restructures of R97 million and lengthening the bad debt emergence period assumptions within Nedbank Retail home loans at an additional cost of R114 million within portfolio impairments.

The credit portfolios in Nedbank Corporate, Nedbank Business Banking and Nedbank Wealth are of high quality and credit loss ratios remained within or below the respective clusters' through-the-cycle levels. Nedbank Capital impairments increased in the higher-risk private equity portfolio.

Defaulted advances declined by 1.04% to R26,765 million (2009: R27,045 million). Defaulted advances to total advances decreased from its peak of 6.01% in June 2010 to 5.63%. Total impairment provisions increased by 14.6% to R11,226 million (2009: R9,798 million) resulting in strengthened coverage ratios.

### Non-interest revenue (NIR)

Nedbank's focus on NIR generated growth across all the clusters. NIR increased 11.0% to R13,215 million (2009: R11,906 million). On a comparable basis NIR growth was 10.5% after adjusting for the acquisitions in 2009 of the Nedbank Wealth joint ventures and before fair-value adjustments. The ratio of NIR to expenses improved to 79.6% (2009: 78.8%).

Core fee and commission income grew strongly by 13.7% (like-for-like growth of 11.2%, adjusting for the Nedbank Wealth joint ventures) through volume growth, new products and new client acquisitions. Nedbank reduced its retail transactional banking charges in 2006 and 2007. Since then price increases have been modest, with 2010 increases in line with inflation, resulting in current banking charges being similar to 2005 levels.

Insurance income grew 39.8% (18.4% on a like-for-like basis, adjusting for the Nedbank Wealth joint ventures) primarily as a result of the provision of insurance on a fast-growing personal loans book as well as the introduction of new products and improved levels of cross-selling.

Trading income increased by 13.9% to R2,096 million (2009: R1,841 million). In 2009 interest rates decreased at a rapid pace and created favourable trading conditions. Low volatility in the first half of 2010 resulted in difficult conditions for global markets and continued pressure on foreign exchange volumes and margins. This was offset by improved equity trading in the second half of the year.

Private equity markets remained constrained throughout the year. Listed- property private equity investments showed some modest gains. Overall NIR from the private equity portfolios decreased by 25.0%.

NIR was negatively impacted by R213 million (2009: R6 million profit) over the period as a result of the adverse fair-value adjustments of Nedbank's subordinated debt resulting from the narrowing of credit spreads. Nedbank Corporate also reflected a negative fair-value adjustment of R55 million (2009: R72 million profit) due to a downward movement in the yield curve and related convexity in the fixed-rate advances book and associated interest rate swaps.

### Expenses

Nedbank has maintained a strong cost discipline over an extended period, resulting in the increase in expenses remaining below the market guidance given at the beginning of 2010. Expenses grew by 9.9% to R16,598 million (2009: R15,100 million). The increase was partly due to the acquisition of the Nedbank Wealth joint ventures and the consolidation of Merchant Bank of Central Africa. Expenses increased by 8.5% on a comparable basis.

### Taxation

The taxation charge (excluding taxation on non-trading and capital items) increased by 10.9% to R1,366 million (2009: R1,232 million) arising from profit growth adjusted for dividend income as a proportion of total income being lower than in 2009, the lower provision for secondary tax on companies, owing to an increase of shareholders (81.5%) who elected to take scrip for the 2009 final dividend distribution (2008 final dividend distribution: 32.0%), and the reduced accounting effect from structured finance transactions that continued to unwind.

The effective tax rate increased marginally from 20.2% to 20.7%.

### Non-trading income

Income after taxation from non-trading and capital items decreased to a R89 million loss from a R549 million profit in 2009. The main component of this was an anticipated R34 million writedown on Imperial Bank computer software following the acquisition. The 2009 profit arose from the



# Business Review

accounting-related revaluation of BoE (Pty) Limited and Nedgroup Life Assurance Company Limited on the acquisition of the remaining shares in the joint ventures.

## Capital

Nedbank's capital adequacy ratios remain well above its internal targets and marginally ahead of December 2009. This resulted from ongoing capital and risk-weighted asset optimisation, a strategic focus on 'managing for value' and a 0.6% increase in capital from higher levels of scrip take-up and other share issues for staff incentives and black economic empowerment (BEE) structures. This growth was offset by the approximately 1.3% negative impact on Nedbank's capital adequacy ratios from the cash acquisition of 49.9% of Imperial Bank and the treatment of capitalised software as an intangible asset rather than as a fixed asset for capital adequacy purposes.

| Capital adequacy    | FY 2010 ratio | FY 2009 ratio | Target range   | Regulatory minimum |
|---------------------|---------------|---------------|----------------|--------------------|
| Core Tier 1 ratio   | <b>10.1%</b>  | <b>9.9%</b>   | 7.5% to 9.0%   | 5.25%              |
| Tier 1 ratio        | <b>11.7%</b>  | <b>11.5%</b>  | 8.5% to 10.0%  | 7.00%              |
| Total capital ratio | <b>15.0%</b>  | <b>14.9%</b>  | 11.5% to 13.0% | 9.75%              |

\* Capital adequacy ratios include unappropriated profit.

## Liquidity

Nedbank's liquidity position remains sound. Nedbank continues to focus on diversifying its funding base, lengthening its funding profile and maintaining appropriate liquidity buffers. Nedbank increased its long-term funding ratio from increased capital market issuances under the domestic medium-term note programme (R6.23 billion) and also increased the duration in the money market book. Nedbank's liquidity position is further supported by a strong loan-to-deposit ratio of 97% and a low reliance on interbank and foreign currency funding. Nedbank is able to leverage off its favourable retail, commercial and wholesale deposit mix, which compares well with domestic industry averages.

## Loans and advances

Nedbank continued to make good progress in improving asset quality, and active management of the bank's portfolios towards higher-economic-profit businesses resulted in slower asset growth in selected areas. Nedbank grew advances ahead of the industry at 5.5% to R475 billion (2009: R450 billion).

## Deposits

Deposits increased by 4.5% to R490 billion (2009: R469 billion). Optimising the mix of the deposit book remains a key focus in reducing the high cost of longer-term and professional funding. This is critical as banks compete more aggressively for lower-cost deposit pools with longer behavioural duration and as they start to take cognisance of the possible Basel III liquidity ratios. Low interest rates, coupled with low domestic savings levels and the deleveraging of consumers, led to modest growth in retail deposits during 2010. Relatively higher deposit growth in the wholesale sector indicated increasing working capital and available capacity among corporates. Throughout the year demand for higher-yielding negotiable certificates of deposit remained strong within the professional funds and corporate markets.

## Outlook

Lower domestic interest rates and rising levels of income should boost consumer spending. Together with improving global demand, this is expected to increase confidence levels and lead to better consumer demand and capital formation in 2011 and further momentum in 2012.

Retail banking credit growth should fare better as household credit demand improves, house prices edge higher and impairments moderate. Corporate markets are expected to show modest improvement, while the small and medium enterprise (SME) market is likely to remain under pressure until fixed-investment activity improves.

Government spending should continue to underpin growth, although this is expected to be limited by the reduction in fiscal deficits over the medium term. Government's stronger focus on job creation is also positive and much will depend on the ability to create a more enabling environment for business growth. Key to this will be improvements in the building of infrastructure and a more conducive and certain regulatory and policy environment to reduce the medium-term constraints on economic growth.

Nedbank is well-placed for earnings growth in 2011 and remains on track to meet its medium- to long-term financial targets in 2013. Nedbank will continue to invest to generate sustainable revenue growth, underpinned by ongoing cost optimisation and efficiency improvements. Growing the bank's overall franchise and maintaining momentum on the turnaround in the Retail Cluster, supported by a liquid and well-capitalised balance sheet, are key to delivering sustainable growth.

Margins should widen slightly, given that interest rates are expected to remain unchanged, and hence the negative effect of assets repricing quicker than liabilities out to three months will decrease. In addition, the cost of term liquidity is expected to decline as more expensive deposits mature and as below-trend economic growth continues, albeit at higher levels than last year. Overall advances growth is expected to be in the mid to upper single digits.

Impairments are expected to continue reducing in line with the improved quality of assets supported by asset pricing on new advances that appropriately reflects risk and the related cost of funds. The credit loss ratio is currently expected to decrease but to remain above Nedbank's target range in 2011.

Transactional volumes are expected to increase as the economy improves and Nedbank's focus on growing primary clients is maintained.

Nedbank's medium-term targets remain unchanged."

## Mutual & Federal (M&F)

### Strong performance following renewed focus

| Highlights (Rm)                                 | 2010  | 2009  | % Change |
|---|-------|-------|----------|
| Underwriting result                             | 519   | 140   | 271%     |
| Long-term investment return (LTIR)              | 639   | 791   | (19%)    |
| Restructuring costs                             | (8)   | (13)  | 38%      |
| Income from associates                          | 12    | -     | -        |
| Adjusted operating profit (IFRS basis, pre-tax) | 1,162 | 918   | 27%      |
| Gross premiums                                  | 8,442 | 8,456 | -        |
| Earned premiums                                 | 6,859 | 6,874 | -        |
| Claims ratio                                    | 63.8% | 68.7% |          |
| Combined ratio                                  | 92.4% | 98.0% |          |
| Solvency ratio                                  | 73%   | 56%   |          |
| Return on equity                                | 19.0% | 21.2% |          |

| As reported (£m)                                | 2010 | 2009 | % Change |
|---|------|------|----------|
| Adjusted operating profit (IFRS basis, pre-tax) | 103  | 70   | 47%      |

### Overview

Mutual & Federal delivered a very strong underwriting result in 2010, with exceptional performance from the commercial, corporate and credit insurance portfolios assisted by a relatively benign claims environment. As a result of seasonal weather factors our performance in the second half is traditionally stronger than the first half, which is affected by heavy rains. This was particularly marked in 2010, when our performance steadily improved throughout the year after a weak first quarter, also helped by the absence of significant fire claims.

We were pleased to record an improvement in client service in 2010. This was confirmed when we took second place in the Ask Afrika survey on short-term insurance, which assesses customer service standards. The year also marked our first entry into the direct insurance market, with the launch of our iWYZE initiative in May. This has progressed extremely well, although it will continue to require investment in the near term. We are also making good progress in our preparation for Solvency II and its equivalent in South Africa, which is known as Solvency Assessment and Management (or SAM).

### Underwriting and IFRS AOP results

Premiums remained flat on 2009 levels, largely as a result of the cancellation in late 2009 and early 2010 of some unprofitable portfolios that had consistently run at claims ratios above 80%. Our claims ratio decreased from 68.7% to 63.8% due to the favourable trading environment and focused management of claims costs.

The improving quality of our book of business, combined with a focus in 2010 on claims costs and improved pricing, allowed the business to deliver an underwriting result of 7.6%. Our operations in Namibia and Botswana continued to generate about 11% of our underwriting result between them.

Our expenses increased by 13% – primarily driven by inflation and profit-related pay, given the improved underwriting result.

### Solvency margin

There has been a pleasing improvement in the solvency ratio (the ratio of net assets to net premiums) from 56% to 73%. This reflects the capital generated from the much-improved underwriting result and investment income.

### Outlook

In 2011 we will continue to see the benefits of increased collaboration with OMSA, both in further growth of the iWYZE initiative, and as we identify opportunities for capital optimisation. Under our new Managing Director, Peter Todd, we have begun delivering our three-year strategic step-change plan. This aims to enhance profitability by focusing on growth while improving operating efficiencies across the business. However, the benign local claims environment in 2010 is likely to see a softening in rates in 2011, which will put some pressure on underwriting margins.

While we will continue to maintain our focus on the broker market and look to grow our share of this channel through improved systems and service, 2011 will see a growing contribution from alternative channels. Besides the expected growth from iWYZE, we will increase our focus on niche businesses through alternative channels.

Following the successful buy-out of minorities in 2010, the business is well positioned to extract more value from full membership of the Old Mutual Group. Coupled with a strong balance sheet and a greater focus on building new distribution channels, this should see us grow revenue while improving our expense ratios.

# Business Review

## US Asset Management

**Profits up 4% on higher average FUM, improving investment performance as markets began returning to fundamentals**

| <b>Highlights (\$m)</b>                         | <b>2010</b>   | <b>2009</b> | <b>% Change</b> |
|---|---------------|-------------|-----------------|
| Adjusted operating profit (IFRS basis, pre-tax) | <b>135</b>    | 130         | 4%              |
| Return on Capital                               | <b>4.2%</b>   | 4.1%        |                 |
| Operating margin                                | <b>18%</b>    | 18%         |                 |
| Net client cash flows (\$bn)                    | <b>(18.0)</b> | (7.1)       | (254%)          |
| Funds under management (\$bn)                   | <b>259</b>    | 261         | (1%)            |

| <b>As reported (£m)</b>                         | <b>2010</b> | <b>2009</b> | <b>% Change</b> |
|---|-------------|-------------|-----------------|
| Adjusted operating profit (IFRS basis, pre-tax) | <b>87</b>   | 83          | 5%              |

### Overview

USAM's global, multi-boutique business comprises 18 distinct investment affiliates and over 160 investment strategies. FUM across all affiliates totalled \$259 billion, of which \$217 billion (84%) was in long-term investment products and \$42 billion (16%) was in short-term products. Long-term investment products were broadly diversified across equities (\$127 billion, 49%), fixed income (\$60 billion, 23%) and alternative investments (\$29 billion, 11%). Short-term products comprised stable value funds (\$41 billion, 16%) and cash (\$1 billion, <1%). The business continues to invest in growth by expanding investment capabilities and growing its global client base through international distribution capabilities.

USAM profits improved 4% over 2009 due primarily to higher average FUM, although year-end FUM were flat versus 2009. Gains from market appreciation and net inflows into fixed income products were offset by net outflows from equity, alternative and stable value products. Investment performance improved during the year, particularly in the second half, as markets showed signs of returning to more traditional, fundamental factors and rewarding disciplined investment styles accordingly.

In February 2011 we announced the appointment of Peter Bain as USAM's new Chief Executive Officer. Peter has over two decades of experience in leading and advising asset management firms, and his appointment is a key milestone in the firm's growth plans.

### Investment performance

Investment performance improved during the year across global equity, non-US equity and fixed income products. US equity strategies underperformed for the year as a whole, but showed improvement in the fourth quarter as the return to fundamentals began to appear in US markets. Stable value products underperformed due to the impact of prior years' underperformance in current-year returns.

In aggregate, 51% of FUM across all strategies outperformed their respective benchmarks for the year, while 38% and 67% of FUM outperformed over three- and five-year time periods. This compared to 51%, 58% and 61% in 2009. Excluding short-term products, 60%, 45% and 60% of long-term assets outperformed over one-, three- and five-year periods. Management remains confident that its multi-boutique model, which encourages investment conviction and retention of investment talent, will deliver investment outperformance over full market cycles.

### IFRS AOP results

IFRS adjusted operating profit increased 4% or \$5 million to \$135 million in 2010, benefiting from higher average FUM. Management fees were up \$50 million or 8%, while other revenues were flat. Performance fees increased during the second half compared to the second half of 2009, reflecting recent improvements in investment performance.

### Operating margin and cost management

Operating margin of 18% was consistent with 2009, although we realised annual expense savings of \$23 million through restructuring actions undertaken in 2009.

Total expenses were 8% or \$46 million higher than 2009. The increase was driven by higher variable compensation, in line with revenue growth, one-time charges associated with acceleration of the DAC write-off given net cash outflows in 2010, and equity plan implementations.

### Net client cash flows

Net client cash outflows totalled \$18 billion (2009: \$7.1 billion) as net inflows into fixed income products were offset by outflows in equity, alternative and stable value products. Similar trends were observed in our US peer group. Net outflows were primarily driven by rebalancing-related withdrawals from continuing clients as both institutions and individuals continued to favour fixed income over equity investments during the year. The bulk of the net outflows were concentrated in three affiliates and were weighted towards the second half, traditionally a peak period for mandate changes. Gross inflows from new accounts exceeded \$10 billion as all 18 USAM affiliates won new business during the year, with fixed income and international equity products attracting the bulk of new investment.

### Funds under management

FUM were \$259 billion at the year-end (2009: \$261 billion). The USAM business is broadly diversified, with for example international and global equity products accounting for 22% of the FUM. Non-US clients accounted for 29% of FUM. The addition of Echo Point Investment Management in October brought \$1.7 billion in FUM, while the sale of Thomson Horstmann & Bryant reduced FUM by \$1.7 billion. The restructuring of the discontinued US Life business portfolio resulted in the transfer of \$5.4 billion of FUM from USAM during the year.

## Affiliate developments

Echo Point Investment Management began operation as a USAM affiliate on 1 October 2010, launching with \$1.7 billion in FUM in international growth equities. During the fourth quarter the firm received additional investment commitments from two current clients as it demonstrated its ability to operate effectively in a multi-boutique structure.

## Product and distribution developments

Barrow, Hanley, Mewhinney & Straus surpassed \$1.9 billion FUM in its international value product as investors bought into this non-US equity application of the firm's proven expertise in value investing. The firm also launched a global equity product in the fourth quarter, and with a mandate from Old Mutual's South African business, the product now has \$1.0 billion in FUM.

Larch Lane Advisors launched the Alpha Evolution Fund, a fund of hedge funds that leverages the firm's expertise in early-stage hedge funds by identifying and investing in smaller and/or newer funds. Target investors for Alpha Evolution are primarily institutions that are unable to commit to a long lock-up of their capital because of liquidity guidelines, but want the potential benefits of an investment in early-stage hedge funds.

USAM affiliates launched several new UCITS vehicles in 2010 to tap global investors' growing preference for registered pooled vehicles. Rogge Global Partners (Global High Yield), Acadian Asset Management (Emerging Market Equities) and Heitman (Global REIT) each introduced new UCITS products that expand the global marketability of their respective investment capabilities.

Our global distribution continued to expand, with the addition of new staff and the opening of an office in the Middle East. We continue to focus our US retail distribution efforts on professional buyer channels that value the institutional orientation of USAM affiliates.

## Outlook

During the recent period of market dislocation, investors and their advisers increased their focus on macro investment performance rather than investing on a fundamentals basis. Many USAM affiliates found it challenging to deliver superior performance in these conditions, and this contributed to net cash outflows. However, 2010 saw the beginning of a return to fundamentals-based investing and our investment performance improved as a result. If US markets maintain this trend in 2011, we are well positioned to achieve further improvements in investment performance and, over time, a reversal of net client cash outflows. In an environment where investors begin to increase their risk appetite and migrate towards equities, our extensive equity product portfolio is positioned to capture its share of growing flows. The growing attractiveness of non-US equity exposure in both investment allocation and equity management should favour the USAM business model and strategy.

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

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, gives a true and fair view of the assets, liabilities, financial position and profit of the Group and the undertakings included in the consolidation taken as a whole;
- The Group Finance Director's review and the Business review include a fair view of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the important events, principal risks and uncertainties that they face.

Julian Roberts  
Group Chief Executive

Philip Broadley  
Group Finance Director

08 March 2011

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# Consolidated income statement

For the year ended 31 December 2010

|   |       | £m                                |                                    |
|---|-------|-----------------------------------|------------------------------------|
|   | Notes | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009* |
| <b>Revenue</b>  |       |                                   |                                    |
| Gross earned premiums   | B3    | 3,582                             | 3,020                              |
| Outward reinsurance   |       | (305)                             | (267)                              |
| Net earned premiums   |       | 3,277                             | 2,753                              |
| Investment return (non-banking)   |       | 10,791                            | 11,112                             |
| Banking interest and similar income   |       | 4,082                             | 3,989                              |
| Banking trading, investment and similar income                                      |       | 204                               | 168                                |
| Fee and commission income, and income from service activities                       |       | 3,061                             | 2,422                              |
| Other income  |       | 159                               | 196                                |
| <b>Total revenues</b>   |       | <b>21,574</b>                     | <b>20,640</b>                      |
| <b>Expenses</b>   |       |                                   |                                    |
| Claims and benefits (including change in insurance contract provisions)             |       | (5,039)                           | (3,786)                            |
| Reinsurance recoveries  |       | 227                               | 200                                |
| Net claims and benefits incurred  |       | (4,812)                           | (3,586)                            |
| Change in investment contract liabilities   |       | (6,899)                           | (8,345)                            |
| Losses on loans and advances  |       | (552)                             | (511)                              |
| Finance costs   |       | (269)                             | (322)                              |
| Banking interest payable and similar expenses                                       |       | (2,519)                           | (2,627)                            |
| Fee and commission expenses, and other acquisition costs                            |       | (963)                             | (728)                              |
| Other operating and administrative expenses   |       | (3,714)                           | (3,072)                            |
| Goodwill impairment   | C1(b) | (1)                               | (266)                              |
| Change in third-party interest in consolidated funds                                |       | (388)                             | (470)                              |
| Amortisation of PVIF and other acquired intangibles                                 | C1(b) | (297)                             | (312)                              |
| <b>Total expenses</b>   |       | <b>(20,414)</b>                   | <b>(20,239)</b>                    |
| Share of associated undertakings' and joint ventures' profit/(loss) after tax       |       | 7                                 | 2                                  |
| Loss on disposal of subsidiaries, associated undertakings and strategic investments | C1(c) | (22)                              | (50)                               |
| <b>Profit before tax</b>  |       | <b>1,145</b>                      | <b>353</b>                         |
| Income tax (expense)/credit   | D1(a) | (456)                             | (400)                              |
| <b>Profit/(loss) from continuing operations after tax</b>                           |       | <b>689</b>                        | <b>(47)</b>                        |
| Discontinued operations   |       |                                   |                                    |
| Loss from discontinued operations after tax   | H1    | (713)                             | (71)                               |
| <b>Loss after tax for the financial year</b>  |       | <b>(24)</b>                       | <b>(118)</b>                       |
| Attributable to   |       |                                   |                                    |
| Equity holders of the parent  |       | (282)                             | (340)                              |
| Non-controlling interests   |       |                                   |                                    |
| Ordinary shares   | F2(a) | 196                               | 158                                |
| Preferred securities  | F2(a) | 62                                | 64                                 |
| <b>Loss after tax for the financial year</b>  |       | <b>(24)</b>                       | <b>(118)</b>                       |
| <b>Earnings per share</b>   |       |                                   |                                    |
| Basic earnings per share based on profit from continuing operations (pence)         |       | 8.2                               | (6.3)                              |
| Basic earnings per share based on loss from discontinued operations                 |       | (14.7)                            | (1.5)                              |
| <b>Basic earnings per ordinary share (pence)</b>                                    | C3(a) | <b>(6.5)</b>                      | <b>(7.8)</b>                       |
| Diluted earnings per share based on profit from continuing operations (pence)       |       | 7.4                               | (6.3)                              |
| Diluted earnings per share based on loss from discontinued operations               |       | (13.5)                            | (1.5)                              |
| <b>Diluted earnings per ordinary share (pence)</b>                                  | C3(a) | <b>(6.1)</b>                      | <b>(7.8)</b>                       |
| Weighted average number of shares – millions  | C3(a) | 4,859                             | 4,758                              |

\*The year ended 31 December 2009 has been restated to reflect US Life as discontinued (see note A1).

# Consolidated statement of comprehensive income

For the year ended 31 December 2010

|   | Notes | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009* |
|---|-------|-----------------------------------|------------------------------------|
|   |       | <b>£m</b>                         |                                    |
| <b>Profit/(loss) after tax for the financial year</b>                                   |       | <b>(24)</b>                       | (118)                              |
| <b>Other comprehensive income for the financial year</b>                                |       |                                   |                                    |
| Fair value (losses)/gains   |       |                                   |                                    |
| Property revaluation  |       | <b>26</b>                         | (10)                               |
| Net investment hedge  |       | <b>(87)</b>                       | (41)                               |
| Available-for-sale investments  |       |                                   |                                    |
| Fair value gains/(losses)   |       | <b>32</b>                         | 112                                |
| Recycled to the income statement  |       | -                                 | 13                                 |
| Shadow accounting   |       | <b>(15)</b>                       | 36                                 |
| Currency translation differences/exchange differences on translating foreign operations |       | <b>1,039</b>                      | 334                                |
| Other movements   |       | <b>31</b>                         | 21                                 |
| Income tax relating to components of other comprehensive income                         | D1(c) | <b>13</b>                         | 13                                 |
| Total other comprehensive income for the financial year from continuing operations      |       | <b>1,039</b>                      | 478                                |
| Total other comprehensive income for the financial year from discontinued operations    |       | <b>112</b>                        | 750                                |
| <b>Total other comprehensive income for the financial year</b>                          |       | <b>1,151</b>                      | 1,228                              |
| <b>Total comprehensive income for the financial year</b>                                |       | <b>1,127</b>                      | 1,110                              |
| Attributable to   |       |                                   |                                    |
| Equity holders of the parent  |       | <b>594</b>                        | 709                                |
| Non-controlling interests   |       |                                   |                                    |
| Ordinary shares   |       | <b>428</b>                        | 334                                |
| Preferred securities  |       | <b>105</b>                        | 67                                 |
| <b>Total comprehensive income for the financial year</b>                                |       | <b>1,127</b>                      | 1,110                              |

\* The year ended 31 December 2009 has been restated to reflect US Life as discontinued (see note A1).

# Reconciliation of adjusted operating profit to profit after tax

For the year ended 31 December 2010

|  |       | £m                                |                                    |
|--|-------|-----------------------------------|------------------------------------|
|  | Notes | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009* |
| <b>Core operations</b>                                 |       |                                   |                                    |
| Long-Term Savings                                      | B2    | 897                               | 636                                |
| Nedbank  | B2    | 601                               | 470                                |
| M&F  | B2    | 103                               | 70                                 |
| USAM   | B2    | 87                                | 83                                 |
|  |       | <b>1,688</b>                      | 1,259                              |
| Finance costs  |       | (128)                             | (104)                              |
| Long term investment return on excess assets           |       | 31                                | 91                                 |
| Interest payable to non-core operations – Bermuda      |       | (55)                              | (40)                               |
| Interest receivable from non-core operations – US Life |       | 16                                | 12                                 |
| Other shareholders' expenses                           |       | (71)                              | (85)                               |
| <b>Adjusted operating profit</b>                       |       | <b>1,481</b>                      | 1,133                              |
| Adjusting items  | C1(a) | (482)                             | (973)                              |
| Non-core operations                                    | B2    | (3)                               | 1                                  |
| <b>Profit before tax (net of policyholder tax)</b>     |       | <b>996</b>                        | 161                                |
| Income tax attributable to policyholder returns        | B2    | 149                               | 192                                |
| <b>Profit before tax</b>                               |       | <b>1,145</b>                      | 353                                |
| Total income tax (expense)/credit                      | D1(a) | (456)                             | (400)                              |
| Profit/(loss) from continuing operations after tax     |       | 689                               | (47)                               |
| Loss from discontinued operations after tax            | H1    | (713)                             | (71)                               |
| <b>Loss after tax for the financial year</b>           |       | <b>(24)</b>                       | (118)                              |

## Adjusted operating profit after tax attributable to ordinary equity holders of the parent

|  |       | £m                                |                                    |
|--|-------|-----------------------------------|------------------------------------|
|  | Notes | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009* |
| <b>Adjusted operating profit</b>   |       | <b>1,481</b>                      | 1,133                              |
| Tax on adjusted operating profit   | D1(d) | (347)                             | (283)                              |
| <b>Adjusted operating profit after tax</b>   |       | <b>1,134</b>                      | 850                                |
| Non-controlling interests – ordinary shares  | F2(a) | (217)                             | (181)                              |
| Non-controlling interests – preferred securities   | F2(a) | (62)                              | (64)                               |
| <b>Adjusted operating profit after tax attributable to ordinary equity holders of the parent</b> |       | <b>855</b>                        | 605                                |
| Adjusted weighted average number of shares – (millions)  | C3(b) | <b>5,359</b>                      | 5,229                              |
| <b>Adjusted operating earnings per share – (pence)</b>   | C3(b) | <b>16.0</b>                       | 11.6                               |

\*The year ended 31 December 2009 has been restated to reflect US Life as discontinued (see note A1).

### Basis of preparation

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

For core life assurance and general insurance businesses, adjusted operating profit is based on a long-term investment return, including investment returns on life funds' investments in Group equity and debt instruments, and is stated net of income tax attributable to policyholder returns. For the US Asset Management business it includes compensation costs in respect of certain long-term incentive schemes defined as non-controlling interests in accordance with IFRS. For all core businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, revaluations of put options related to long-term incentive schemes, profit/(loss) on 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. Bermuda and US Life, which are non-core, are not included in adjusted operating profit.

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 non-controlling interests. It excludes income attributable to Black Economic Empowerment trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and Black Economic Empowerment trusts.



# Consolidated statement of financial position

At 31 December 2010

|  |       | <b>£m</b>                 |                           |
|--|-------|---------------------------|---------------------------|
|  | Notes | At<br>31 December<br>2010 | At<br>31 December<br>2009 |
| <b>Assets</b>  |       |                           |                           |
| Goodwill and other intangible assets                         |       | 4,965                     | 5,159                     |
| Mandatory reserve deposits with central banks                |       | 1,079                     | 882                       |
| Property, plant and equipment                                |       | 1,015                     | 828                       |
| Investment property  |       | 2,040                     | 1,759                     |
| Deferred tax assets  |       | 416                       | 570                       |
| Investments in associated undertakings and joint ventures    |       | 162                       | 135                       |
| Deferred acquisition costs                                   |       | 1,534                     | 3,138                     |
| Reinsurers' share of life assurance policyholder liabilities |       | 982                       | 1,296                     |
| Reinsurers' share of general insurance liabilities           |       | 122                       | 120                       |
| Deposits held with reinsurers                                |       | 2                         | 146                       |
| Loans and advances   |       | 51,778                    | 42,393                    |
| Investments and securities                                   |       | 106,153                   | 98,461                    |
| Current tax receivable                                       |       | 156                       | 169                       |
| Client indebtedness for acceptances                          |       | 190                       | 170                       |
| Trade, other receivables and other assets                    |       | 3,932                     | 3,051                     |
| Derivative financial instruments – assets                    |       | 2,503                     | 2,546                     |
| Cash and cash equivalents                                    |       | 4,132                     | 2,982                     |
| Non-current assets held for sale                             | H2    | 12,391                    | 1                         |
| <b>Total assets</b>  |       | <b>193,552</b>            | <b>163,806</b>            |
| <b>Liabilities</b>   |       |                           |                           |
| Life assurance policyholder liabilities                      |       | 98,631                    | 93,876                    |
| General insurance liabilities                                |       | 397                       | 372                       |
| Third-party interests in consolidated funds                  |       | 3,584                     | 2,906                     |
| Borrowed funds   | E1    | 4,204                     | 3,309                     |
| Provisions   | F1    | 260                       | 263                       |
| Deferred revenue   |       | 730                       | 654                       |
| Deferred tax liabilities                                     |       | 858                       | 905                       |
| Current tax payable  |       | 238                       | 210                       |
| Trade, other payables and other liabilities                  |       | 5,661                     | 4,305                     |
| Liabilities under acceptances                                |       | 190                       | 170                       |
| Amounts owed to bank depositors                              |       | 53,236                    | 44,135                    |
| Derivative financial instruments – liabilities               |       | 1,870                     | 1,990                     |
| Non-current liabilities held for sale                        | H2    | 12,219                    | -                         |
| <b>Total liabilities</b>                                     |       | <b>182,078</b>            | <b>153,095</b>            |
| <b>Net assets</b>  |       | <b>11,474</b>             | <b>10,711</b>             |
| <b>Shareholders' equity</b>                                  |       |                           |                           |
| Equity attributable to equity holders of the parent          |       | 8,951                     | 8,464                     |
| Non-controlling interests                                    |       |                           |                           |
| Ordinary shares  | F2(b) | 1,763                     | 1,537                     |
| Preferred securities   | F2(b) | 760                       | 710                       |
| Total non-controlling interests                              |       | 2,523                     | 2,247                     |
| <b>Total equity</b>  |       | <b>11,474</b>             | <b>10,711</b>             |

# Consolidated statement of cash flows

For the year ended 31 December 2010

|  | £m                                |                                    |
|--|-----------------------------------|------------------------------------|
|  | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009* |
| <b>Cash flows from operating activities – continuing operations</b>                                  |                                   |                                    |
| <b>Profit before tax</b>   | <b>1,145</b>                      | 353                                |
| Capital (gains)/losses included in investment income   | <b>(8,837)</b>                    | (9,988)                            |
| Profit/(loss) on disposal of property, plant and equipment   | <b>(2)</b>                        | 1                                  |
| Depreciation of property, plant and equipment  | <b>103</b>                        | 85                                 |
| Amortisation and impairment of goodwill and other intangible assets                                  | <b>378</b>                        | 628                                |
| Impairment of loans and receivables  | <b>552</b>                        | 770                                |
| Share-based payment expense  | <b>13</b>                         | 21                                 |
| Share of associated undertakings' (profit)/loss after tax  | <b>(7)</b>                        | (2)                                |
| Loss/(profit) arising on disposal of subsidiaries, associated undertakings and strategic investments | <b>22</b>                         | 50                                 |
| Other non-cash amounts in profit   | <b>380</b>                        | (408)                              |
| <b>Non-cash movements in profit before tax</b>   | <b>(7,398)</b>                    | (8,843)                            |
| Reinsurers' share of life assurance policyholder liabilities   | <b>(155)</b>                      | (129)                              |
| Reinsurers' share of general insurance liabilities   | <b>17</b>                         | (5)                                |
| Deferred acquisition costs   | <b>(11)</b>                       | 31                                 |
| Loans and advances   | <b>(3,484)</b>                    | (6,590)                            |
| Insurance liabilities  | <b>374</b>                        | (277)                              |
| Investment contracts   | <b>10,326</b>                     | 13,200                             |
| Amounts owed to bank depositors  | <b>2,345</b>                      | 5,964                              |
| Other operating assets and liabilities   | <b>817</b>                        | (2,069)                            |
| <b>Changes in working capital</b>  | <b>10,229</b>                     | 10,125                             |
| Taxation paid  | <b>(413)</b>                      | (367)                              |
| <b>Net cash inflow from operating activities – continuing operations</b>                             | <b>3,563</b>                      | 1,268                              |
| Cash flows from investing activities   |                                   |                                    |
| Net acquisitions of financial investments  | <b>(2,222)</b>                    | (2,821)                            |
| Acquisition of investment properties   | <b>(162)</b>                      | (82)                               |
| Proceeds from disposal of investment properties  | <b>272</b>                        | 57                                 |
| Acquisition of property, plant and equipment   | <b>(152)</b>                      | (138)                              |
| Proceeds from disposal of property, plant and equipment  | <b>-</b>                          | 29                                 |
| Acquisition of intangible assets   | <b>(78)</b>                       | (43)                               |
| Acquisition of interests in subsidiaries   | <b>(75)</b>                       | (5)                                |
| Capital funding of discontinued operations   | <b>-</b>                          | (136)                              |
| Disposal of interests in subsidiaries, associated undertakings and strategic investments             | <b>(16)</b>                       | 40                                 |
| <b>Net cash outflow from investing activities – continuing operations</b>                            | <b>(2,433)</b>                    | (3,099)                            |
| Cash flows from financing activities   |                                   |                                    |
| Dividends paid to  |                                   |                                    |
| Ordinary equity holders of the Company   | <b>(102)</b>                      | -                                  |
| Non-controlling interests and preferred security interests   | <b>(196)</b>                      | (190)                              |
| Interest paid (excluding banking interest paid)  | <b>(79)</b>                       | (57)                               |
| Proceeds from issue of ordinary shares (including by subsidiaries to non-controlling interests)      | <b>5</b>                          | 100                                |
| Net acquisition/sale of treasury shares  | <b>(25)</b>                       | 38                                 |
| Shares repurchased in buyback programme  | <b>-</b>                          | -                                  |
| Issue of subordinated and other debt   | <b>492</b>                        | 1,049                              |
| Subordinated and other debt repaid   | <b>(104)</b>                      | (441)                              |
| <b>Net cash inflow/(outflow) from financing activities – continuing operations</b>                   | <b>(9)</b>                        | 499                                |

£m

|   | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009* |
|---|-----------------------------------|------------------------------------|
| <b>Net increase/(decrease) in cash and cash equivalents – continuing operations</b> | <b>1,121</b>                      | <b>(1,332)</b>                     |
| Net increase / (decrease) in cash and cash equivalents – discontinued operations    | <b>(104)</b>                      | <b>(47)</b>                        |
| Effects of exchange rate changes on cash and cash equivalents                       | <b>376</b>                        | <b>160</b>                         |
| Cash and cash equivalents at beginning of the year                                  | <b>4,761</b>                      | <b>5,980</b>                       |
| <b>Cash and cash equivalents at end of the year</b>                                 | <b>6,154</b>                      | <b>4,761</b>                       |
| <b>Consisting of</b>  |                                   |                                    |
| Coins and bank notes  | <b>328</b>                        | <b>263</b>                         |
| Money at call and short notice  | <b>3,526</b>                      | <b>2,412</b>                       |
| Balances with central banks (other than mandatory reserve deposits)                 | <b>278</b>                        | <b>307</b>                         |
| <b>Cash and cash equivalents in the statement of financial position</b>             | <b>4,132</b>                      | <b>2,982</b>                       |
| Mandatory reserve deposits with central banks                                       | <b>1,079</b>                      | <b>882</b>                         |
| Short-term cash balances held in policyholder funds                                 | <b>522</b>                        | <b>897</b>                         |
| Cash and cash equivalents included in assets held for sale                          | <b>421</b>                        | <b>-</b>                           |
| <b>Total</b>  | <b>6,154</b>                      | <b>4,761</b>                       |
| <b>Other supplementary cash flow disclosures</b>                                    |                                   |                                    |
| Interest income received (including banking interest)                               | <b>5,391</b>                      | <b>5,394</b>                       |
| Dividend income received  | <b>383</b>                        | <b>335</b>                         |
| Interest paid (including banking interest)  | <b>2,262</b>                      | <b>2,544</b>                       |

Cash flows presented in this statement include all cash flows relating to policyholders' funds for life assurance.

Except for mandatory reserve deposits with central banks of £1,079 million (2009: £882 million), short-term cash balances held in policyholder funds of £522 million (2009: £897 million) and cash and cash equivalents subject to consolidation of funds of £689 million (2009: £717 million), management do not consider that there are any material amounts of cash and cash equivalents which are not available for use in the Group's day-to-day operations. Mandatory reserve deposits are, however, included in cash and cash equivalents for the purposes of the cash flow statement in line with market practice in South Africa.

\* The year ended 31 December 2009 has been restated to reflect US Life as discontinued (see note A1).

# Consolidated statement of changes in equity

For the year ended 31 December 2010

|   |       | Millions                               |  |                                 | £m            |
|---|-------|--|--|---------------------------------|---------------|
|   | Notes | Number of shares issued and fully paid | Attributable to equity holders of the parent | Total non-controlling interests | Total equity  |
| <b>For the year ended 31 December 2010</b>  |       |  |  |                                 |               |
| <b>Shareholders' equity at beginning of the year</b>                                    |       | <b>5,518</b>                           | <b>8,464</b>                                 | <b>2,247</b>                    | <b>10,711</b> |
| <b>(Loss)/profit after tax for the financial year</b>                                   |       | -                                      | <b>(282)</b>                                 | <b>258</b>                      | <b>(24)</b>   |
| <b>Other comprehensive income</b>   |       |  |  |                                 |               |
| Fair value gains/(losses)   |       |  |  |                                 |               |
| Property revaluation  |       | -                                      | <b>21</b>                                    | <b>5</b>                        | <b>26</b>     |
| Net investment hedge  |       | -                                      | <b>(87)</b>                                  | -                               | <b>(87)</b>   |
| Available-for-sale investments  |       |  |  |                                 |               |
| Fair value gains  |       | -                                      | <b>562</b>                                   | -                               | <b>562</b>    |
| Recycled to the income statement  |       | -                                      | <b>(12)</b>                                  | -                               | <b>(12)</b>   |
| Shadow accounting   |       | -                                      | <b>(349)</b>                                 | -                               | <b>(349)</b>  |
| Currency translation differences/exchange differences on translating foreign operations |       | -                                      | <b>794</b>                                   | <b>274</b>                      | <b>1,068</b>  |
| Other movements   |       | -                                      | <b>1</b>                                     | <b>(4)</b>                      | <b>(3)</b>    |
| Income tax relating to components of other comprehensive income                         | D1(c) | -                                      | <b>(54)</b>                                  | -                               | <b>(54)</b>   |
| <b>Total comprehensive income for the financial year</b>                                |       | -                                      | <b>594</b>                                   | <b>533</b>                      | <b>1,127</b>  |
| Dividends for the year  | C4    | -                                      | <b>(175)</b>                                 | <b>(152)</b>                    | <b>(327)</b>  |
| Net acquisition of treasury shares  |       | -                                      | <b>(25)</b>                                  | -                               | <b>(25)</b>   |
| Acquisition of non-controlling interest in Mutual & Federal                             | F2    | <b>147</b>                             | <b>51</b>                                    | <b>(51)</b>                     | -             |
| Change in participation in other subsidiaries   | F2    | -                                      | -  | <b>(57)</b>                     | <b>(57)</b>   |
| Shares issued in lieu of cash dividend  |       | <b>24</b>                              | <b>30</b>                                    | -                               | <b>30</b>     |
| Exercise of share options   |       | <b>6</b>                               | <b>5</b>                                     | -                               | <b>5</b>      |
| Other issues of ordinary share capital by the Company                                   |       | -                                      | <b>3</b>                                     | -                               | <b>3</b>      |
| Change in share-based payments reserve  |       | -                                      | <b>4</b>                                     | <b>3</b>                        | <b>7</b>      |
| <b>Transactions with shareholders</b>   |       | <b>177</b>                             | <b>(107)</b>                                 | <b>(257)</b>                    | <b>(364)</b>  |
| <b>Shareholders' equity at end of the year</b>  |       | <b>5,695</b>                           | <b>8,951</b>                                 | <b>2,523</b>                    | <b>11,474</b> |

£m

| <b>For the year ended 31 December 2010</b>   | Notes | Share capital | Share premium | Other reserves | Translation reserve | Retained earnings | Perpetual preferred callable securities | Total |
|--|-------|---------------|---------------|----------------|---------------------|-------------------|---|-------|
| <b>Attributable to equity holders of the parent at beginning of the year</b>             |       | 552           | 771           | 3,087          | 469                 | 2,897             | 688                                     | 8,464 |
| <b>Profit/(loss) for the financial year attributable to equity holders of the parent</b> |       | -             | -             | -              | -                   | (314)             | 32                                      | (282) |
| <b>Other comprehensive income</b>  |       |               |               |                |                     |                   |   |       |
| Fair value gains/(losses)  |       |               |               |                |                     |                   |   |       |
| Property revaluation   |       | -             | -             | 21             | -                   | -                 | -                                       | 21    |
| Net investment hedge   |       | -             | -             | -              | (87)                | -                 | -                                       | (87)  |
| Available-for-sale investments   |       |               |               |                |                     |                   |   |       |
| Fair value gains   |       | -             | -             | 562            | -                   | -                 | -                                       | 562   |
| Recycled to income statement   |       | -             | -             | (12)           | -                   | -                 | -                                       | (12)  |
| Shadow accounting  |       | -             | -             | (349)          | -                   | -                 | -                                       | (349) |
| Currency translation differences/exchange differences on translating foreign operations  |       | -             | -             | -              | 794                 | -                 | -                                       | 794   |
| Other movements  |       | -             | -             | 15             | -                   | (14)              | -                                       | 1     |
| Income tax relating to components of other comprehensive income                          |       | -             | -             | (66)           | -                   | -                 | 12                                      | (54)  |
| <b>Total comprehensive income for the financial year</b>                                 |       | -             | -             | 171            | 707                 | (328)             | 44                                      | 594   |
| Dividends for the year   | C4    | -             | -             | -              | -                   | (131)             | (44)                                    | (175) |
| Net acquisition of treasury shares   |       | -             | -             | -              | -                   | (25)              | -                                       | (25)  |
| Acquisition of non-controlling interest in Mutual & Federal                              | F2    | 15            | -             | 129            | -                   | (93)              | -                                       | 51    |
| Shares issued in lieu of cash dividends  |       | 2             | 17            | -              | -                   | 11                | -                                       | 30    |
| Exercise of share options  |       | 1             | 4             | -              | -                   | -                 | -                                       | 5     |
| Other issues of ordinary share capital by the Company                                    |       | -             | 3             | -              | -                   | -                 | -                                       | 3     |
| Change in share-based payments reserve   |       | -             | -             | 4              | -                   | -                 | -                                       | 4     |
| <b>Transactions with shareholders</b>  |       | 18            | 24            | 133            | -                   | (238)             | (44)                                    | (107) |
| <b>Attributable to equity holders of the parent at end of the year</b>                   |       | 570           | 795           | 3,391          | 1,176               | 2,331             | 688                                     | 8,951 |

£m

| <b>Other reserves attributable to equity holders of the parent</b> | Merger reserve | Available for sale reserve | Property revaluation reserve | Share-based payments reserve | Other reserves | Total |
|--|----------------|----------------------------|------------------------------|------------------------------|----------------|-------|
| <b>At beginning of the year</b>                                    | 2,716          | 82                         | 87                           | 191                          | 11             | 3,087 |
| Fair value gains/(losses)  |                |                            |                              |                              |                |       |
| Property revaluation   | -              | -                          | 21                           | -                            | -              | 21    |
| Available-for-sale investments                                     |                |                            |                              |                              |                |       |
| Fair value gains   | -              | 562                        | -                            | -                            | -              | 562   |
| Recycled to income statement                                       | -              | (12)                       | -                            | -                            | -              | (12)  |
| Shadow accounting  | -              | (343)                      | (6)                          | -                            | -              | (349) |
| Other movements  | -              | 2                          | (1)                          | 20                           | (6)            | 15    |
| Income tax relating to components of other comprehensive income    | -              | (66)                       | -                            | -                            | -              | (66)  |
| Acquisition of non-controlling interest in M&F                     | F2             | 129                        | -                            | -                            | -              | 129   |
| Change in share-based payments reserve                             | -              | -                          | -                            | 4                            | -              | 4     |
| <b>At end of the year</b>  | 2,845          | 225                        | 101                          | 215                          | 5              | 3,391 |

Retained earnings were reduced by £478 million at 31 December 2010 in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

# Consolidated statement of changes in equity

For the year ended 31 December 2010 continued

|   | Notes | Millions                               | £m   |                                 |              |
|---|-------|--|--|---------------------------------|--------------|
|   |       | Number of shares issued and fully paid | Attributable to equity holders of the parent | Total non-controlling interests | Total equity |
| <b>Year ended 31 December 2009</b>  |       |  |  |                                 |              |
| <b>Shareholders' equity at beginning of the year</b>                                    |       | 5,516                                  | 7,737  | 1,840                           | 9,577        |
| <b>(Loss)/profit after tax for the financial year</b>                                   |       | -                                      | (340)  | 222                             | (118)        |
| <b>Other comprehensive income</b>   |       |  |  |                                 |              |
| Fair value gains/(losses)   |       |  |  |                                 |              |
| Property revaluation  |       | -                                      | (12)   | 2                               | (10)         |
| Net investment hedge  |       | -                                      | (41)   | -                               | (41)         |
| Available-for-sale investments  |       |  |  |                                 |              |
| Fair value gains  |       | -                                      | 1,087  | -                               | 1,087        |
| Recycled to the income statement  |       | -                                      | 239  | -                               | 239          |
| Shadow accounting   |       | -                                      | 27   | -                               | 27           |
| Currency translation differences/exchange differences on translating foreign operations |       | -                                      | 124  | 178                             | 302          |
| Other movements   |       | -                                      | 22   | (1)                             | 21           |
| Income tax relating to components of other comprehensive income                         | D1(c) | -                                      | (397)  | -                               | (397)        |
| <b>Total comprehensive income for the financial year</b>                                |       | -                                      | 709  | 401                             | 1,110        |
| Dividends for the year  | C4    | -                                      | (45)   | (145)                           | (190)        |
| Net sale of treasury shares   |       | -                                      | 39   | -                               | 39           |
| Issue of ordinary share capital by the Company  |       | -                                      | 2  | -                               | 2            |
| Change in participation in subsidiaries   |       | -                                      | -  | 150                             | 150          |
| Exercise of share options   |       | 2                                      | 3  | -                               | 3            |
| Change in share-based payments reserve  |       | -                                      | 19   | 1                               | 20           |
| <b>Transactions with shareholders</b>   |       | 2                                      | 18   | 6                               | 24           |
| <b>Shareholders' equity at end of the year</b>  |       | 5,518                                  | 8,464  | 2,247                           | 10,711       |

£m

| Year ended 31 December 2009  | Notes | Share capital | Share premium | Other reserves | Translation reserve | Retained earnings | Perpetual preferred callable securities | Total |
|--|-------|---------------|---------------|----------------|---------------------|-------------------|---|-------|
| <b>Attributable to equity holders of the parent at beginning of the year</b>             |       | 552           | 766           | 2,130          | 386                 | 3,215             | 688                                     | 7,737 |
| <b>(Loss)/profit for the financial year attributable to equity holders of the parent</b> |       | -             | -             | -              | -                   | (372)             | 32                                      | (340) |
| <b>Other comprehensive income</b>  |       |               |               |                |                     |                   |   |       |
| Fair value gains/(losses)  |       |               |               |                |                     |                   |   |       |
| Property revaluation   |       | -             | -             | (12)           | -                   | -                 | -                                       | (12)  |
| Net investment hedge   |       | -             | -             | -              | (41)                | -                 | -                                       | (41)  |
| Available-for-sale investments   |       |               |               |                |                     |                   |   |       |
| Fair value gains   |       | -             | -             | 1,087          | -                   | -                 | -                                       | 1,087 |
| Recycled to income statement   |       | -             | -             | 239            | -                   | -                 | -                                       | 239   |
| Shadow accounting  |       | -             | -             | 27             | -                   | -                 | -                                       | 27    |
| Currency translation differences/exchange differences on translating foreign operations  |       | -             | -             | -              | 124                 | -                 | -                                       | 124   |
| Other movements  |       | -             | -             | 7              | -                   | 15                | -                                       | 22    |
| Income tax relating to components of other comprehensive income                          |       | -             | -             | (410)          | -                   | -                 | 13                                      | (397) |
| <b>Total comprehensive income for the financial year</b>                                 |       | -             | -             | 938            | 83                  | (357)             | 45                                      | 709   |
| Dividends for the year   | C4    | -             | -             | -              | -                   | -                 | (45)                                    | (45)  |
| Net sale of treasury shares  |       | -             | -             | -              | -                   | 39                | -                                       | 39    |
| Issue of ordinary share capital by the Company   |       | -             | 2             | -              | -                   | -                 | -                                       | 2     |
| Exercise of share options  |       | -             | 3             | -              | -                   | -                 | -                                       | 3     |
| Change in share-based payments reserve   |       | -             | -             | 19             | -                   | -                 | -                                       | 19    |
| <b>Transactions with shareholders</b>  |       | -             | 5             | 19             | -                   | 39                | (45)                                    | 18    |
| <b>Attributable to equity holders of the parent at end of the year</b>                   |       | 552           | 771           | 3,087          | 469                 | 2,897             | 688                                     | 8,464 |

£m

| Other reserves attributable to equity holders of the parent     | Merger reserve | Available for sale reserve | Property revaluation reserve | Share-based payments reserve | Other reserves | Total |
|---|----------------|----------------------------|------------------------------|------------------------------|----------------|-------|
| <b>At beginning of the year</b>                                 | 2,716          | (844)                      | 85                           | 171                          | 2              | 2,130 |
| Fair value gains/(losses)                                       |                |                            |                              |                              |                |       |
| Property revaluation  | -              | -                          | (12)                         | -                            | -              | (12)  |
| Available-for-sale investments                                  |                |                            |                              |                              |                |       |
| Fair value gains  | -              | 1,087                      | -                            | -                            | -              | 1,087 |
| Recycled to income statement                                    | -              | 239                        | -                            | -                            | -              | 239   |
| Shadow accounting   | -              | 9                          | 18                           | -                            | -              | 27    |
| Other movements   | -              | 1                          | (4)                          | 1                            | 9              | 7     |
| Income tax relating to components of other comprehensive income | -              | (410)                      | -                            | -                            | -              | (410) |
| Change in share-based payments reserve                          | -              | -                          | -                            | 19                           | -              | 19    |
| <b>At end of the year</b>                                       | 2,716          | 82                         | 87                           | 191                          | 11             | 3,087 |

Retained earnings were reduced by £379 million at 31 December 2009 in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

# Notes to the consolidated financial statements

For the year ended 31 December 2010

## A: Accounting policies

### Basis of preparation

The consolidated financial information contained herein has been prepared in accordance with the recognition and measurement principles of International financial Reporting Standards adopted by the EU. The Group's results for the year ended 31 December 2010 and the position at that date have been prepared using accounting policies consistent with those applied in the preparation of the Group's 2009 Annual Report and Accounts.

The consolidated financial statements have been prepared on the going concern basis which the directors believe to be appropriate.

At 31 December 2010 the Group was in advanced stage negotiations for the disposal of its life assurance operations in the United States, which represent almost the entirety of the US Life operating segment. As a result of this, the assets and liabilities of the US Life disposal group have been classified as held for sale in the statement of financial position for the current year in accordance with IFRS 5. This sale will represent the Group's exit from the life assurance market in the United States and therefore meets the criteria of a discontinued operation. Consequently the comparative information in the income statement, statement of comprehensive income, statement of cash flows, and the related notes has been restated where applicable to reflect this. For the purposes of adjusted operating profit, US Life has been reclassified as a non-core operation for the year ended 31 December 2010 with the comparative information restated accordingly.

The financial information set out herein does not constitute the Company's statutory accounts for the years ended 31 December 2010 or 2009. Statutory accounts for 2009 have been delivered to the Registrar of Companies, and those for 2010 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors draw attention by way of emphasis without qualifying their reports, and (iii) did not contain statements under section 498(2) or (3) of the Companies Act 2006.

### Segment reporting

The Group's results are analysed and reported consistent with the way that management and the Board of Directors considers information when making operating decisions and the basis on which resources are allocated and performance assessed by management and the Board of Directors, covering both core and non-core operations. The core operating segments are Emerging Markets, Nordic, Retail Europe and Wealth Management (collectively being Long-Term Savings) plus Nedbank, Mutual & Federal (M&F), US Asset Management and Other operations (which includes the Group head office functions). The non-core operating segment includes US Life and the Bermuda segments. The above reported segments have been revised during the year to reflect the reclassification of US Life as non-core, with the comparative information having been revised to report on a consistent basis to the amended structure.

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

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

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

Reclassifications of comparative segment information have been made to align segment information to the Group's revised management reporting structure described above. There was no impact on net profit or net assets.



# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## B: Segment information

### B1: Basis of segmentation

The Group's core operations are Emerging Markets, Nordic, Retail Europe and Wealth Management (collectively Long-Term Savings), Nedbank, Mutual & Federal, US Asset Management and Other (including the Group head office functions). The Bermuda operating segment is regarded as non-core. This is consistent with the revised way that management and the Board of Directors considers information when making operating decisions and is the basis on which resources are allocated and performance assessed by management and the Board of Directors, being in line with that reported in the previous financial year. This information is presented to the Board in local currency however this note is presented in pounds sterling, the presentation currency of the Group. As detailed above US Life has been reclassified as discontinued and as a result also non-core with the comparative segment information restated accordingly, with this resulting in a reduction in adjusted operating profit before tax and non-controlling interest of £49 million for the year ended 31 December 2009. The Group generates revenue from four principal business activities: life assurance, asset management, banking and general insurance. The types of products and services from which each operating segment derives its revenues are as follows:

#### *Core operations*

Emerging Markets – life assurance and asset management

Nordic – life assurance, asset management and banking

Retail Europe – life assurance and asset management

Wealth Management – life assurance and asset management

Nedbank – banking and asset management

Mutual & Federal – general insurance

US Asset Management – asset management

Other – other operating segments and business activities

#### *Non-core operations*

Bermuda – life assurance

US Life – life assurance

Adjusted operating profit is one of the key measures reported to the Group's management and Board of Directors for their consideration in the allocation of resources to and the review of performance of the segments. The Group utilises additional measures to assess the performance of each of the segments, in particular the level of net client cash flows and funds under management. Additional performance measures considered by management and the Board of Directors in assessing the performance of the segments can be found in the Market Consistent Embedded Value basis supplementary information.

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

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## B: Segment information continued

B2: Adjusted operating profit statement – segment information year ended 31 December 2010

|   | Long-Term Savings |                |               |                   | Total Long-Term Savings |
|---|-------------------|----------------|---------------|-------------------|-------------------------|
|   | Emerging Markets  | Nordic         | Retail Europe | Wealth Management |                         |
| <b>Revenue</b>  |                   |                |               |                   |                         |
| Gross earned premiums   | 2,353             | 122            | 28            | 351               | 2,854                   |
| Outward reinsurance   | (72)              | (5)            | (8)           | (79)              | (164)                   |
| Net earned premiums   | 2,281             | 117            | 20            | 272               | 2,690                   |
| Investment return (non-banking)   | 4,072             | 1,144          | 392           | 4,409             | 10,017                  |
| Banking interest and similar income   | -                 | 169            | -             | -                 | 169                     |
| Banking trading, investment and similar income                                      | -                 | 5              | -             | -                 | 5                       |
| Fee and commission income, and income from service activities                       | 372               | 238            | 198           | 912               | 1,720                   |
| Other income  | 72                | 8              | -             | 11                | 91                      |
| Inter-segment revenues  | 54                | 20             | 5             | 12                | 91                      |
| <b>Total revenues</b>   | <b>6,851</b>      | <b>1,701</b>   | <b>615</b>    | <b>5,616</b>      | <b>14,783</b>           |
| <b>Expenses</b>   |                   |                |               |                   |                         |
| Claims and benefits (including change in insurance contract provisions)             | (3,943)           | (83)           | (25)          | (303)             | (4,354)                 |
| Reinsurance recoveries  | 83                | 5              | 5             | 75                | 168                     |
| Net claims and benefits incurred  | (3,860)           | (78)           | (20)          | (228)             | (4,186)                 |
| Change in investment contract liabilities   | (1,261)           | (1,066)        | (382)         | (4,190)           | (6,899)                 |
| Losses on loans and advances  | -                 | (4)            | (1)           | -                 | (5)                     |
| Finance costs (including interest and similar expenses)                             | -                 | -              | -             | -                 | -                       |
| Banking interest payable and similar expenses                                       | -                 | (78)           | -             | -                 | (78)                    |
| Fee and commission expenses, and other acquisition costs                            | (219)             | (62)           | (75)          | (500)             | (856)                   |
| Other operating and administrative expenses   | (941)             | (255)          | (84)          | (390)             | (1,670)                 |
| Goodwill impairment   | -                 | -              | -             | -                 | -                       |
| Change in third-party interest in consolidated funds                                | -                 | -              | -             | -                 | -                       |
| Amortisation of PVIF and other acquired intangibles                                 | -                 | -              | -             | -                 | -                       |
| Income tax attributable to policyholder returns                                     | (32)              | (48)           | -             | (69)              | (149)                   |
| Inter-segment expenses  | (2)               | (2)            | (2)           | (43)              | (49)                    |
| <b>Total expenses</b>   | <b>(6,315)</b>    | <b>(1,593)</b> | <b>(564)</b>  | <b>(5,420)</b>    | <b>(13,892)</b>         |
| Share of associated undertakings' and joint ventures' profit/(loss) after tax       | 3                 | 2              | -             | 1                 | 6                       |
| Loss on disposal of subsidiaries, associated undertakings and strategic investments | -                 | -              | -             | -                 | -                       |
| <b>Adjusted operating profit/(loss) before tax and non-controlling interests</b>    | <b>539</b>        | <b>110</b>     | <b>51</b>     | <b>197</b>        | <b>897</b>              |
| Tax expense   | (146)             | (20)           | (13)          | (44)              | (223)                   |
| Non-controlling interests   | (1)               | -              | -             | -                 | (1)                     |
| <b>Adjusted operating profit/(loss) after tax and non-controlling interests</b>     | <b>392</b>        | <b>90</b>      | <b>38</b>     | <b>153</b>        | <b>673</b>              |
| Adjusting items net of tax and non-controlling interests                            | (1)               | (87)           | (25)          | (140)             | (253)                   |
| <b>Profit/(loss) after tax from continuing operations</b>                           | <b>391</b>        | <b>3</b>       | <b>13</b>     | <b>13</b>         | <b>420</b>              |
| Loss from discontinued operations after tax   | -                 | -              | -             | -                 | -                       |
| <b>Profit/(loss) after tax attributable to equity holders of the parent</b>         | <b>391</b>        | <b>3</b>       | <b>13</b>     | <b>13</b>         | <b>420</b>              |

Of the total revenues, excluding intercompany revenues, £5,143 million was generated in the UK (2009: £5,544 million), £2,937 million in rest of Europe (2009: £3,938 million), £12,575 million in South Africa (2009: £10,084 million), £829 million in United States (2009: £993 million) and £90 million relates to other operating segments (2009: £81 million).

## B: Segment information continued

B2: Adjusted operating profit statement – segment information year ended 31 December 2010 continued

|         |       |       |       |                           |                           |                           |                      | £m                    |
|---------|-------|-------|-------|---------------------------|---------------------------|---------------------------|----------------------|-----------------------|
| Nedbank | M&F   | USAM  | Other | Consolidation adjustments | Adjusted operating profit | Adjusting items (Note C1) | Non-core operations* | IFRS Income statement |
| -       | 728   | -     | -     | -                         | 3,582                     | -                         | -                    | 3,582                 |
| -       | (140) | -     | -     | -                         | (304)                     | -                         | (1)                  | (305)                 |
| -       | 588   | -     | -     | -                         | 3,278                     | -                         | (1)                  | 3,277                 |
| -       | 56    | 16    | 61    | 435                       | 10,585                    | (93)                      | 299                  | 10,791                |
| 3,913   | -     | -     | -     | -                         | 4,082                     | -                         | -                    | 4,082                 |
| 199     | -     | -     | -     | -                         | 204                       | -                         | -                    | 204                   |
| 946     | 28    | 465   | 1     | -                         | 3,160                     | (99)                      | -                    | 3,061                 |
| 35      | -     | 9     | (1)   | 3                         | 137                       | -                         | 22                   | 159                   |
| 20      | 20    | 4     | 29    | (207)                     | (43)                      | -                         | 43                   | -                     |
| 5,113   | 692   | 494   | 90    | 231                       | 21,403                    | (192)                     | 363                  | 21,574                |
| -       | (436) | -     | -     | -                         | (4,790)                   | -                         | (249)                | (5,039)               |
| -       | 58    | -     | -     | -                         | 226                       | -                         | 1                    | 227                   |
| -       | (378) | -     | -     | -                         | (4,564)                   | -                         | (248)                | (4,812)               |
| -       | -     | -     | -     | -                         | (6,899)                   | -                         | -                    | (6,899)               |
| (548)   | -     | -     | 1     | -                         | (552)                     | -                         | -                    | (552)                 |
| -       | -     | -     | (128) | -                         | (128)                     | (141)                     | -                    | (269)                 |
| (2,422) | -     | -     | -     | -                         | (2,500)                   | (19)                      | -                    | (2,519)               |
| (3)     | (109) | (23)  | -     | (36)                      | (1,027)                   | 149                       | (85)                 | (963)                 |
| (1,485) | (83)  | (384) | (93)  | (14)                      | (3,729)                   | 41                        | (26)                 | (3,714)               |
| -       | -     | -     | -     | -                         | -                         | (1)                       | -                    | (1)                   |
| -       | -     | -     | -     | (388)                     | (388)                     | -                         | -                    | (388)                 |
| -       | -     | -     | -     | -                         | -                         | (297)                     | -                    | (297)                 |
| -       | -     | -     | -     | -                         | (149)                     | 149                       | -                    | -                     |
| (54)    | (20)  | -     | (77)  | 207                       | 7                         | -                         | (7)                  | -                     |
| (4,512) | (590) | (407) | (297) | (231)                     | (19,929)                  | (119)                     | (366)                | (20,414)              |
| -       | 1     | -     | -     | -                         | 7                         | -                         | -                    | 7                     |
| -       | -     | -     | -     | -                         | -                         | (22)                      | -                    | (22)                  |
| 601     | 103   | 87    | (207) | -                         | 1,481                     | (333)                     | (3)                  | 1,145                 |
| (128)   | (24)  | (17)  | 45    | -                         | (347)                     | (113)                     | 4                    | (456)                 |
| (232)   | (5)   | -     | (41)  | -                         | (279)                     | 21                        | -                    | (258)                 |
| 241     | 74    | 70    | (203) | -                         | 855                       | (425)                     | 1                    | 431                   |
| 10      | (11)  | (20)  | (151) | -                         | (425)                     | 425                       | -                    | -                     |
| 251     | 63    | 50    | (354) | -                         | 430                       | -                         | 1                    | 431                   |
| -       | -     | -     | -     | -                         | -                         | -                         | (713)                | (713)                 |
| 251     | 63    | 50    | (354) | -                         | 430                       | -                         | (712)                | (282)                 |

\* Non-core operations relates to Bermuda with the exception of £19 million of Inter-segment revenue and expenses and the Loss from discontinued operations after tax, with these reflecting the results of US Life which has been classified as a discontinued operation as detailed in notes A1 and B1. Bermuda profit after tax for 2010 was £22 million. Further detail on the results of discontinued operations is provided in note H1.

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## B: Segment information continued

B2: Adjusted operating profit statement – segment information year ended 31 December 2009 (restated)

|   | Long-Term Savings |                |               |                   | Total Long-Term Savings |
|---|-------------------|----------------|---------------|-------------------|-------------------------|
|   | Emerging Markets  | Nordic         | Retail Europe | Wealth Management |                         |
| <b>Revenue</b>  |                   |                |               |                   |                         |
| Gross earned premiums   | 1,946             | 109            | 31            | 315               | 2,401                   |
| Outward reinsurance   | (56)              | (5)            | (8)           | (81)              | (150)                   |
| Net earned premiums   | 1,890             | 104            | 23            | 234               | 2,251                   |
| Investment return (non-banking)   | 2,636             | 2,035          | 564           | 4,997             | 10,232                  |
| Banking interest and similar income   | -                 | 157            | -             | -                 | 157                     |
| Banking trading, investment and similar income  | -                 | -              | -             | -                 | -                       |
| Fee and commission income, and income from service activities                         | 305               | 190            | 189           | 746               | 1,430                   |
| Other income  | 65                | 6              | -             | 24                | 95                      |
| Inter-segment revenues  | 55                | 32             | 10            | 27                | 124                     |
| <b>Total revenues</b>   | <b>4,951</b>      | <b>2,524</b>   | <b>786</b>    | <b>6,028</b>      | <b>14,289</b>           |
| <b>Expenses</b>   |                   |                |               |                   |                         |
| Claims and benefits (including change in insurance contract provisions)               | (2,551)           | (72)           | (37)          | (255)             | (2,915)                 |
| Reinsurance recoveries  | 76                | 2              | 5             | 46                | 129                     |
| Net claims and benefits incurred  | (2,475)           | (70)           | (32)          | (209)             | (2,786)                 |
| Change in investment contract liabilities   | (1,040)           | (1,972)        | (554)         | (4,775)           | (8,341)                 |
| Losses on loans and advances  | -                 | (5)            | (1)           | -                 | (6)                     |
| Finance costs (including interest and similar expenses)                               | -                 | -              | -             | -                 | -                       |
| Banking interest payable and similar expenses   | -                 | (70)           | -             | -                 | (70)                    |
| Fee and commission expenses, and other acquisition costs                              | (184)             | (53)           | (79)          | (394)             | (710)                   |
| Other operating and administrative expenses   | (768)             | (215)          | (96)          | (380)             | (1,459)                 |
| Goodwill impairment   | -                 | -              | -             | -                 | -                       |
| Change in third-party interest in consolidated funds                                  | -                 | -              | -             | -                 | -                       |
| Amortisation of PVIF and other acquired intangibles                                   | -                 | -              | -             | -                 | -                       |
| Income tax attributable to policyholder returns                                       | (37)              | (39)           | -             | (116)             | (192)                   |
| Inter-segment expenses  | (5)               | (38)           | (2)           | (48)              | (93)                    |
| <b>Total expenses</b>   | <b>(4,509)</b>    | <b>(2,462)</b> | <b>(764)</b>  | <b>(5,922)</b>    | <b>(13,657)</b>         |
| Share of associated undertakings' and joint ventures' profit/(loss) after tax         | 4                 | -              | -             | -                 | 4                       |
| Profit on disposal of subsidiaries, associated undertakings and strategic investments | -                 | -              | -             | -                 | -                       |
| <b>Adjusted operating profit/(loss) before tax and non-controlling interests</b>      | <b>446</b>        | <b>62</b>      | <b>22</b>     | <b>106</b>        | <b>636</b>              |
| Tax expense   | (130)             | 9              | (8)           | (20)              | (149)                   |
| Non-controlling interests   | (2)               | -              | -             | -                 | (2)                     |
| <b>Adjusted operating profit/(loss) after tax and non-controlling interests</b>       | <b>314</b>        | <b>71</b>      | <b>14</b>     | <b>86</b>         | <b>485</b>              |
| Adjusting items net of tax and non-controlling interests                              | (200)             | (4)            | (228)         | (225)             | (657)                   |
| <b>Profit/(loss) after tax from continuing operations</b>                             | <b>114</b>        | <b>67</b>      | <b>(214)</b>  | <b>(139)</b>      | <b>(172)</b>            |
| Loss from discontinued operations after tax   | -                 | -              | -             | -                 | -                       |
| <b>Profit/(loss) after tax attributable to equity holders of the parent</b>           | <b>114</b>        | <b>67</b>      | <b>(214)</b>  | <b>(139)</b>      | <b>(172)</b>            |

## B: Segment information continued

B2: Adjusted operating profit statement – segment information year ended 31 December 2009 (restated) continued

|         |       |       |       |                           |                           |                           |                       |                       | £m |
|---------|-------|-------|-------|---------------------------|---------------------------|---------------------------|-----------------------|-----------------------|----|
| Nedbank | M&F   | USAM  | Other | Consolidation adjustments | Adjusted operating profit | Adjusting items (Note C1) | Non-core operations * | IFRS Income statement |    |
| -       | 612   | -     | -     | -                         | 3,013                     | -                         | 7                     | 3,020                 |    |
| -       | (117) | -     | -     | -                         | (267)                     | -                         | -                     | (267)                 |    |
| -       | 495   | -     | -     | -                         | 2,746                     | -                         | 7                     | 2,753                 |    |
| -       | 58    | 13    | 91    | 509                       | 10,903                    | (275)                     | 484                   | 11,112                |    |
| 3,832   | -     | -     | -     | -                         | 3,989                     | -                         | -                     | 3,989                 |    |
| 168     | -     | -     | -     | -                         | 168                       | -                         | -                     | 168                   |    |
| 663     | 22    | 429   | -     | (6)                       | 2,538                     | (116)                     | -                     | 2,422                 |    |
| 70      | 1     | 7     | -     | 1                         | 174                       | -                         | 22                    | 196                   |    |
| 31      | 29    | 6     | 30    | (251)                     | (31)                      | -                         | 31                    | -                     |    |
| 4,764   | 605   | 455   | 121   | 253                       | 20,487                    | (391)                     | 544                   | 20,640                |    |
| -       | (412) | -     | -     | -                         | (3,327)                   | -                         | (459)                 | (3,786)               |    |
| -       | 72    | -     | -     | -                         | 201                       | -                         | (1)                   | 200                   |    |
| -       | (340) | -     | -     | -                         | (3,126)                   | -                         | (460)                 | (3,586)               |    |
| -       | -     | -     | -     | -                         | (8,341)                   | -                         | (4)                   | (8,345)               |    |
| (505)   | -     | -     | -     | -                         | (511)                     | -                         | -                     | (511)                 |    |
| -       | -     | -     | (104) | -                         | (104)                     | (218)                     | -                     | (322)                 |    |
| (2,557) | -     | -     | -     | -                         | (2,627)                   | -                         | -                     | (2,627)               |    |
| (2)     | (106) | (18)  | -     | (12)                      | (848)                     | 167                       | (47)                  | (728)                 |    |
| (1,167) | (64)  | (354) | (84)  | (22)                      | (3,150)                   | 97                        | (19)                  | (3,072)               |    |
| -       | -     | -     | -     | -                         | -                         | (266)                     | -                     | (266)                 |    |
| -       | -     | -     | -     | (470)                     | (470)                     | -                         | -                     | (470)                 |    |
| -       | -     | -     | -     | -                         | -                         | (312)                     | -                     | (312)                 |    |
| -       | -     | -     | -     | -                         | (192)                     | 192                       | -                     | -                     |    |
| (65)    | (25)  | -     | (55)  | 251                       | 13                        | -                         | (13)                  | -                     |    |
| (4,296) | (535) | (372) | (243) | (253)                     | (19,356)                  | (340)                     | (543)                 | (20,239)              |    |
| 2       | -     | -     | (4)   | -                         | 2                         | -                         | -                     | 2                     |    |
| -       | -     | -     | -     | -                         | -                         | (50)                      | -                     | (50)                  |    |
| 470     | 70    | 83    | (126) | -                         | 1,133                     | (781)                     | 1                     | 353                   |    |
| (96)    | (15)  | (19)  | (4)   | -                         | (283)                     | (128)                     | 11                    | (400)                 |    |
| (193)   | (16)  | -     | (34)  | -                         | (245)                     | 23                        | -                     | (222)                 |    |
| 181     | 39    | 64    | (164) | -                         | 605                       | (886)                     | 12                    | (269)                 |    |
| 15      | -     | (3)   | (241) | -                         | (886)                     | 886                       | -                     | -                     |    |
| 196     | 39    | 61    | (405) | -                         | (281)                     | -                         | 12                    | (269)                 |    |
| -       | -     | -     | -     | -                         | -                         | -                         | (71)                  | (71)                  |    |
| 196     | 39    | 61    | (405) | -                         | (281)                     | -                         | (59)                  | (340)                 |    |

\* Non-core operations relates to Bermuda with the exception of £(21) million of Inter-segment revenues and the Loss from discontinued operations after tax, with these reflecting the results of US Life which has been classified as a discontinued operation as detailed in notes A1 and B1. Bermuda profit after tax for 2009 was £33 million. Further detail on the results of discontinued operations is provided in note H1.

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## B: Segment information continued

### B3: Gross earned premiums

|   | Long-Term Savings |              |               |                   | Total Long-Term Savings |
|---|-------------------|--------------|---------------|-------------------|-------------------------|
|   | Emerging Markets  | Nordic       | Retail Europe | Wealth Management |                         |
| <b>Year ended 31 December 2010</b>  |                   |              |               |                   |                         |
| Life assurance – insurance contracts  | 1,498             | 122          | 28            | 351               | 1,999                   |
| Life assurance – investment contracts with discretionary participation features | 855               | -            | -             | -                 | 855                     |
| General insurance   | -                 | -            | -             | -                 | -                       |
| <b>Gross earned premiums</b>  | <b>2,353</b>      | <b>122</b>   | <b>28</b>     | <b>351</b>        | <b>2,854</b>            |
| <b>Life assurance – other investment contracts recognised as deposits</b>       | <b>1,829</b>      | <b>1,040</b> | <b>656</b>    | <b>6,287</b>      | <b>9,812</b>            |
|   | Long-Term Savings |              |               |                   |                         |
|   | Emerging Markets  | Nordic       | Retail Europe | Wealth Management | Total Long-Term Savings |
| <b>Year ended 31 December 2009</b>  |                   |              |               |                   |                         |
| Life assurance – insurance contracts  | 1,287             | 109          | 31            | 315               | 1,742                   |
| Life assurance – investment contracts with discretionary participation features | 659               | -            | -             | -                 | 659                     |
| General insurance   | -                 | -            | -             | -                 | -                       |
| <b>Gross earned premiums</b>  | <b>1,946</b>      | <b>109</b>   | <b>31</b>     | <b>315</b>        | <b>2,401</b>            |
| <b>Life assurance – other investment contracts recognised as deposits</b>       | <b>2,726</b>      | <b>1,199</b> | <b>733</b>    | <b>4,906</b>      | <b>9,564</b>            |

### B4: Impairments of financial assets

|                                | £m                          |                             |
|--------------------------------|-----------------------------|-----------------------------|
|                                | Year ended 31 December 2010 | Year ended 31 December 2009 |
| Nordic                         | 4                           | 5                           |
| <b>Total Long-Term Savings</b> | <b>4</b>                    | <b>5</b>                    |
| Nedbank                        | 547                         | 504                         |
| Bermuda                        | -                           | 13                          |
| <b>Total</b>                   | <b>551</b>                  | <b>522</b>                  |

### B5: Funds under management

|                                     | £m               |               |               |                   | Total Long-Term Savings |
|-------------------------------------|------------------|---------------|---------------|-------------------|-------------------------|
|                                     | Emerging Markets | Nordic        | Retail Europe | Wealth Management |                         |
| <b>As at 31 December 2010</b>       |                  |               |               |                   |                         |
| Life assurance policyholder funds   | 31,750           | 11,722        | 4,317         | 40,401            | 88,190                  |
| Unit trusts and mutual funds        | 10,613           | 1,800         | 398           | 14,525            | 27,336                  |
| Third-party client funds            | 11,732           | -             | -             | -                 | 11,732                  |
| Total client funds under management | 54,095           | 13,522        | 4,715         | 54,926            | 127,258                 |
| Shareholder funds                   | 2,882            | 431           | 245           | 958               | 4,516                   |
| <b>Total funds under management</b> | <b>56,977</b>    | <b>13,953</b> | <b>4,960</b>  | <b>55,884</b>     | <b>131,774</b>          |
|                                     | Emerging Markets | Nordic        | Retail Europe | Wealth Management | Total Long-Term Savings |
| <b>As at 31 December 2009</b>       |                  |               |               |                   |                         |
| Life assurance policyholder funds   | 25,454           | 9,221         | 3,569         | 34,721            | 72,965                  |
| Unit trusts and mutual funds        | 7,686            | 1,428         | 391           | 11,308            | 20,813                  |
| Third-party client funds            | 8,229            | -             | -             | -                 | 8,229                   |
| Total client funds under management | 41,369           | 10,649        | 3,960         | 46,029            | 102,007                 |
| Shareholder funds                   | 2,130            | 360           | 210           | 830               | 3,530                   |
| <b>Total funds under management</b> | <b>43,499</b>    | <b>11,009</b> | <b>4,170</b>  | <b>46,859</b>     | <b>105,537</b>          |

## B: Segment information continued

### B3: Gross earned premiums continued

|         |     |      |                       |                     |                | £m |
|---------|-----|------|-----------------------|---------------------|----------------|----|
| Nedbank | M&F | USAM | Total core operations | Non-core operations | Total          |    |
| -       | -   | -    | 1,999                 | -                   | 1,999          |    |
| -       | -   | -    | 855                   | -                   | 855            |    |
| -       | 728 | -    | 728                   | -                   | 728            |    |
| -       | 728 | -    | 3,582                 | -                   | 3,582          |    |
| -       | -   | -    | 9,812                 | -                   | 9,812          |    |
|         |     |      |                       |                     |                |    |
| Nedbank | M&F | USAM | Total core operations | Non-core operations | Total Restated |    |
| -       | -   | -    | 1,742                 | 7                   | 1,749          |    |
| -       | -   | -    | 659                   | -                   | 659            |    |
| -       | 612 | -    | 612                   | -                   | 612            |    |
| -       | 612 | -    | 3,013                 | 7                   | 3,020          |    |
| -       | -   | -    | 9,564                 | 8                   | 9,572          |    |

### B5: Funds under management

|         |     |         |                       |                     |         | £m |
|---------|-----|---------|-----------------------|---------------------|---------|----|
| Nedbank | M&F | USAM    | Total core operations | Non-core operations | Total   |    |
| 846     | -   | 3,846   | 92,882                | 13,489              | 106,371 |    |
| 5,713   | -   | 4,974   | 38,023                | -                   | 38,023  |    |
| 4,164   | -   | 157,555 | 173,451               | -                   | 173,451 |    |
| 10,723  | -   | 166,375 | 304,356               | 13,489              | 317,845 |    |
| -       | 210 | 226     | 4,952                 | -                   | 4,952   |    |
| 10,723  | 210 | 166,601 | 309,308               | 13,489              | 322,797 |    |
|         |     |         |                       |                     |         | £m |
| Nedbank | M&F | USAM    | Total core operations | Non-core operations | Total   |    |
| 658     | -   | 6,789   | 80,412                | 9,602               | 90,014  |    |
| 3,775   | -   | 4,095   | 28,683                | -                   | 28,683  |    |
| 3,800   | -   | 150,423 | 162,452               | -                   | 162,452 |    |
| 8,233   | -   | 161,307 | 271,547               | 9,602               | 281,149 |    |
| -       | 162 | 169     | 3,861                 | -                   | 3,861   |    |
| 8,233   | 162 | 161,476 | 275,408               | 9,602               | 285,010 |    |

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2010

| At 31 December 2010  | Long-Term Savings |               |               |                   | Total Long-Term Savings |
|--|-------------------|---------------|---------------|-------------------|-------------------------|
|  | Emerging Markets  | Nordic        | Retail Europe | Wealth Management |                         |
| <b>Assets</b>  |                   |               |               |                   |                         |
| Goodwill and other intangible assets                             | 120               | 995           | 522           | 1,463             | 3,100                   |
| Goodwill   | 101               | 243           | 198           | 655               | 1,197                   |
| Present value of acquired in-force business                      | -                 | 568           | 246           | 593               | 1,407                   |
| Software development   | 11                | 4             | 3             | 20                | 38                      |
| Other intangibles  | 8                 | 180           | 75            | 195               | 458                     |
| Mandatory reserve deposits with central banks                    | -                 | -             | -             | -                 | -                       |
| Property, plant and equipment                                    | 396               | 12            | 3             | 16                | 427                     |
| Investment property  | 1,679             | -             | -             | -                 | 1,679                   |
| Deferred tax assets  | 96                | 78            | 27            | 27                | 228                     |
| Investments in associated undertakings and joint ventures        | 26                | 4             | -             | 1                 | 31                      |
| Deferred acquisition costs                                       | 139               | 66            | 316           | 855               | 1,376                   |
| Insurance contracts  | 1                 | 14            | 7             | 47                | 69                      |
| Investment contracts   | 118               | 52            | 306           | 711               | 1,187                   |
| Asset management   | 20                | -             | 3             | 97                | 120                     |
| Reinsurers' share of life assurance policyholder liabilities     | 24                | 12            | 8             | 907               | 951                     |
| Insurance contracts  | 24                | 1             | 2             | 83                | 110                     |
| Unit-linked investment contracts and similar contracts           | -                 | 8             | -             | 813               | 821                     |
| Outstanding claims   | -                 | 3             | 6             | 11                | 20                      |
| Reinsurers' share of general insurance liabilities               | -                 | -             | -             | -                 | -                       |
| Deposits held with reinsurers                                    | -                 | -             | -             | -                 | -                       |
| Loans and advances   | 343               | 5,216         | 1             | 185               | 5,745                   |
| Policyholder loans   | 63                | -             | 1             | 185               | 249                     |
| Other loans and advances   | 280               | 5,216         | -             | -                 | 5,496                   |
| Investments and securities                                       | 34,519            | 13,392        | 4,466         | 40,856            | 93,233                  |
| Government and government-guaranteed securities                  | 4,704             | 167           | 74            | 272               | 5,217                   |
| Listed other debt securities, preference shares and debentures   | 2,324             | 2,798         | 46            | -                 | 5,168                   |
| Unlisted other debt securities, preference shares and debentures | 4,209             | -             | 20            | 140               | 4,369                   |
| Listed equity securities   | 10,991            | -             | 7             | -                 | 10,998                  |
| Unlisted equity securities                                       | 1,945             | 4             | -             | -                 | 1,949                   |
| Listed pooled investments  | 672               | 408           | 3             | 1,779             | 2,862                   |
| Unlisted pooled investments                                      | 7,936             | 10,015        | 4,316         | 37,671            | 59,938                  |
| Short-term funds and securities treated as investments           | 1,704             | -             | -             | 994               | 2,698                   |
| Other securities   | 34                | -             | -             | -                 | 34                      |
| Current tax receivable   | 4                 | 1             | 9             | 95                | 109                     |
| Client indebtedness for acceptances                              | -                 | -             | -             | -                 | -                       |
| Trade, other receivables and other assets                        | 854               | 191           | 58            | 274               | 1,377                   |
| Derivative financial instruments – assets                        | 557               | 10            | -             | -                 | 567                     |
| Cash and cash equivalents  | 1,141             | 198           | 93            | 336               | 1,768                   |
| Non-current assets held for sale                                 | -                 | -             | -             | 6                 | 6                       |
| Inter-segment assets   | 947               | 58            | 56            | 294               | 1,355                   |
| <b>Total assets</b>  | <b>40,845</b>     | <b>20,233</b> | <b>5,559</b>  | <b>45,315</b>     | <b>111,952</b>          |



## B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2010 continued

|         |       |       |       |         |         |                           | £m      |
|---------|-------|-------|-------|---------|---------|---------------------------|---------|
| Nedbank | M&F   | USAM  | Other | Bermuda | US Life | Consolidation adjustments | Total   |
| 637     | 33    | 1,181 | 14    | -       | -       | -                         | 4,965   |
| 453     | 13    | 1,155 | 13    | -       | -       | -                         | 2,831   |
| -       | -     | -     | -     | -       | -       | -                         | 1,407   |
| 184     | 20    | -     | 1     | -       | -       | -                         | 243     |
| -       | -     | 26    | -     | -       | -       | -                         | 484     |
| 1,079   | -     | -     | -     | -       | -       | -                         | 1,079   |
| 546     | 25    | 16    | 1     | -       | -       | -                         | 1,015   |
| 19      | -     | -     | 1     | -       | -       | 341                       | 2,040   |
| 28      | 12    | 148   | -     | -       | -       | -                         | 416     |
| 96      | 2     | 8     | 25    | -       | -       | -                         | 162     |
| 1       | 19    | 14    | -     | 124     | -       | -                         | 1,534   |
| -       | 19    | -     | -     | 124     | -       | -                         | 212     |
| -       | -     | -     | -     | -       | -       | -                         | 1,187   |
| 1       | -     | 14    | -     | -       | -       | -                         | 135     |
| 31      | -     | -     | -     | -       | -       | -                         | 982     |
| 31      | -     | -     | -     | -       | -       | -                         | 141     |
| -       | -     | -     | -     | -       | -       | -                         | 821     |
| -       | -     | -     | -     | -       | -       | -                         | 20      |
| -       | 122   | -     | -     | -       | -       | -                         | 122     |
| -       | 2     | -     | -     | -       | -       | -                         | 2       |
| 46,032  | 1     | -     | -     | -       | -       | -                         | 51,778  |
| -       | -     | -     | -     | -       | -       | -                         | 249     |
| 46,032  | 1     | -     | -     | -       | -       | -                         | 51,529  |
| 6,886   | 553   | 218   | 109   | 2,567   | -       | 2,587                     | 106,153 |
| 1,997   | -     | -     | -     | 17      | -       | 2,044                     | 9,275   |
| 3,730   | 2     | -     | 52    | 323     | -       | 2,081                     | 11,356  |
| -       | 4     | -     | -     | 201     | -       | -                         | 4,574   |
| 52      | 119   | -     | -     | -       | -       | 12,033                    | 23,202  |
| 241     | 8     | -     | -     | 5       | -       | 48                        | 2,251   |
| 866     | 43    | 179   | 1     | 1,919   | -       | 2,721                     | 8,591   |
| -       | -     | 39    | 3     | -       | -       | (16,528)                  | 43,452  |
| -       | 377   | -     | 19    | 102     | -       | 156                       | 3,352   |
| -       | -     | -     | 34    | -       | -       | 32                        | 100     |
| 47      | -     | -     | -     | -       | -       | -                         | 156     |
| 190     | -     | -     | -     | -       | -       | -                         | 190     |
| 943     | 82    | 138   | 62    | 1,038   | -       | 292                       | 3,932   |
| 1,350   | -     | -     | 109   | 1       | -       | 476                       | 2,503   |
| 841     | 131   | 171   | 458   | 74      | -       | 689                       | 4,132   |
| 1       | -     | -     | -     | -       | 12,384  | -                         | 12,391  |
| 202     | 23    | 4     | 975   | 874     | 47      | (3,480)                   | -       |
| 58,929  | 1,005 | 1,898 | 1,754 | 4,678   | 12,431  | 905                       | 193,552 |

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2010 continued

| At 31 December 2010                                    | Notes | Long-Term Savings |               |               |                   | Total Long-Term Savings |
|--|-------|-------------------|---------------|---------------|-------------------|-------------------------|
|  |       | Emerging Markets  | Nordic        | Retail Europe | Wealth Management |                         |
| <b>Liabilities</b>                                     |       |                   |               |               |                   |                         |
| Life assurance policyholder liabilities                |       | 35,676            | 12,248        | 4,460         | 41,468            | 93,852                  |
| Insurance contracts                                    |       | 14,122            | 45            | 130           | 1,109             | 15,406                  |
| Unit-linked investment contracts and similar contracts |       | 12,789            | 12,094        | 4,308         | 40,347            | 69,538                  |
| Other investment contracts                             |       | 137               | -             | -             | -                 | 137                     |
| Discretionary participating investment contracts       |       | 8,249             | -             | -             | -                 | 8,249                   |
| Outstanding claims                                     |       | 379               | 109           | 22            | 12                | 522                     |
| General insurance liabilities                          |       | -                 | -             | -             | -                 | -                       |
| Third-party interests in consolidated funds            |       | -                 | -             | -             | -                 | -                       |
| Borrowed funds   | E1    | 291               | 2             | -             | 1                 | 294                     |
| Senior debt securities                                 |       | -                 | 2             | -             | -                 | 2                       |
| Mortgage backed securities                             |       | -                 | -             | -             | -                 | -                       |
| Subordinated debt securities                           |       | 291               | -             | -             | 1                 | 292                     |
| Provisions   | F1    | 158               | (38)          | 4             | 50                | 174                     |
| Deferred revenue                                       |       | 22                | 1             | 197           | 498               | 718                     |
| Life assurance   |       | 17                | 1             | 194           | 408               | 620                     |
| Asset management                                       |       | 5                 | -             | 3             | 90                | 98                      |
| General insurance                                      |       | -                 | -             | -             | -                 | -                       |
| Deferred tax liabilities                               |       | 225               | 98            | 124           | 224               | 671                     |
| Current tax payable                                    |       | 123               | 12            | 4             | 65                | 204                     |
| Trade, other payables and other liabilities            |       | 2,246             | 259           | 94            | 544               | 3,143                   |
| Liabilities under acceptances                          |       | -                 | -             | -             | -                 | -                       |
| Amounts owed to bank depositors                        |       | -                 | 5,957         | -             | -                 | 5,957                   |
| Derivative financial instruments – liabilities         |       | 135               | 10            | -             | -                 | 145                     |
| Non-current liabilities held for sale                  |       | -                 | -             | -             | -                 | -                       |
| Inter-segment liabilities                              |       | 123               | 1             | 4             | 99                | 227                     |
| <b>Total liabilities</b>                               |       | <b>38,999</b>     | <b>18,550</b> | <b>4,887</b>  | <b>42,949</b>     | <b>105,385</b>          |
| <b>Net assets</b>                                      |       | <b>1,846</b>      | <b>1,683</b>  | <b>672</b>    | <b>2,366</b>      | <b>6,567</b>            |
| <b>Equity</b>  |       |                   |               |               |                   |                         |
| Equity attributable to equity holders of the parent    |       | 1,847             | 1,683         | 672           | 2,366             | 6,568                   |
| Non-controlling interests                              |       | (1)               | -             | -             | -                 | (1)                     |
| Non-controlling interests – ordinary shares            | F2(b) | (1)               | -             | -             | -                 | (1)                     |
| Non-controlling interests – preference shares          | F2(b) | -                 | -             | -             | -                 | -                       |
| <b>Total equity</b>                                    |       | <b>1,846</b>      | <b>1,683</b>  | <b>672</b>    | <b>2,366</b>      | <b>6,567</b>            |

## B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2010 continued

|         |     |       |         |         |         |                           | £m      |
|---------|-----|-------|---------|---------|---------|---------------------------|---------|
| Nedbank | M&F | USAM  | Other   | Bermuda | US Life | Consolidation adjustments | Total   |
| 846     | -   | -     | -       | 3,933   | -       | -                         | 98,631  |
| 136     | -   | -     | -       | 3,635   | -       | -                         | 19,177  |
| -       | -   | -     | -       | -       | -       | -                         | 69,538  |
| 710     | -   | -     | -       | 298     | -       | -                         | 1,145   |
| -       | -   | -     | -       | -       | -       | -                         | 8,249   |
| -       | -   | -     | -       | -       | -       | -                         | 522     |
| -       | 397 | -     | -       | -       | -       | -                         | 397     |
| -       | -   | -     | -       | -       | -       | 3,584                     | 3,584   |
| 2,456   | -   | 11    | 1,443   | -       | -       | -                         | 4,204   |
| 1,186   | -   | 11    | 537     | -       | -       | -                         | 1,736   |
| 112     | -   | -     | -       | -       | -       | -                         | 112     |
| 1,158   | -   | -     | 906     | -       | -       | -                         | 2,356   |
| (4)     | 40  | 3     | 47      | -       | -       | -                         | 260     |
| 1       | 11  | -     | -       | -       | -       | -                         | 730     |
| 1       | -   | -     | -       | -       | -       | -                         | 621     |
| -       | -   | -     | -       | -       | -       | -                         | 98      |
| -       | 11  | -     | -       | -       | -       | -                         | 11      |
| 158     | 13  | -     | 16      | -       | -       | -                         | 858     |
| 12      | 1   | 7     | 13      | 1       | -       | -                         | 238     |
| 1,717   | 114 | 210   | 120     | 7       | -       | 350                       | 5,661   |
| 190     | -   | -     | -       | -       | -       | -                         | 190     |
| 47,279  | -   | -     | -       | -       | -       | -                         | 53,236  |
| 1,172   | -   | -     | 102     | -       | -       | 451                       | 1,870   |
| -       | -   | -     | -       | -       | 12,219  | -                         | 12,219  |
| 431     | 2   | 803   | 1,860   | -       | 157     | (3,480)                   | -       |
| 54,258  | 578 | 1,034 | 3,601   | 3,941   | 12,376  | 905                       | 182,078 |
| 4,671   | 427 | 864   | (1,847) | 737     | 55      | -                         | 11,474  |
| 2,643   | 409 | 832   | (2,293) | 737     | 55      | -                         | 8,951   |
| 2,028   | 18  | 32    | 446     | -       | -       | -                         | 2,523   |
| 1,714   | 18  | 32    | -       | -       | -       | -                         | 1,763   |
| 314     | -   | -     | 446     | -       | -       | -                         | 760     |
| 4,671   | 427 | 864   | (1,847) | 737     | 55      | -                         | 11,474  |

The net assets of Emerging Markets are stated after eliminating investments in Group equity and debt instruments of £340 million (2009: £340 million) held in policyholder funds. These include investments in the Company's ordinary shares and subordinated liabilities and preferred securities issued by the Group's banking subsidiary Nedbank Limited. All Emerging Markets debt relates to life assurance. All other debt relates to other shareholders' net assets.

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2009

| At 31 December 2009  | Long-Term Savings |               |               |                   | Total Long-Term Savings |
|--|-------------------|---------------|---------------|-------------------|-------------------------|
|  | Emerging Markets  | Nordic        | Retail Europe | Wealth Management |                         |
| <b>Assets</b>  |                   |               |               |                   |                         |
| Goodwill and other intangible assets                             | 106               | 1,035         | 563           | 1,602             | 3,306                   |
| Goodwill   | 91                | 219           | 204           | 656               | 1,170                   |
| Present value of acquired in-force business                      | -                 | 624           | 265           | 671               | 1,560                   |
| Software development   | 6                 | 1             | 3             | 35                | 45                      |
| Other intangibles  | 9                 | 191           | 91            | 240               | 531                     |
| Mandatory reserve deposits with central banks                    | -                 | -             | -             | -                 | -                       |
| Property, plant and equipment                                    | 336               | 7             | 4             | 19                | 366                     |
| Investment property  | 1,518             | -             | -             | 2                 | 1,520                   |
| Deferred tax assets  | 54                | 108           | 17            | 23                | 202                     |
| Investments in associated undertakings and joint ventures        | 20                | 2             | -             | -                 | 22                      |
| Deferred acquisition costs                                       | 123               | 49            | 275           | 778               | 1,225                   |
| Insurance contracts  | -                 | 2             | -             | 50                | 52                      |
| Investment contracts   | 107               | 47            | 271           | 654               | 1,079                   |
| Asset management   | 16                | -             | 4             | 74                | 94                      |
| Reinsurers' share of life assurance policyholder liabilities     | 11                | 10            | 6             | 772               | 799                     |
| Insurance contracts  | 11                | 7             | 4             | 45                | 67                      |
| Unit-linked investment contracts and similar contracts           | -                 | -             | -             | 717               | 717                     |
| Outstanding claims   | -                 | 3             | 2             | 10                | 15                      |
| Reinsurers' share of general insurance liabilities               | -                 | -             | -             | -                 | -                       |
| Deposits held with reinsurers                                    | -                 | 108           | -             | -                 | 108                     |
| Loans and advances   | 340               | 4,209         | 2             | 148               | 4,699                   |
| Policyholder loans   | 58                | 2             | 2             | 148               | 210                     |
| Other loans and advances   | 282               | 4,207         | -             | -                 | 4,489                   |
| Investments and securities                                       | 27,603            | 10,836        | 3,693         | 35,120            | 77,252                  |
| Government and government-guaranteed securities                  | 3,586             | 150           | 60            | 251               | 4,047                   |
| Listed other debt securities, preference shares and debentures   | 1,825             | 1,453         | 53            | -                 | 3,331                   |
| Unlisted other debt securities, preference shares and debentures | 2,989             | -             | 2             | 104               | 3,095                   |
| Listed equity securities   | 8,854             | 1             | 10            | -                 | 8,865                   |
| Unlisted equity securities                                       | 1,223             | 15            | -             | -                 | 1,238                   |
| Listed pooled investments  | 457               | 547           | -             | 437               | 1,441                   |
| Unlisted pooled investments                                      | 6,123             | 8,670         | 3,568         | 34,327            | 52,688                  |
| Short-term funds and securities treated as investments           | 2,543             | -             | -             | 1                 | 2,544                   |
| Other securities   | 3                 | -             | -             | -                 | 3                       |
| Current tax receivable   | 4                 | 4             | 16            | 86                | 110                     |
| Client indebtedness for acceptances                              | -                 | -             | -             | -                 | -                       |
| Trade, other receivables and other assets                        | 630               | 155           | 58            | 232               | 1,075                   |
| Derivative financial instruments – assets                        | 327               | 9             | -             | -                 | 336                     |
| Cash and cash equivalents  | 189               | 344           | 81            | 278               | 892                     |
| Non-current assets held for sale                                 | -                 | -             | -             | -                 | -                       |
| Inter-segment assets   | 1,352             | 59            | 23            | 277               | 1,711                   |
| <b>Total assets</b>  | <b>32,613</b>     | <b>16,935</b> | <b>4,738</b>  | <b>39,337</b>     | <b>93,623</b>           |

B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2009 continued

|         |     |       |       |         |         |                           | £m      |
|---------|-----|-------|-------|---------|---------|---------------------------|---------|
| Nedbank | M&F | USAM  | Other | Bermuda | US Life | Consolidation adjustments | Total   |
| 543     | 30  | 1,171 | 13    | 2       | 94      | -                         | 5,159   |
| 393     | 11  | 1,142 | 13    | -       | -       | -                         | 2,729   |
| -       | -   | -     | -     | -       | 89      | -                         | 1,649   |
| 150     | 19  | 1     | -     | 2       | 5       | -                         | 222     |
| -       | -   | 28    | -     | -       | -       | -                         | 559     |
| 882     | -   | -     | -     | -       | -       | -                         | 882     |
| 417     | 23  | 19    | 2     | -       | 1       | -                         | 828     |
| 18      | -   | -     | -     | -       | -       | 221                       | 1,759   |
| 24      | 6   | 147   | 8     | -       | 183     | -                         | 570     |
| 82      | -   | 7     | 24    | -       | -       | -                         | 135     |
| 2       | 17  | 29    | -     | 194     | 1,671   | -                         | 3,138   |
| -       | 17  | -     | -     | 194     | 1,671   | -                         | 1,934   |
| -       | -   | -     | -     | -       | -       | -                         | 1,079   |
| 2       | -   | 29    | -     | -       | -       | -                         | 125     |
| 22      | -   | -     | -     | -       | 475     | -                         | 1,296   |
| 22      | -   | -     | -     | -       | 450     | -                         | 539     |
| -       | -   | -     | -     | -       | -       | -                         | 717     |
| -       | -   | -     | -     | -       | 25      | -                         | 40      |
| -       | 120 | -     | -     | -       | -       | -                         | 120     |
| -       | 3   | -     | -     | -       | 35      | -                         | 146     |
| 37,638  | 2   | -     | -     | -       | 54      | -                         | 42,393  |
| -       | -   | -     | -     | -       | 53      | -                         | 263     |
| 37,638  | 2   | -     | -     | -       | 1       | -                         | 42,130  |
| 5,501   | 425 | 162   | 43    | 2,942   | 10,045  | 2,091                     | 98,461  |
| 2,044   | -   | -     | -     | -       | 302     | 1,775                     | 8,168   |
| 2,532   | 2   | -     | -     | 461     | 6,766   | 1,729                     | 14,821  |
| -       | 4   | -     | -     | 167     | 2,439   | -                         | 5,705   |
| 41      | 87  | -     | -     | -       | -       | 9,503                     | 18,496  |
| 209     | 6   | -     | -     | 37      | -       | -                         | 1,490   |
| 675     | 41  | 122   | -     | 2,059   | 3       | 1,400                     | 5,741   |
| -       | -   | 40    | -     | -       | 16      | (12,678)                  | 40,066  |
| -       | 285 | -     | -     | 218     | 519     | 293                       | 3,859   |
| -       | -   | -     | 43    | -       | -       | 69                        | 115     |
| 51      | -   | -     | 8     | -       | -       | -                         | 169     |
| 170     | -   | -     | -     | -       | -       | -                         | 170     |
| 432     | 96  | 126   | 111   | 878     | 213     | 120                       | 3,051   |
| 1,067   | -   | -     | 154   | -       | 187     | 802                       | 2,546   |
| 660     | 79  | 173   | 425   | 32      | 4       | 717                       | 2,982   |
| 1       | -   | -     | -     | -       | -       | -                         | 1       |
| 148     | 48  | 1     | 1,363 | 564     | 74      | (3,909)                   | -       |
| 47,658  | 849 | 1,835 | 2,151 | 4,612   | 13,036  | 42                        | 163,806 |

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2009 continued

| At 31 December 2009                                    | Notes | Long-Term Savings |               |               |                   | Total Long-Term Savings |
|--|-------|-------------------|---------------|---------------|-------------------|-------------------------|
|  |       | Emerging Markets  | Nordic        | Retail Europe | Wealth Management |                         |
| <b>Liabilities</b>                                     |       |                   |               |               |                   |                         |
| Life assurance policyholder liabilities                |       | 28,655            | 9,514         | 3,689         | 35,554            | 77,412                  |
| Insurance contracts                                    |       | 11,783            | 74            | 121           | 901               | 12,879                  |
| Unit-linked investment contracts and similar contracts |       | 9,838             | 9,335         | 3,560         | 34,639            | 57,372                  |
| Other investment contracts                             |       | 115               | -             | -             | -                 | 115                     |
| Discretionary participating investment contracts       |       | 6,639             | -             | -             | -                 | 6,639                   |
| Outstanding claims                                     |       | 280               | 105           | 8             | 14                | 407                     |
| General insurance liabilities                          |       | -                 | -             | -             | -                 | -                       |
| Third-party interests in consolidated funds            |       | -                 | -             | -             | -                 | -                       |
| Borrowed funds   | E1    | 272               | 26            | -             | -                 | 298                     |
| Senior debt securities                                 |       | -                 | 26            | -             | -                 | 26                      |
| Mortgage backed securities                             |       | -                 | -             | -             | -                 | -                       |
| Subordinated debt securities                           |       | 272               | -             | -             | -                 | 272                     |
| Provisions   | F1    | 147               | 11            | 8             | 33                | 199                     |
| Deferred revenue                                       |       | 23                | 5             | 160           | 456               | 644                     |
| Life assurance   |       | 16                | 5             | 155           | 379               | 555                     |
| Asset management                                       |       | 7                 | -             | 5             | 77                | 89                      |
| General insurance                                      |       | -                 | -             | -             | -                 | -                       |
| Deferred tax liabilities                               |       | 200               | 113           | 124           | 167               | 604                     |
| Current tax payable                                    |       | 70                | 20            | 2             | 37                | 129                     |
| Trade, other payables and other liabilities            |       | 1,512             | 203           | 79            | 550               | 2,344                   |
| Liabilities under acceptances                          |       | -                 | -             | -             | -                 | -                       |
| Amounts owed to bank depositors                        |       | -                 | 5,448         | -             | -                 | 5,448                   |
| Derivative financial instruments – liabilities         |       | 141               | 22            | -             | -                 | 163                     |
| Non-current liabilities held for sale                  |       | -                 | -             | -             | -                 | -                       |
| Intersegment liabilities                               |       | 51                | 37            | -             | 181               | 269                     |
| <b>Total liabilities</b>                               |       | <b>31,071</b>     | <b>15,399</b> | <b>4,062</b>  | <b>36,978</b>     | <b>87,510</b>           |
| <b>Net assets</b>                                      |       | <b>1,542</b>      | <b>1,536</b>  | <b>676</b>    | <b>2,359</b>      | <b>6,113</b>            |
| <b>Equity</b>  |       |                   |               |               |                   |                         |
| Equity attributable to equity holders of the parent    |       | 1,540             | 1,536         | 676           | 2,359             | 6,111                   |
| Non-controlling interests                              |       | 2                 | -             | -             | -                 | 2                       |
| Non-controlling interests – ordinary shares            | F2(b) | 2                 | -             | -             | -                 | 2                       |
| Non-controlling interests – preference shares          | F2(b) | -                 | -             | -             | -                 | -                       |
| <b>Total equity</b>                                    |       | <b>1,542</b>      | <b>1,536</b>  | <b>676</b>    | <b>2,359</b>      | <b>6,113</b>            |

## B: Segment information continued

B6: Statement of financial position – segment information year ended 31 December 2009 continued

|         |     |       |         |         |         |                           | £m      |
|---------|-----|-------|---------|---------|---------|---------------------------|---------|
| Nedbank | M&F | USAM  | Other   | Bermuda | US Life | Consolidation adjustments | Total   |
| 661     | -   | -     | -       | 4,178   | 11,625  | -                         | 93,876  |
| 95      | -   | -     | -       | 3,788   | 10,787  | -                         | 27,549  |
| -       | -   | -     | -       | -       | -       | -                         | 57,372  |
| 566     | -   | -     | -       | 390     | 788     | -                         | 1,859   |
| -       | -   | -     | -       | -       | -       | -                         | 6,639   |
| -       | -   | -     | -       | -       | 50      | -                         | 457     |
| -       | 372 | -     | -       | -       | -       | -                         | 372     |
| -       | -   | -     | -       | -       | -       | 2,906                     | 2,906   |
| 1,614   | -   | -     | 1,397   | -       | -       | -                         | 3,309   |
| 484     | -   | -     | 636     | -       | -       | -                         | 1,146   |
| 118     | -   | -     | -       | -       | -       | -                         | 118     |
| 1,012   | -   | -     | 761     | -       | -       | -                         | 2,045   |
| 1       | 21  | 2     | 40      | -       | -       | -                         | 263     |
| 1       | 9   | -     | -       | -       | -       | -                         | 654     |
| 1       | -   | -     | -       | -       | -       | -                         | 556     |
| -       | -   | -     | -       | -       | -       | -                         | 89      |
| -       | 9   | -     | -       | -       | -       | -                         | 9       |
| 148     | 2   | -     | 25      | -       | 126     | -                         | 905     |
| 21      | -   | 10    | 45      | 5       | -       | -                         | 210     |
| 897     | 118 | 221   | 120     | (9)     | 359     | 255                       | 4,305   |
| 170     | -   | -     | -       | -       | -       | -                         | 170     |
| 38,687  | -   | -     | -       | -       | -       | -                         | 44,135  |
| 969     | -   | -     | 59      | -       | 9       | 790                       | 1,990   |
| -       | -   | -     | -       | -       | -       | -                         | -       |
| 697     | -   | 1,202 | 1,571   | -       | 170     | (3,909)                   | -       |
| 43,866  | 522 | 1,435 | 3,257   | 4,174   | 12,289  | 42                        | 153,095 |
| 3,792   | 327 | 400   | (1,106) | 438     | 747     | -                         | 10,711  |
| 2,084   | 265 | 371   | (1,552) | 438     | 747     | -                         | 8,464   |
| 1,708   | 62  | 29    | 446     | -       | -       | -                         | 2,247   |
| 1,444   | 62  | 29    | -       | -       | -       | -                         | 1,537   |
| 264     | -   | -     | 446     | -       | -       | -                         | 710     |
| 3,792   | 327 | 400   | (1,106) | 438     | 747     | -                         | 10,711  |

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## C: Other key performance information

### C1: Operating profit adjusting items

#### (a) Summary of adjusting items

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

|   |             | £m                |             |               |                   |                   |
|---|-------------|-------------------|-------------|---------------|-------------------|-------------------|
|   |             | Long-Term Savings |             |               |                   |                   |
| Year ended 31 December 2010   | Notes       | Emerging Markets  | Nordic      | Retail Europe | Wealth Management | Long-Term Savings |
| <b>Income/(expense)</b>   |             |                   |             |               |                   |                   |
| Goodwill impairment and impact of acquisition accounting                              | C1(b)       | (2)               | (89)        | (41)          | (74)              | (206)             |
| Loss on disposal of subsidiaries, associated undertakings and strategic investments   | C1(c)       | -                 | -           | -             | -                 | -                 |
| Short-term fluctuations in investment return  | C1(d)       | 1                 | (1)         | 1             | (71)              | (70)              |
| Investment return adjustment for Group equity and debt instruments held in life funds | C1(e)       | (10)              | -           | -             | -                 | (10)              |
| Dividends declared to holders of perpetual preferred callable securities              | C1(f)       | -                 | -           | -             | -                 | -                 |
| US Asset Management equity plans and non-controlling interests                        | C1(g)       | -                 | -           | -             | -                 | -                 |
| Credit-related fair value losses on Group debt instruments                            | C1(h)       | -                 | -           | -             | -                 | -                 |
| <b>Total adjusting items</b>  |             | <b>(11)</b>       | <b>(90)</b> | <b>(40)</b>   | <b>(145)</b>      | <b>(286)</b>      |
| Tax on adjusting items  | D1(d)       | 10                | 3           | 15            | 5                 | 33                |
| Non-controlling interest in adjusting items   | F11(a)(iii) | -                 | -           | -             | -                 | -                 |
| <b>Total adjusting items after tax and non-controlling interests</b>                  |             | <b>(1)</b>        | <b>(87)</b> | <b>(25)</b>   | <b>(140)</b>      | <b>(253)</b>      |

|  |            | £m                |             |               |                   |                   |
|--|------------|-------------------|-------------|---------------|-------------------|-------------------|
|  |            | Long-Term Savings |             |               |                   |                   |
| Year ended 31 December 2009*   | Notes      | Emerging Markets  | Nordic      | Retail Europe | Wealth Management | Long-Term Savings |
| <b>Income/(expense)</b>  |            |                   |             |               |                   |                   |
| Goodwill impairment and impact of acquisition accounting                                     | C1(b)      | (1)               | (12)        | (243)         | (167)             | (423)             |
| (Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments | C1(c)      | (51)              | -           | -             | (7)               | (58)              |
| Short-term fluctuations in investment return   | C1(d)      | (38)              | (1)         | 1             | (88)              | (126)             |
| Investment return adjustment for Group equity and debt instruments held in life funds        | C1(e)      | (109)             | -           | -             | -                 | (109)             |
| Dividends declared to holders of perpetual preferred callable securities                     | C1(f)      | -                 | -           | -             | -                 | -                 |
| US Asset Management equity plans and non-controlling interests                               | C1(g)      | -                 | -           | -             | -                 | -                 |
| Credit-related fair value gains on Group debt instruments                                    | C1(h)      | -                 | -           | -             | -                 | -                 |
| <b>Total adjusting items</b>   |            | <b>(199)</b>      | <b>(13)</b> | <b>(242)</b>  | <b>(262)</b>      | <b>(716)</b>      |
| Tax on adjusting items   | D1(d)      | (1)               | 9           | 14            | 37                | 59                |
| Non-controlling interest in adjusting items  | F2(a)(iii) | -                 | -           | -             | -                 | -                 |
| <b>Total adjusting items after tax and non-controlling interests</b>                         |            | <b>(200)</b>      | <b>(4)</b>  | <b>(228)</b>  | <b>(225)</b>      | <b>(657)</b>      |

\* The year ended 31 December 2009 has been restated to reflect US Life as non-core and discontinued.



## C: Other key performance information continued

### C1: Operating profit adjusting items continued

#### (a) Summary of adjusting items continued

| £m      |      |      |       |       |
|---------|------|------|-------|-------|
| Nedbank | M&F  | USAM | Other | Total |
| (6)     | -    | (2)  | -     | (214) |
| (1)     | -    | (21) | -     | (22)  |
| -       | (7)  | -    | (6)   | (83)  |
| -       | -    | -    | -     | (10)  |
| -       | -    | -    | 44    | 44    |
| -       | -    | 6    | -     | 6     |
| (20)    | -    | -    | (183) | (203) |
| (27)    | (7)  | (17) | (145) | (482) |
| 7       | (4)  | 6    | (6)   | 36    |
| 30      | -    | (9)  | -     | 21    |
| 10      | (11) | (20) | (151) | (425) |

| £m      |      |      |       |                |
|---------|------|------|-------|----------------|
| Nedbank | M&F  | USAM | Other | Total Restated |
| (4)     | -    | (2)  | -     | (429)          |
| -       | -    | 1    | 7     | (50)           |
| -       | (10) | -    | (30)  | (166)          |
| -       | -    | -    | -     | (109)          |
| -       | -    | -    | 45    | 45             |
| -       | -    | (1)  | -     | (1)            |
| -       | -    | -    | (263) | (263)          |
| (4)     | (10) | (2)  | (241) | (973)          |
| -       | 3    | 2    | -     | 64             |
| 19      | 7    | (3)  | -     | 23             |
| 15      | -    | (3)  | (241) | (886)          |

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## C: Other key performance information continued

### C1: Operating profit adjusting items continued

#### (b) Goodwill impairment and impact of acquisition accounting

Acquisition date deferred acquisition costs and deferred revenues are not recognised. These are reversed in the acquisition statement of financial position and replaced by goodwill, other intangible assets and the value of the acquired present value of in-force business ('acquired PVIF'). In determining its adjusted operating profit the Group recognises deferred revenue and acquisition costs in relation to policies sold by acquired businesses pre-acquisition, and excludes the impairment of goodwill and the amortisation of acquired other intangibles and acquired PVIF and the movements in certain acquisition date provisions.

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

| <b>Year ended 31 December 2010</b>                  | <b>Emerging Markets</b> | <b>Nordic</b> | <b>Retail Europe</b> | <b>Wealth Management</b> | <b>Nedbank</b> | <b>USAM</b> | <b>Total</b> |
|---|-------------------------|---------------|----------------------|--------------------------|----------------|-------------|--------------|
| Amortisation of acquired PVIF                       | -                       | (116)         | (21)                 | (77)                     | -              | -           | (214)        |
| Amortisation of acquired deferred costs and revenue | -                       | 23            | (7)                  | 34                       | -              | -           | 50           |
| Amortisation of other acquired intangible assets    | (1)                     | (26)          | (13)                 | (35)                     | (6)            | (2)         | (83)         |
| Change in acquisition date provisions               | -                       | 30            | -                    | 4                        | -              | -           | 34           |
| Goodwill impairment                                 | (1)                     | -             | -                    | -                        | -              | -           | (1)          |
|   | <b>(2)</b>              | <b>(89)</b>   | <b>(41)</b>          | <b>(74)</b>              | <b>(6)</b>     | <b>(2)</b>  | <b>(214)</b> |

| <b>Year ended 31 December 2009*</b>                 | <b>Emerging Markets</b> | <b>Nordic</b> | <b>Retail Europe</b> | <b>Wealth Management</b> | <b>Nedbank</b> | <b>USAM</b> | <b>Total Restated</b> |
|---|-------------------------|---------------|----------------------|--------------------------|----------------|-------------|-----------------------|
| Amortisation of acquired PVIF                       | -                       | (106)         | (37)                 | (86)                     | -              | -           | (229)                 |
| Amortisation of acquired deferred costs and revenue | 1                       | 21            | (5)                  | 34                       | -              | -           | 51                    |
| Amortisation of other acquired intangible assets    | (2)                     | (25)          | (14)                 | (36)                     | (4)            | (2)         | (83)                  |
| Change in acquisition date provisions               | -                       | 98            | -                    | -                        | -              | -           | 98                    |
| Goodwill impairment                                 | -                       | -             | (187)                | (79)                     | -              | -           | (266)                 |
|   | <b>(1)</b>              | <b>(12)</b>   | <b>(243)</b>         | <b>(167)</b>             | <b>(4)</b>     | <b>(2)</b>  | <b>(429)</b>          |

\* The year ended 31 December 2009 has been restated to reflect US Life as non-core and discontinued.

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## C: Other key performance information continued

C1: Operating profit adjusting items continued

### *(c) (Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments*

On 27 August 2010 USAM disposed of a subsidiary at a loss of £21 million.

In August 2008, an agreement with ABN AMRO Asset Management Asia and their parent company, Fortis Bank was entered into to acquire the 49% stake that Fortis held in AATEDA, a major Chinese asset management joint venture for €165 million. On 27 May 2009 the termination of this agreement with ABN AMRO Asset Management Asia and Fortis Bank was announced, with an exit fee of £41 million which has been accounted for as a loss on disposal.

(Loss)/profits on the disposal of subsidiaries, associated undertakings and strategic investments are analysed below:

|   | <b>Year ended<br/>31 December<br/>2010</b> | <b>Year ended<br/>31 December<br/>2009</b> |
|---|--|--|
| Emerging Markets  | -  | (51)                                       |
| Wealth Management   | -  | (7)  |
| <b>Total Long-Term Savings</b>  | <b>-</b>                                   | <b>(58)</b>                                |
| Nedbank   | <b>(1)</b>                                 | -  |
| USAM  | <b>(21)</b>                                | 1  |
| <b>Other</b>  | <b>-</b>                                   | <b>7</b>                                   |
| <b>(Loss)/profit on disposal of subsidiaries, associated undertakings and strategic investments</b> | <b>(22)</b>                                | <b>(50)</b>                                |

### *(d) Long-term investment return*

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

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

For Emerging Markets, the return is applied to an average value of investible shareholders' assets, adjusted for net fund flows. For Nordic, Retail Europe and Wealth Management, the return is applied to average investible assets. For M&F general insurance business, the return is an average value of investible assets supporting shareholders' funds and insurance liabilities, adjusted for net fund flows.

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## C: Other key performance information continued

C1: Operating profit adjusting items continued

(d) Long-term investment return continued

|                                   | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009 |
|-----------------------------------|-----------------------------------|-----------------------------------|
| <b>%</b>                          |                                   |                                   |
| <b>Long-term investment rates</b> |                                   |                                   |
| Emerging Markets                  | 9.4                               | 13.3                              |
| Nordic                            | 1.8                               | 1.8                               |
| Retail Europe                     | 2.5                               | 2.8                               |
| Wealth Management                 | 2.0                               | 5.0                               |
| M&F                               | 9.4                               | 13.3                              |

Analysis of short-term fluctuations in investment return

|   | <b>£m</b>           |          |                  |                       |                                |          |          |           |
|---|---------------------|----------|------------------|-----------------------|--------------------------------|----------|----------|-----------|
| Year ended 31 December 2010                         | Emerging<br>Markets | Nordic   | Retail<br>Europe | Wealth<br>Management* | Total<br>Long- Term<br>Savings | M&F      | Other    | Total     |
| Long-term investment return                         | 108                 | 2        | 1                | 132                   | 243                            | 56       | 31       | 330       |
| Less: Actual shareholder investment return          | 109                 | 1        | 2                | 61                    | 173                            | 49       | 25       | 247       |
| <b>Short-term fluctuations in investment return</b> | <b>(1)</b>          | <b>1</b> | <b>(1)</b>       | <b>71</b>             | <b>70</b>                      | <b>7</b> | <b>6</b> | <b>83</b> |

|   | <b>£m</b>           |          |                  |                       |                                |           |           |                   |
|---|---------------------|----------|------------------|-----------------------|--------------------------------|-----------|-----------|-------------------|
| Year ended 31 December 2009**                       | Emerging<br>Markets | Nordic   | Retail<br>Europe | Wealth<br>Management* | Total<br>Long- Term<br>Savings | M&F       | Other     | Total<br>Restated |
| Long-term investment return                         | 126                 | 1        | 1                | 109                   | 237                            | 60        | 91        | 388               |
| Less: Actual shareholder investment return          | 88                  | -        | 2                | 21                    | 111                            | 50        | 61        | 222               |
| <b>Short-term fluctuations in investment return</b> | <b>38</b>           | <b>1</b> | <b>(1)</b>       | <b>88</b>             | <b>126</b>                     | <b>10</b> | <b>30</b> | <b>166</b>        |

\* Wealth Management long-term investment return includes of £121 million (2009: £96m) in respect of income tax attributable to policyholder returns.

\*\* The year ended 31 December 2009 has been restated to reflect US Life as non-core and discontinued.

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## C: Other key performance information continued

### C1: Operating profit adjusting items continued

#### *(e) Investment return adjustment for Group equity and debt instrument held in life funds*

Adjusted operating profit includes investment returns on policyholder investments in Group equity and debt instruments held by the Group's life funds. These include investments in the Company's ordinary shares, and the subordinated liabilities and ordinary securities of Nedbank. These investment returns are eliminated within the consolidated income statement in arriving at profit before tax, but are included in adjusted operating profit. In 2010 the investment return adjustment increased adjusted operating profit by £10 million (2009: increase of £109 million).

#### *(f) Dividends declared to holders of perpetual preferred callable securities*

Dividends declared to the holders of the Group's perpetual preferred callable securities were £44 million in the year ended 31 December 2010 (2009: £45 million). These are recognised in finance costs on an accruals basis for the purpose of determining adjusted operating profit. In the IFRS financial statements this cost is recognised in equity.

#### *(g) US Asset Management equity plans and non-controlling interests*

US Asset Management has a number of long-term incentive arrangements with senior employees in its asset management affiliates.

In accordance with IFRS requirements the cost of these schemes is disclosed as being attributable to non-controlling interests. However, this is treated as a compensation expense in determining adjusted operating profit. The loss recognised in 2010 was £6 million (2009: gain £1 million).

The Group has issued put options to senior employees as part of some of its US affiliate incentive schemes. The impact of revaluing these instruments is recognised in accordance with IFRS, but excluded from adjusted operating profit. As at 31 December 2010 these instruments were revalued, the impact of which was £3 million (2009: £4 million).

#### *(h) Credit-related fair value gains and losses on Group debt instruments*

The narrowing of credit spread of the Group's debt instruments in the market price has resulted in losses of £183 million (2009: losses due to narrowing of £263 million) on Other operating segments and £20 million (2009: £ nil) in Nedbank being recorded in the Group's income statement for those instruments that are recorded at fair value.

In the directors' view, such movements are not reflective of the underlying performance of the Group and will reverse over time. They have therefore been excluded from adjusted operating profit.

### C2 Foreign currencies

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

|                         | Income statement<br>(average rate) | Statement of<br>financial<br>position<br>(closing rate) |
|-------------------------|------------------------------------|---|
| <b>31 December 2010</b> |                                    |   |
| Rand                    | <b>11.3095</b>                     | <b>10.2796</b>  |
| US dollars              | <b>1.5459</b>                      | <b>1.5530</b>   |
| Swedish kronor          | <b>11.1364</b>                     | <b>10.4227</b>  |
| Euro                    | <b>1.1650</b>                      | <b>1.1614</b>   |
| <b>31 December 2009</b> |                                    |   |
| Rand                    | 13.1746                            | 11.9172   |
| US dollars              | 1.5655                             | 1.6148  |
| Swedish kronor          | 11.9743                            | 11.5562   |
| Euro                    | 1.1227                             | 1.1268  |

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## C: Other key performance information continued

### C3: Earnings and earnings per share

#### (a) Basic and diluted earnings per share

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

|  | <b>£m</b>                                  |                                   |
|--|--|-----------------------------------|
|  | <b>Year ended<br/>31 December<br/>2010</b> | Year ended<br>31 December<br>2009 |
| Profit/(loss) for the financial year attributable to equity holders of the parent from continuing operations | <b>431</b>                                 | (269)                             |
| Loss for the financial year attributable to equity holders of the parent from discontinued operations        | <b>(713)</b>                               | (71)                              |
| Loss for the financial year attributable to equity holders of the parent                                     | <b>(282)</b>                               | (340)                             |
| Dividends declared to holders of perpetual preferred callable securities                                     | <b>(32)</b>                                | (32)                              |
| <b>Loss attributable to ordinary equity holders</b>  | <b>(314)</b>                               | (372)                             |

Total dividends declared to holders of perpetual preferred callable securities of £44 million in 2010 (2009: £45 million) are stated net of tax credits of £12 million (2009: £13 million).

|  | <b>Millions</b>                            |                                   |
|--|--|-----------------------------------|
|  | <b>Year ended<br/>31 December<br/>2010</b> | Year ended<br>31 December<br>2009 |
| <b>Weighted average number of ordinary shares in issue</b> | <b>5,422</b>                               | 5,277                             |
| Shares held in charitable foundations                      | <b>(7)</b>                                 | (7)                               |
| Shares held in ESOP trusts                                 | <b>(56)</b>                                | (41)                              |
| <b>Adjusted weighted average number of ordinary shares</b> | <b>5,359</b>                               | 5,229                             |
| Shares held in life funds                                  | <b>(205)</b>                               | (236)                             |
| Shares held in Black Economic Empowerment trusts           | <b>(295)</b>                               | (235)                             |
| <b>Weighted average number of ordinary shares</b>          | <b>4,859</b>                               | 4,758                             |
| <b>Basic earnings per ordinary share (pence)</b>           | <b>(6.5)</b>                               | (7.8)                             |

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

|  | <b>Millions</b>                            |                                   |
|--|--|-----------------------------------|
|  | <b>Year ended<br/>31 December<br/>2010</b> | Year ended<br>31 December<br>2009 |
| Weighted average number of ordinary shares                       | <b>4,859</b>                               | 4,758                             |
| Adjustments for share options held by ESOP trusts                | <b>137</b>                                 | -                                 |
| Adjustments for shares held in Black Economic Empowerment trusts | <b>295</b>                                 | -                                 |
|  | <b>5,291</b>                               | 4,758                             |
| <b>Diluted earnings per ordinary share (pence)</b>               | <b>(6.1)</b>                               | (7.8)                             |

No adjustments to the weighted average number of ordinary shares have been effected for 2009 in order to calculate the diluted earnings per ordinary share as any adjustments would be antidilutive.

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## C: Other key performance information continued

### C3: Earnings and earnings per share continued

#### (b) Adjusted operating earnings per ordinary share

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

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

|  | <b>£m</b>                         |   |
|--|-----------------------------------|---|
|  | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009<br>Restated |
| <b>Loss for the financial year attributable to equity holders of the parent</b>    | <b>(282)</b>                      | (340)   |
| Adjusting items  | <b>482</b>                        | 973   |
| Tax on adjusting items   | <b>(36)</b>                       | (64)  |
| Non-core operations  | <b>(1)</b>                        | (12)  |
| Loss from discontinued operations – US Life  | <b>713</b>                        | 71  |
| Non-controlling interest on adjusting items  | <b>(21)</b>                       | (23)  |
| <b>Adjusted operating profit after tax attributable to ordinary equity holders</b> | <b>855</b>                        | 605   |
| Adjusted weighted average number of ordinary shares – (millions)                   | <b>5,359</b>                      | 5,229   |
| <b>Adjusted operating earnings per ordinary share – (pence)</b>                    | <b>16.0</b>                       | 11.6  |

#### (c) Headline earnings per share

In accordance with the JSE Limited (JSE) listing requirements, the Group is required to calculate a 'headline earnings per share' (HEPS), determined by reference to the South African Institute of Chartered Accountants' circular 8/2007 'Headline Earnings'. The table below sets out a reconciliation of basic earnings per ordinary share and HEPS in accordance with that circular. Disclosure of HEPS is not a requirement of International Financial Reporting Standards.

|  | <b>£m</b>                      |              |  |       |
|--|--------------------------------|--------------|--|-------|
|  | Year ended<br>31 December 2010 |              | Year ended<br>31 December 2009<br>Restated |       |
|  | Gross                          | Net          | Gross                                      | Net   |
| <b>Loss for the financial year attributable to equity holders of the parent</b>              | <b>(282)</b>                   | <b>(282)</b> | (340)                                      | (340) |
| Dividends declared to holders of perpetual preferred callable securities                     | <b>(32)</b>                    | <b>(32)</b>  | (32)                                       | (32)  |
| <b>Loss attributable to ordinary equity holders</b>  | <b>(314)</b>                   | <b>(314)</b> | (372)                                      | (372) |
| Adjustments:   |                                |              |  |       |
| Impairments of goodwill and intangible assets  | <b>20</b>                      | <b>20</b>    | 266  | 266   |
| Impairment of discontinued operations  | <b>827</b>                     | <b>827</b>   | -  | -     |
| Loss/(profit) on disposal of subsidiaries, associated undertakings and strategic investments | <b>22</b>                      | <b>17</b>    | 50   | 53    |
| Realised gains/losses (including impairments) on available-for-sale financial assets         | <b>(12)</b>                    | <b>(12)</b>  | 239  | 239   |
| <b>Headline earnings</b>   | <b>543</b>                     | <b>538</b>   | 183  | 186   |
| <b>Weighted average number of ordinary shares</b>  | <b>4,859</b>                   | <b>4,859</b> | 4,758                                      | 4,758 |
| <b>Diluted weighted average number of ordinary shares</b>                                    | <b>5,291</b>                   | <b>5,291</b> | 5,109                                      | 5,109 |
| <b>Headline earnings per share (pence)</b>   | <b>11.2</b>                    | <b>11.1</b>  | 3.8  | 3.9   |
| <b>Diluted headline earnings per share (pence)</b>   | <b>10.1</b>                    | <b>10.0</b>  | 3.6  | 3.6   |

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## C: Other key performance information continued

### C4: Dividends

Dividends paid were as follows:

|  | <b>Year ended<br/>31 December<br/>2010</b> | <b>Year ended<br/>31 December<br/>2009</b> |
|--|--|--|
| 2009 Final dividend paid – 1.5p per 10p share                            | <b>77</b>                                  | -  |
| 2010 Interim dividend paid – 1.1p per 10p share                          | <b>54</b>                                  | -  |
| <b>Dividends to ordinary equity holders</b>                              | <b>131</b>                                 | -  |
| Dividends declared to holders of perpetual preferred callable securities | <b>44</b>                                  | 45   |
| <b>Dividend payments for the year</b>                                    | <b>175</b>                                 | 45   |

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

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

In March and November 2010, £22 million and £22 million respectively were declared and paid to holders of perpetual preferred callable securities (March 2009: £22 million and November 2009: £23 million).

A final dividend of 2.9 pence per 10p share has been recommended by the directors. Subject to shareholders' approval, the dividend will be paid on 31 May 2011 to shareholders on the register at the close of business on 15 April 2011. The dividend will absorb an estimated £142 million of shareholders' funds before taking into account any election for the scrip dividend alternative. The Company is planning to offer a scrip dividend alternative for eligible shareholders.



# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## D: Other income statement notes

D1: Income tax expense/(credit)

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

|   | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009<br>Restated |
|---|-----------------------------------|---|
| <b>£m</b>   |                                   |   |
| <b>Current tax</b>                                |                                   |   |
| United Kingdom tax                                |                                   |   |
| Corporation tax                                   | 23                                | 46  |
| Overseas tax                                      |                                   |   |
| South Africa                                      | 346                               | 257   |
| United States                                     | (4)                               | (7)   |
| Europe  | 61                                | 49  |
| Secondary Tax on Companies (STC)                  | 4                                 | 13  |
| Prior year adjustments                            | (1)                               | 14  |
| <b>Total current tax</b>                          | <b>429</b>                        | <b>372</b>                                    |
| <b>Deferred tax</b>                               |                                   |   |
| Origination and reversal of temporary differences | (10)                              | 105   |
| Changes in tax rates/bases                        | (4)                               | -   |
| Write down/recognition of deferred tax assets     | 41                                | (77)  |
| <b>Total deferred tax</b>                         | <b>27</b>                         | <b>28</b>                                     |
| <b>Total income tax expense/(credit)</b>          | <b>456</b>                        | <b>400</b>                                    |

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

|  | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009<br>Restated |
|--|-----------------------------------|---|
| <b>£m</b>  |                                   |   |
| <b>Profit before tax</b>                           | <b>1,145</b>                      | <b>353</b>                                    |
| Tax at standard rate of 28% (2009: 28%)            | 321                               | 99  |
| Different tax rate or basis on overseas operations | (22)                              | (2)   |
| Untaxed and low taxed income                       | (171)                             | (83)  |
| Disallowable expenses                              | 124                               | 180   |
| Net movement on deferred tax assets not recognised | 92                                | 69  |
| Effect on deferred tax of changes in tax rates     | (7)                               | (2)   |
| STC  | (3)                               | 19  |
| Income tax attributable to policyholder returns    | 134                               | 142   |
| Other  | (12)                              | (22)  |
| <b>Total income tax expense/(credit)</b>           | <b>456</b>                        | <b>400</b>                                    |

(c) Income tax relating to components of other comprehensive income

|  | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009<br>Restated |
|--|-----------------------------------|---|
| <b>£m</b>  |                                   |   |
| Preferred perpetual callable securities  | (12)                              | (13)  |
| Other  | (1)                               | -   |
| Income tax expense/(credit) – continuing operations                              | (13)                              | (13)  |
| Fair value gains/(losses)  | 181                               | 428   |
| Shadow accounting  | (114)                             | (18)  |
| Income tax expense/(credit) – discontinued operations                            | 67                                | 410   |
| Income tax expense/(credit) relating to components of other comprehensive income | 54                                | 397   |

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## D: Other income statement notes continued

D1: Income tax expense/(credit) continued

(d) *Income tax on adjusted operating profit*

|  | <b>£m</b>                                  |   |
|--|--|---|
|  | <b>Year ended<br/>31 December<br/>2010</b> | Year ended<br>31 December<br>2009<br>Restated |
| <b>Income tax expense/(credit)</b>   | <b>456</b>                                 | 400   |
| <b>Tax on adjusting items</b>  |  |   |
| Impact of acquisition accounting   | 35   | 40  |
| Profit on disposal of subsidiaries, associated undertakings and strategic investments                | 5  | (2)   |
| Short-term fluctuations in investment return   | 3  | 39  |
| Income tax attributable to policyholders returns   | (149)                                      | (192)   |
| Tax on dividends declared to holders of perpetual preferred callable securities recognised in equity | (12)                                       | (13)  |
| Fair value gains and losses on group debt instruments  | 5  | -   |
| Tax on non-core operations   | 4  | 11  |
| <b>Income tax on adjusted operating profit</b>   | <b>347</b>                                 | 283   |

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## E: Financial assets and liabilities continued

### E1: Borrowed funds

|  |       | Group        |              | At           | Group     |         | At          |
|--|-------|--------------|--------------|--------------|-----------|---------|-------------|
|  | Notes | excluding    | Nedbank      | 31 December  | excluding | Nedbank | 31 December |
|  |       | Nedbank      | Nedbank      | 2010         | Nedbank   | Nedbank | 2009        |
| Senior debt securities and term loans                  | E1(a) | 550          | 1,186        | 1,736        | 662       | 484     | 1,146       |
| Mortgage backed securities                             | E1(b) | -            | 112          | 112          | -         | 119     | 119         |
| Subordinated debt securities (net of Group holdings)   | E1(c) | 1,198        | 1,158        | 2,356        | 1,034     | 1,010   | 2,044       |
| <b>Borrowed funds</b>                                  |       | <b>1,748</b> | <b>2,456</b> | <b>4,204</b> | 1,696     | 1,613   | 3,309       |
| Other issues treated as equity for accounting purposes |       |              |              |              |           |         |             |
| US\$750 million cumulative preference securities       | F2(b) | 458          |              |              | 458       |         |             |
| €500 million perpetual preferred callable securities   | F2(b) | 338          |              |              | 338       |         |             |
| £350 million perpetual preferred callable securities   | F2(b) | 350          |              |              | 350       |         |             |
| <b>Total: Book value</b>                               |       | <b>2,894</b> |              |              | 2,842     |         |             |
| <b>Nominal value of the above</b>                      |       | <b>3,045</b> |              |              | 3,162     |         |             |

The table below is a maturity analysis of liability cash flows based on contractual maturity dates for borrowed funds. Maturity analysis is undiscounted and based on year end exchange rates.

|   | Group        |              | At           | Group     |         | At          |
|---|--------------|--------------|--------------|-----------|---------|-------------|
|   | excluding    | Nedbank      | 31 December  | excluding | Nedbank | 31 December |
|   | Nedbank      | Nedbank      | 2010         | Nedbank   | Nedbank | 2009        |
| Less than 1 year                          | 498          | 323          | 821          | 219       | 156     | 375         |
| Greater than 1 year and less than 5 years | 921          | 2,164        | 3,085        | 1,413     | 1,226   | 2,639       |
| Greater than 5 years                      | 880          | 722          | 1,602        | 899       | 1,033   | 1,932       |
| <b>Total</b>                              | <b>2,299</b> | <b>3,209</b> | <b>5,508</b> | 2,531     | 2,415   | 4,946       |

(a) Senior debt securities and term loans

|   |  |                |                             |  | <b>£m</b>      |                                    |
|---|--|----------------|-----------------------------|--|----------------|------------------------------------|
|   | <b>Group<br/>excluding<br/>Nedbank</b> | <b>Nedbank</b> | <b>31 December<br/>2010</b> | <b>Group<br/>excluding<br/>Nedbank</b> | <b>Nedbank</b> | <b>At<br/>31 December<br/>2009</b> |
| Floating rate notes <sup>1</sup>                  | 86                                     | 720            | 806                         | 114                                    | 265            | 379                                |
| Fixed rate notes <sup>2</sup>                     | 462                                    | 466            | 928                         | 548                                    | 219            | 767                                |
| Revolving credit facility <sup>3</sup>            | -                                      | -              | -                           | -                                      | -              | -                                  |
| Term loan and other loans                         | 2                                      | -              | 2                           | -                                      | -              | -                                  |
| <b>Total senior debt securities and term loan</b> | <b>550</b>                             | <b>1,186</b>   | <b>1,736</b>                | <b>662</b>                             | <b>484</b>     | <b>1,146</b>                       |

Senior debt securities and term loan comprise:

1. Floating rate notes

**Nedbank**

- R1,690 million unsecured senior debt repayable September 2012 at 3 month JIBAR + 1.5%.
- R1,044 million unsecured senior debt repayable September 2015 at JIBAR + 2.20%.
- R1,750 million unsecured senior debt repayable March 2013 inflation linked (3.9% real yield).
- R98 million unsecured senior debt repayable March 2013 inflation linked (3.8% real yield).
- R1,552 million unsecured senior debt repayable April 2013 JIBAR +1.48%.
- R1,027 million unsecured senior debt repayable April 2015 JIBAR +1.75%.
- R80 million unsecured senior debt repayable April 2020 JIBAR +2.15%.

**Group excluding Nedbank**

- R550 million repayable August 2010 at 3 month ZAR – JIBAR-SAFEX + 4.5% – repaid.
- R100 million repayable February 2011 at 3 month ZAR – JIBAR-SAFEX + 4.5% - repaid.
- US\$50 million repayable September 2011 at 3 month LIBOR plus 0.50%.
- €22 million repayable January 2010 at 3 month EURIBOR plus 0.35%. – repaid
- SEK50 million repayable March 2010 at 3 month STIBOR plus 0.38% - repaid.
- £3 million note repayable in December 2010, with holders having the option to elect for early redemption every six months with coupon referenced against six month LIBOR less 0.50% – repaid.

2. Fixed rate notes

**Nedbank**

- R130 million unsecured senior debt repayable October 2024 at zero coupon.
- R3,244 million unsecured senior debt repayable September 2015 at 10.55%.
- R762 million unsecured senior debt repayable September 2019 at 11.39%.
- R478 million unsecured senior debt repayable April 2015 at R157 +1.75%.

**Group excluding Nedbank**

- £500 million euro bond repayable October 2016 at 7.125%.
- US\$ 16.5 million secured senior debt repayable August 2014 at 5.23%.
- €30 million euro bond repayable July 2010, capital and interest swapped into fixed rate US dollars at 5.28% – Repaid.
- €10 million euro bond repayable December 2010, capital and interest swapped into floating rate US dollars at 3 month LIBOR + 0.95% – repaid.
- €20 million euro bond repayable August 2013, capital and interest swapped into floating rate US dollars at 3 month LIBOR + 1.30% – repaid.

The total fair value of the swap derivatives associated with the Senior notes is £nil (2009: £12 million). These are recognised as assets and are included within note E5.

3. Revolving credit facilities and irrevocable letters of credit

The Group has a £1,250 million five-year multi-currency revolving credit facility, which had an original maturity date of September 2010. On 18 August 2007 syndicate banks agreed to extend the maturity date of £1,232 million of the facility until September 2012. At 31 December 2010 £499 million (2009: £480 million) of this facility was utilised, £nil (2009: £nil) in the form of drawn debt and £499 million (2009: £480 million) in the form of irrevocable letters of credit.

The Group has committed standby facilities totalling £275 million, which were put in place in December 2010 and have a latest maturity date of 29 June 2012.

The Group has a SEK1,500 million revolving credit facility, which has a maturity date of 1 July 2011. At 31 December 2010 this facility was undrawn (2009: undrawn).

(b) Mortgage backed securities – Nedbank

|   | £m                        |                           |
|---|---------------------------|---------------------------|
|   | At<br>31 December<br>2010 | At<br>31 December<br>2009 |
| R291 million notes (class A1) repayable 18 November 2039 (11.467%)    | 4                         | 25                        |
| R1.4 billion notes (class A2A) repayable 18 November 2039 (11.817%)   | 96                        | 84                        |
| R98 million notes (class B note) repayable 18 November 2039 (12.067%) | 7                         | 6                         |
| R76 million notes (class C note) repayable 18 November 2039 (13.317%) | 5                         | 4                         |
|   | <b>112</b>                | <b>119</b>                |

(c) Subordinated debt securities

|   | £m                        |                           |
|---|---------------------------|---------------------------|
|   | At<br>31 December<br>2010 | At<br>31 December<br>2009 |
| <b>Nedbank</b>  |                           |                           |
| R1.5 billion repayable 24 April 2016 (7.85%) <sup>1</sup>                       | 148                       | 126                       |
| R1.8 billion repayable 20 September 2018 (9.84%) <sup>2</sup>                   | 186                       | 149                       |
| R500 million repayable on 30 December 2010 (8.38%) <sup>3</sup>                 | -                         | 41                        |
| R650 million repayable 8 February 2017 (9.03%) <sup>4</sup>                     | 67                        | 55                        |
| R1.7 billion repayable 8 February 2019 (8.9%) <sup>5</sup>                      | 171                       | 138                       |
| R2.0 billion repayable 6 July 2022 (3 month JIBAR plus 0.47%) <sup>6</sup>      | 198                       | 171                       |
| R500 million repayable 15 August 2012 (3 month JIBAR plus 0.45%) <sup>7</sup>   | 49                        | 42                        |
| R1.0 billion repayable 17 September 2020 (10.54%) <sup>8</sup>                  | 105                       | 84                        |
| R500 million repayable 14 December 2017 (3 month JIBAR plus 0.70%) <sup>9</sup> | 49                        | 42                        |
| R120 million repayable 14 December 2017 (10.38%) <sup>10</sup>                  | 12                        | 10                        |
| R487 million repayable 20 November 2018 (15.05%) <sup>11</sup>                  | 51                        | 41                        |
| R1,265 million repayable 20 November 2018 (JIBAR plus 4.75%) <sup>12</sup>      | 125                       | 108                       |
| R300 million repayable on 4 December 2013 (JIBAR + 2.5%) <sup>13</sup>          | 15                        | 13                        |
| US\$100 million repayable on 3 March 2022 (3 month USD LIBOR) <sup>14</sup>     | 65                        | 62                        |
|   | <b>1,241</b>              | <b>1,082</b>              |
| Less: banking subordinated debt securities held by other Group companies        | <b>(83)</b>               | <b>(72)</b>               |
| <b>Banking subordinated debt securities (net of Group holdings)</b>             | <b>1,158</b>              | <b>1,010</b>              |
| <b>Group excluding Nedbank</b>  |                           |                           |
| R3.0 billion repayable 27 October 2015 (8.9%) <sup>15</sup>                     | 293                       | 252                       |
| £300 million repayable 21 January 2016 (5.0%) <sup>16</sup>                     | 296                       | 252                       |
| R250 million preference shares repayable 9 June 2011 <sup>17</sup> – repaid     | -                         | 21                        |
| €750 million repayable 18 January 2017 (4.5%) <sup>18</sup>                     | 609                       | 509                       |
|   | <b>1,198</b>              | <b>1,034</b>              |
| <b>Total subordinated liabilities</b>   | <b>2,356</b>              | <b>2,044</b>              |

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

1. Unsecured secondary callable note was issued 24 April 2006 with a call date of 24 April 2011.
2. Unsecured secondary callable note was issued 20 September 2006 at R1.5 billion with a call date of 20 September 2013. On 18 May 2007 an additional R0.3 billion was issued.
3. Unsecured callable Bonds issued 30 March 2006.
4. Unsecured secondary callable note was issued 8 February 2007 with a call date of 8 February 2012.
5. Unsecured secondary callable note was issued 8 February 2007 at R1.0 billion. On 19 March 2007 an additional R0.7 billion was issued.
6. Unsecured secondary capital callable note issued 6 July 2007 and has a call date of 6 July 2017.
7. This bond issued on 15 August 2007 is an unsecured secondary capital callable floating rate note with a call date 15 August 2012.
8. This bond issued on 17 September 2007 is an unsecured fixed rate note with a term of 13 years (non-call 8 year).
9. This bond issued on 14 December 2007 is a 10 year (non-call 5 year) floating rate note. After its call date on 14 December 2012 its terms become JIBAR plus 1.70% until maturity.

10. This bond issued on 14 December 2007 is a 10 year (non-call 5 year) fixed rate note. After its call date its terms become floating 3 month JIBAR plus initial margin over mid swaps plus 1.0% until maturity.
11. This bond issued on 20 May 2008 is a perpetual (non-call 10 year) fixed rate note with a call date on 20 November 2018.
12. This bond issued on 20 May 2008 is a perpetual (non-call 10 year) floating rate note with a call date of 20 November 2018.
13. This bond issued on 4 December 2008 is a floating rate note with a call date of 4 December 2013.
14. Dated Tier 2 notes issued 3 March 2009 with call date 2 March 2017.
15. These bonds have a maturity date of 27 October 2020 and pay a coupon of 8.92% to 27 October 2015 and 3 month JIBAR plus 1.59% thereafter. The Group has the option to repay the bonds at par on 27 October 2015 and at 3 monthly intervals thereafter.
16. These bonds, issued on 20 January 2006, had a maturity date of 21 January 2016 and paid a coupon of 5.0% to 21 January 2011 and 6 month LIBOR plus 1.13% thereafter. The coupon on the bonds was swapped into floating rate of 6 month STIBOR plus 0.50%. The Group had the option to repay the bonds at par on 21 January 2011 and at 6 monthly intervals thereafter. These bonds were redeemed after the balance sheet date, at the first call date of 21 January 2011.
17. These preference shares were redeemable on 9 June 2011 and paid a variable cumulative coupon of 61.0% of the Prime Rate as quoted by Nedbank Limited. The Group had the option to redeem the shares at par at any time before the final redemption date but after giving an agreed period of notice, with the Group electing to redeem in 2010.
18. This bond, issued on 16 January 2007, has a maturity date of 18 January 2017 and pays a coupon of 4.5% to 17 January 2012 and 6 month EURIBOR plus 0.96% thereafter. The principal and coupon on the bond were swapped equally into Sterling and US Dollars with coupons of 6 month LIBOR plus 0.34% and 6 month US LIBOR plus 0.31% respectively. The Group has the option to repay the bonds at par on 17 January 2012 and at 6 monthly intervals thereafter.

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## F: Other statement of financial position notes continued

### F1: Provisions

|                                  | At<br>31 December<br>2010 | At<br>31 December<br>2009 |
|----------------------------------|---------------------------|---------------------------|
| Surplus property                 | 16                        | 20                        |
| Client compensation              | 39                        | 30                        |
| Warranties on sale of business   | 3                         | 17                        |
| Liability for long service leave | 57                        | 49                        |
| Restructuring                    | 15                        | 5                         |
| Provision for donations          | 89                        | 84                        |
| Other provisions                 | 92                        | 90                        |
|                                  | <b>311</b>                | <b>295</b>                |
| Post employment benefits         | (51)                      | (32)                      |
| <b>Total</b>                     | <b>260</b>                | <b>263</b>                |

|   | £m                  |                        |                                      |   |                    |                               |           |            |
|---|---------------------|------------------------|--------------------------------------|---|--------------------|-------------------------------|-----------|------------|
| Year ended 31 December 2010             | Surplus<br>property | Client<br>compensation | Warranties<br>on sale of<br>business | Liability<br>for long<br>service<br>leave | Restruct-<br>uring | Provision<br>for<br>donations | Other     | Total      |
| <b>Balance at beginning of the year</b> | 20                  | 30                     | 17                                   | 49  | 5                  | 84                            | 90        | 295        |
| Unused amounts reversed                 | -                   | -                      | (10)                                 | -   | -                  | -                             | (19)      | (29)       |
| Unwind of discount                      | -                   | -                      | -                                    | -   | -                  | -                             | -         | -          |
| Charge to income statement              | -                   | 7                      | -                                    | 28  | 9                  | -                             | 25        | 69         |
| Utilised during the year                | (4)                 | (9)                    | -                                    | (27)                                      | -                  | -                             | (5)       | (45)       |
| Foreign exchange and other<br>movements | -                   | 11                     | (4)                                  | 7   | 1                  | 5                             | 1         | 21         |
| <b>Balance at end of the year</b>       | <b>16</b>           | <b>39</b>              | <b>3</b>                             | <b>57</b>                                 | <b>15</b>          | <b>89</b>                     | <b>92</b> | <b>311</b> |

|   | £m                  |                        |                                      |   |                    |                               |           |            |
|---|---------------------|------------------------|--------------------------------------|---|--------------------|-------------------------------|-----------|------------|
| Year ended 31 December 2009             | Surplus<br>property | Client<br>compensation | Warranties<br>on sale of<br>business | Liability<br>for long<br>service<br>leave | Restruct-<br>uring | Provision<br>for<br>donations | Other     | Total      |
| <b>Balance at beginning of the year</b> | 23                  | 27                     | 111                                  | 38  | -                  | 80                            | 201       | 480        |
| Unused amounts reversed                 | -                   | (2)                    | (54)                                 | -   | -                  | -                             | (52)      | (108)      |
| Unwind of discount                      | 1                   | -                      | -                                    | -   | -                  | -                             | -         | 1          |
| Charge to income statement              | 3                   | (3)                    | -                                    | 24  | 5                  | -                             | 8         | 37         |
| Utilised during the year                | (7)                 | (2)                    | (26)                                 | (20)                                      | -                  | -                             | (65)      | (120)      |
| Foreign exchange and other<br>movements | -                   | 10                     | (14)                                 | 7   | -                  | 4                             | (2)       | 5          |
| <b>Balance at end of the year</b>       | <b>20</b>           | <b>30</b>              | <b>17</b>                            | <b>49</b>                                 | <b>5</b>           | <b>84</b>                     | <b>90</b> | <b>295</b> |

2010 provisions in relation to surplus property amounted to £16 million (2009: £20 million). These relate to the onerous costs of vacant properties leased by the Group of which £16 million (2009: £13 million) is estimated to be payable after more than one year.

Provisions in relation to client compensation were £39 million (2009: £30 million), primarily relating to possible mis-selling of guarantee contracts in Wealth Management. £1 million (2009: £5 million) is estimated to be payable after more than one year.

Provisions in relation to warranties on the sale of businesses amounted to £3 million (2009: £17 million). £3 million (2009: £9 million) is estimated to be payable after more than one year.

The liability for long service leave of £57 million (2009: £49 million) relates to provision for staff payments for long serving employees, all of which estimated to be payable in less than one year.

Provisions in relation to restructuring were £15 million (2009: £5 million), primarily in respect of consolidation and related office relocation for Wealth Management. £11 million (2009: £3 million) is estimated to be payable after more than one year.

The provision for donations is held by Emerging Markets. It relates to the payment of charitable donations in future periods to which the Group is committed, out of the funds made available on the closure of the Group's unclaimed shares trusts, which were set up as part of the demutualisation in 1999 and closed in 2006 of which £70 million (2009: £84 million) is estimated to be payable after more than one year.

Other provisions includes provisions for tax on long-term staff benefits and legal fees.

Where material, provisions are discounted at discount rates specific to the risks inherent in the liability. The timing and final amounts of payments in respect of some of the provisions, particularly those in respect of litigation claims and similar actions against the Group, are uncertain and could result in adjustments to the amounts recorded. Of the total provisions recorded above, £163 million (2009: £188 million) is estimated to be payable after more than one year.

## F2: Non-controlling interests

### (a) Income statement

#### (i) Ordinary shares

The non-controlling interests charge to profit for the financial year has been calculated on the basis of the Group's effective ownership of the subsidiaries in which it does not own 100% of the ordinary equity. The principal subsidiaries where a non-controlling interest exists are the Group's banking business in South Africa and, prior to the acquisition of the non-controlling interest in Mutual & Federal in February 2010 (see F2(b)), the general insurance business in South Africa. For the year ended 31 December 2010 the non-controlling interests attributable to ordinary shares was £196 million (2009: £158 million).

#### (ii) Preferred securities

|   | <b>£m</b>          |                    |
|---|--------------------|--------------------|
|   | <b>At</b>          | <b>At</b>          |
|   | <b>31 December</b> | <b>31 December</b> |
|   | <b>2010</b>        | <b>2009</b>        |
| R2,000 million non-cumulative preference shares         | 14                 | 16                 |
| R773 million non-cumulative preference shares           | 5                  | 6                  |
| R300 million non-cumulative preference shares           | 2                  | 2                  |
| US\$750 million cumulative preferred securities         | 38                 | 38                 |
| R364 million non-cumulative preference shares           | 3                  | 2                  |
| <b>Non-controlling interests – preferred securities</b> | <b>62</b>          | <b>64</b>          |

#### (iii) Non-controlling interests – adjusted operating profit

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

|   | <b>£m</b>          |                    |
|---|--------------------|--------------------|
|   | <b>Year ended</b>  | <b>Year ended</b>  |
|   | <b>31 December</b> | <b>31 December</b> |
|   | <b>2010</b>        | <b>2009</b>        |
| <b>Reconciliation of non-controlling interests share of profit for the financial year</b> |                    |                    |
| The non-controlling interests charge is analysed as follows:                              |                    |                    |
| Non-controlling interests – ordinary shares   | 196                | 158                |
| Goodwill impairment and impact of acquisition accounting                                  | 2                  | 1                  |
| Short-term fluctuations in investment return  | -                  | 2                  |
| Income attributable to Black Economic Empowerment trusts of listed subsidiaries           | 22                 | 23                 |
| Fair value gains on group debt instruments  | 6                  | -                  |
| Income attributable to US Asset Management non-controlling interests                      | (9)                | (3)                |
| <b>Non-controlling interests share of adjusted operating profit</b>                       | <b>217</b>         | <b>181</b>         |

The Group uses revised weighted average effective ownership interests when calculating the non-controllable interest applicable to the adjusted operating profit of its South Africa banking and, prior to the acquisition of the non-controlling interest in February 2010, general insurance businesses. This reflects the legal ownership of these businesses following the implementation for Black Economic Empowerment (BEE) schemes in 2005. In accordance with IFRS accounting rules the shares issued for BEE purposes are deemed to be, in substance, options. Therefore the effective ownership interest of the minorities reflected in arriving at profit after tax in the consolidated income statement is lower than that applied in arriving at adjusted operating profit after tax. In 2010 the increase in adjusted operating profit attributable to non-controlling interests as a result of this was £22 million (2009: £23 million).



*(b) Statement of financial position*

**(i) Ordinary shares**

|   | <b>£m</b>          |             |
|---|--------------------|-------------|
|   | <b>Year to</b>     | Year to     |
|   | <b>31 December</b> | 31 December |
|   | <b>2010</b>        | 2009        |
| <b>Reconciliation of movements in non-controlling interests</b> |                    |             |
| <b>Balance at beginning of the year</b>                         | <b>1,537</b>       | 1,147       |
| Non-controlling interests' share of profit                      | <b>196</b>         | 158         |
| Non-controlling interests' share of dividends paid              | <b>(88)</b>        | (80)        |
| Net acquisition of interests                                    | <b>(116)</b>       | 63          |
| Foreign exchange and other movements                            | <b>234</b>         | 249         |
| <b>Balance at end of the year</b>                               | <b>1,763</b>       | 1,537       |

*Acquisition on non-controlling interest in Mutual & Federal*

On 5 February 2010, the Group completed the acquisition of the remaining non-controlling shareholdings in Mutual & Federal Insurance Company Limited, following the fulfilment of all outstanding conditions precedent. On 8 February 2010, 147,313,449 new Old Mutual plc ordinary shares were issued in exchange for Mutual & Federal shares and listed on the London Stock Exchange, of which 68,378,851 were issues to Black Economic Empowerment trusts and 78,934,598 to other previous holders.

*Other acquisitions*

On 8 February 2010 Nedbank announced that it had obtained regulatory approval for the acquisition of the remaining 49.9% indirect interest in Imperial Bank Limited thereby satisfying all conditions precedent for the acquisition.

The purchase consideration was approximately £162 million (£155 million plus a Johannesburg Interbank Agreed Rate (JIBAR) factor applied up to 5 February 2010) which is being settled in four instalments out of existing cash resources of Nedbank Limited. The total amount, which will included interest at the three/month JIBAR, amounted to £165 million.

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## F: Other statement of financial position notes continued

F2: Non-controlling interests continued

(b) Statement of financial position continued

### (ii) Preferred securities

|  | At<br>31 December<br>2010 | At<br>31 December<br>2009 |
|--|---------------------------|---------------------------|
| R2,000 million non-cumulative preference shares <sup>1</sup> | 140                       | 140                       |
| R773 million non-cumulative preference shares <sup>2</sup>   | 71                        | 71                        |
| R300 million non-cumulative preference shares <sup>3</sup>   | 12                        | 12                        |
| US\$750 million cumulative preferred securities <sup>4</sup> | 458                       | 458                       |
| R364 million non-cumulative preference shares <sup>5</sup>   | 25                        | 25                        |
| R363 million non-cumulative preference shares <sup>6</sup>   | 17                        | 17                        |
| R92 million non-cumulative preference status <sup>7</sup>    | 50                        | -                         |
|  | <b>773</b>                | <b>723</b>                |
| Unamortised issue costs                                      | <b>(13)</b>               | <b>(13)</b>               |
| <b>Total in issue at 31 December</b>                         | <b>760</b>                | <b>710</b>                |

Preferred securities are held at historic value of consideration received less unamortised issue costs.

- 200 million R10 preference shares issued by Nedbank Limited (Nedbank), the Group's banking subsidiary. These shares are non-redeemable and non-cumulative and pay a cash dividend equivalent to 75% of the prime overdraft interest rate of Nedbank. Preference shareholders are only entitled to vote during periods when a dividend or any part of it remains unpaid after the due date for payment or when resolutions are proposed that directly affect any rights attaching to the shares or the rights of the holders. Preference shareholders will be entitled to receive their dividends in priority to any payment of dividends made in respect of any other class of Nedbank's shares.
- 77.3 million R10 preference shares issued at R10.68 per share by Nedbank on the same terms as the securities described in (1) above.
- 30 million R10 preference shares issued on 22 June 2006 by Imperial Bank Limited a subsidiary of Nedbank Limited, on the same terms as the securities described in (1) above.
- US\$750 million Guaranteed Cumulative Perpetual Preference Securities issued on 19 May 2003 by Old Mutual Capital Funding L.P., a subsidiary of the Group. Subject to certain limitations, holders of these securities are entitled to receive preferential cash distributions at a fixed rate of 8.0% per annum payable in arrears on a quarterly basis. The Group may defer payment of distributions at its sole discretion, but such an act may restrict Old Mutual plc from paying dividends on its ordinary shares for a period of 12 months. Arrears of distributions are payable quarterly cumulatively only on redemption of the securities or at the Group's option. The securities are perpetual, but may be redeemed at the discretion of the Group from 22 December 2008. The costs of issue have been amortised over the period to 22 December 2008.
- 35 million R10 preference shares issued in 16 April 2007 at R10.27 per share by Nedbank on the same terms as the securities described in (1) above.
- 36.3 million R10 preference shares issued by Nedbank in seven instalments between September 09 and December 09 on the same terms as the securities described in (1) above.
- 9.2 million R10 preference shares issued by Nedbank on 11 March 2010 on the same terms as the securities in note 1 above.

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## G: Other notes

### G1: Contingent liabilities

|  | At<br>31 December<br>2010 | At<br>31 December<br>2009 |
|--|---------------------------|---------------------------|
| Guarantees and assets pledged as collateral security | 2,883                     | 2,375                     |
| Irrevocable letters of credit                        | 207                       | 605                       |
| Secured lending                                      | 775                       | 555                       |
| Other contingent liabilities                         | 55                        | 49                        |

The Group has pledged debt securities amounting to £1,379 million (2009: £1,253 million) as collateral for deposits received under re-purchase agreements. These amounts represent assets that have been transferred but do not qualify for derecognition under IAS 39. These transactions are entered into under terms and conditions that are standard industry practice to securities borrowing and lending activities.

#### Nedbank structured financing

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

#### Nedbank litigation

There are a number of legal or potential claims against Nedbank and its subsidiary companies, the outcome of which cannot at present be foreseen. The largest of these potential actions is a claim in the High Court for R1.3 billion against Nedbank by certain shareholders in Pinnacle Point Group Limited, alleging that Nedbank had a legal duty of care to them arising from a share swap transaction. Nedbank and its legal advisers are of the opinion that the claim is without merit and it will be defended vigorously.

#### Nedbank Securitisations

The Group through Nedbank is party to securitisation transactions involving GreenHouse Funding (Pty) Limited ("GreenHouse"), a residential mortgage backed securitisation programme, Octane ABS 1 (Pty) Limited ("Octane"), a securitisation programme of auto loans advanced by a subsidiary of Nedbank, and Synthesis Funding Limited ("Synthesis"), an asset backed commercial paper mortgage programme.

Synthesis primarily invests in long-term rated bonds and offers capital market funding to South African corporates. These assets are funded through the issuance of short-dated investment-grade commercial paper to institutional investors. All the commercial paper issued by Synthesis Funding Limited is assigned the highest short-term RSA local-currency credit rating by both Fitch and Moody's, and is listed on the Bond Exchange of South Africa (BESA).

Under GreenHouse Series 1, R2 billion of residential mortgages originated by Nedbank Retail was securitised. The commercial paper issued by GreenHouse has been assigned credit ratings by both Fitch and Moody's and is listed on the JSE. The homeloans of GreenHouse continue to be recognised in the statement of financial position of the Group, due to the significant risks and rewards associated with the homeloans not being transferred to the external investors. In January 2010 the arrears levels in GreenHouse breached the Arrear Trigger level. As a result, the Stop Purchase Event remains in effect resulting in no further home loans (other than servicing redraws – ie access facilities on existing GreenHouse loans) being acquired for as long as the arrears level remains above the Arrear Trigger level. As a consequence, all capital repayments were directed to noteholders.

Octane is a securitisation programme of auto loans originated by a subsidiary of Nedbank. The inaugural transaction entailed the securitisation of R2 billion of motor vehicle loans under Octane Series 1. The commercial paper issued by Octane Series 1 has been assigned credit ratings by Fitch and is listed on the JSE. The auto loans of Octane continue to be recognised on the statement of financial position of the Group due to the significant risks and rewards associated with the autoloans not being transferred to the external investors. During 2010 the transaction continued to repay investors in the normal course, as envisaged in the transaction documents.

The following table shows the carrying amount of securitised assets, stated at the amount of the Group's continuing involvement where appropriate, together with the associated liabilities, for each category of asset in the statement of financial position:\*

|  | Carrying amount of assets   | Associated liabilities | Carrying amount of assets   | Associated liabilities |
|--|-----------------------------|------------------------|-----------------------------|------------------------|
|  | Year ended 31 December 2010 |                        | Year ended 31 December 2009 |                        |
| <b>Loans and advances to customers</b> |                             |                        |                             |                        |
| Residential mortgage loans             | 165                         | 171                    | 166                         | 169                    |
| Motor vehicle financing **             | 59                          | 78                     | 122                         | 134                    |
| <b>Other Financial Assets</b>          |                             |                        |                             |                        |
| Corporate and bank paper               | 155                         | -                      | 145                         | -                      |
| Other securities                       | 327                         | -                      | 338                         | -                      |
| Commercial paper                       | -                           | 484                    | -                           | 484                    |
| <b>Total</b>                           | <b>706</b>                  | <b>733</b>             | <b>771</b>                  | <b>787</b>             |

This table presents the gross balances within the securitisation schemes and does not reflect any eliminations of intercompany and cash balances held by the various securitisation vehicles.

\* The value of any derivative instruments taken out to hedge any financial asset or liability, is adjusted against such instrument in this disclosure.

\*\* Comparative information relating to motor vehicle financing has been restated to only disclose auto loans relating to the Octane transaction. This approach ensures consistency with the disclosure provided for Greenhouse and Synthesis. The effect of this restatement is a £21 million decrease in the carrying amount of motor vehicle financing assets.

#### G2: Events after the reporting date

On 21 January 2011 the Group redeemed the £300 million Tier 2 bond repayable 21 January, taking the option to redeem at the first call date.

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## H: Discontinued operations and held for sale operations

### H1: Discontinued operations

The results of the Group's United States life business, US Life, are shown as a discontinued operation in these financial statements. At 31 December 2010 the Group had entered into an agreement to dispose of the controlling interest in US Life to Harbinger OM LLC, an affiliate of Harbinger Capital Partners, and is seeking to gain regulatory approval for the sale. The disposal is expected to be completed at or around the end of the first quarter of 2011.

US Life has been classified as a discontinued operation in these financial statements. Analysis of the results of discontinued operations is given below.

#### *(a) Income statement from discontinued operations*

|  | <b>Year ended<br/>31 December<br/>2010</b> | <b>£m</b><br>Year ended<br>31 December<br>2009 |
|--|--|--|
| Revenue  | <b>1,608</b>                               | 1,208  |
| Expenses   | <b>(1,557)</b>                             | (1,314)  |
| Profit/(loss) before tax from discontinued operations  | <b>51</b>                                  | (106)  |
| Loss on remeasurement to fair value less costs to sell | <b>(827)</b>                               | -  |
| <b>Loss before tax</b>                                 | <b>(776)</b>                               | (106)  |
| Tax credit   | <b>63</b>                                  | 35   |
| <b>Loss from discontinued operations after tax</b>     | <b>(713)</b>                               | (71)   |

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

*(b) Statement of comprehensive income from discontinued operations*

|   | <b>£m</b>                         |                                   |
|---|-----------------------------------|-----------------------------------|
|   | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009 |
| <b>(Loss)/profit after tax for the financial year</b>                                   | <b>(713)</b>                      | <b>(71)</b>                       |
| <b>Other comprehensive income for the financial year</b>                                |                                   |                                   |
| Fair value (losses)/gains   |                                   |                                   |
| Available-for-sale investments  |                                   |                                   |
| Fair value gains/(losses)   | <b>530</b>                        | 975                               |
| Recycled to the income statement  | <b>(12)</b>                       | 227                               |
| Shadow accounting   | <b>(334)</b>                      | (9)                               |
| Currency translation differences/exchange differences on translating foreign operations | <b>29</b>                         | (68)                              |
| Other movements   | <b>(34)</b>                       | -                                 |
| Income tax relating to components of other comprehensive income                         | <b>(67)</b>                       | (410)                             |
| <b>Total other comprehensive income for the financial year</b>                          | <b>112</b>                        | <b>715</b>                        |
| <b>Total comprehensive (loss)/income for the financial year</b>                         | <b>(601)</b>                      | <b>644</b>                        |
| Attributable to   |                                   |                                   |
| Equity holders of the parent  | <b>(601)</b>                      | 644                               |
| <b>Total comprehensive (loss)/income for the financial year</b>                         | <b>(601)</b>                      | <b>644</b>                        |

*(c) Net cash flows from discontinued operations*

|                       | <b>£m</b>                         |                                   |
|-----------------------|-----------------------------------|-----------------------------------|
|                       | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009 |
| Operating activities  | <b>(167)</b>                      | (191)                             |
| Investing activities  | <b>63</b>                         | 144                               |
| <b>Net cash flows</b> | <b>(104)</b>                      | <b>(47)</b>                       |

# Notes to the consolidated financial statements

For the year ended 31 December 2010 continued

## H2: Disposal group held for sale

The assets and liabilities of the Group's United States life business, US Life, are shown as held for sale in these financial statements. The Group has entered into an agreement to dispose of the controlling interest in US Life to Harbinger OM LLC, an affiliate of Harbinger Capital Partners, and is seeking to gain regulatory approval for the sale.

On reclassification of the assets and liabilities of US Life to held for sale the fair value based on agreed terms with Harbinger less expected costs to sell was assessed and an impairment charge was taken to write down the net assets to this amount.

### (a) Statement of financial position

Assets directly associated with disposal group held for sale

|  | <b>£m</b>                          |
|--|------------------------------------|
|  | <b>At<br/>31 December<br/>2010</b> |
| Deferred tax assets  | 78                                 |
| Deferred acquisition costs                                       | 551                                |
| Reinsurers' share of long-term business policyholder liabilities | 506                                |
| Deposits held with reinsurers                                    | 36                                 |
| Loans and advances   | 57                                 |
| Investments and securities                                       | 10,794                             |
| Trade, other receivables and other assets                        | 209                                |
| Derivative financial instruments – assets                        | 127                                |
| Cash and cash equivalents  | 26                                 |
|  | <b>12,384</b>                      |

Liabilities directly associated with disposal group held for sale

|   | <b>£m</b>                      |
|---|--------------------------------|
|   | <b>At<br/>31 December 2010</b> |
| Long-term business policyholder liabilities | 11,975                         |
| Deferred tax liabilities                    | 22                             |
| Trade, other payables and other liabilities | 222                            |
|   | <b>12,219</b>                  |

Included within Investments and securities is £395 million of short term cash balances.

In addition to the disposal group held for sale, namely US Life, the Group had additional non-current assets held for sale of £7 million (2009: £1 million).

### (b) Equity attributable to equity holders of the parent directly associated with disposal group held for sale

|                              | <b>£m</b>                      |
|------------------------------|--------------------------------|
|                              | <b>At<br/>31 December 2010</b> |
| Retained earnings            | 36                             |
| Available-for-sale reserve   | 18                             |
| Share-based payments reserve | 1                              |
|                              | <b>55</b>                      |

# Group Market Consistent Embedded Value statement of earnings

For the year ended 31 December 2010

|  | Notes | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009 |
|--|-------|-----------------------------------|-----------------------------------|
| <b>Long Term Savings</b>   |       |                                   |                                   |
| Covered business   |       | 705                               | 252                               |
| Asset management and other business  |       | 127                               | 26                                |
| Banking  |       | 16                                | 16                                |
|  |       | <b>848</b>                        | 294                               |
| <b>Nedbank</b>   |       |                                   |                                   |
| Banking  |       | 601                               | 470                               |
| <b>Mutual and Federal</b>  |       |                                   |                                   |
| General insurance  |       | 103                               | 70                                |
| <b>US Asset Management</b>   |       |                                   |                                   |
| Asset management   |       | 87                                | 83                                |
| <b>Other operating segments</b>  |       |                                   |                                   |
| Finance costs*   |       | (183)                             | (144)                             |
| Other shareholders' expenses   |       | (57)                              | (69)                              |
| <b>Adjusted operating Group MCEV earnings before tax from core operations</b>      |       | <b>1,399</b>                      | 704                               |
| Adjusted operating Group MCEV earnings before tax from Bermuda non-core operations |       | (28)                              | 8                                 |
| Adjusted operating Group MCEV earnings before tax from continuing operations**     |       | <b>1,371</b>                      | 712                               |
| Adjusting items from continuing operations   | C3    | 499                               | 478                               |
| <b>Total Group MCEV earnings before tax from continuing operations</b>             |       | <b>1,870</b>                      | 1,190                             |
| Income tax attributable to shareholders  |       | (410)                             | (108)                             |
| <b>Total Group MCEV earnings after tax from continuing operations</b>              |       | <b>1,460</b>                      | 1,082                             |
| Total Group MCEV earnings after tax from US Life discontinued operations***        |       | 227                               | 700                               |
| <b>Total Group MCEV earnings after tax for the financial period</b>                |       | <b>1,687</b>                      | 1,782                             |
| <b>Total Group MCEV earnings for the financial period attributable to:</b>         |       |                                   |                                   |
| Equity holders of the parent   |       | 1,429                             | 1,562                             |
| <b>Non-controlling interests</b>   |       |                                   |                                   |
| Ordinary shares  |       | 196                               | 156                               |
| Preferred securities   |       | 62                                | 64                                |
| <b>Total Group MCEV earnings after tax for the financial period</b>                |       | <b>1,687</b>                      | 1,782                             |
| <b>Basic total Group MCEV earnings per ordinary share (pence)</b>                  |       | <b>28.2</b>                       | 31.3                              |
| Weighted average number of shares – millions                                       |       | 5,064                             | 4,994                             |

\* This includes interest payable from Old Mutual plc to non-core operations of £55 million for the year ended 31 December 2010 (£40 million for the year ended 31 December 2009).

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

\*\*\* This is composed of earnings before tax of £48 million, adjusting items of £180 million and tax of £(1) million for the year ended 31 December 2010 (earnings before tax of £302 million, adjusting items of £435 million and tax of £(36) million for the year ended 31 December 2009). Further detail relating to adjusting items can be found in section C3.



## Adjusted operating Group MCEV earnings per share

For the year ended 31 December 2010

Year ended 31 December 2010

£m

|  | Notes | Core continuing operations | Non-core continuing operations | Discontinued operations | Total        |
|--|-------|----------------------------|--------------------------------|-------------------------|--------------|
| <b>Adjusted operating Group MCEV earnings before tax</b>                         |       | <b>1,399</b>               | <b>(28)</b>                    | <b>48</b>               | <b>1,419</b> |
| Tax on adjusted operating Group MCEV earnings                                    | B2    | (313)                      | 4                              | (1)                     | (310)        |
| <b>Adjusted operating Group MCEV earnings after tax</b>                          |       | <b>1,086</b>               | <b>(24)</b>                    | <b>47</b>               | <b>1,109</b> |
| Non-controlling interests  |       |                            |                                |                         |              |
| Ordinary shares  |       | (217)                      | -                              | -                       | (217)        |
| Preferred securities   |       | (62)                       | -                              | -                       | (62)         |
| <b>Adjusted operating MCEV earnings after tax attributable to equity holders</b> |       | <b>807</b>                 | <b>(24)</b>                    | <b>47</b>               | <b>830</b>   |
| <b>Adjusted operating Group MCEV earnings per share*</b>                         |       | <b>15.0</b>                | <b>(0.4)</b>                   | <b>0.9</b>              | <b>15.5</b>  |
| Adjusted weighted average number of shares – millions                            |       |                            |                                |                         | <b>5,359</b> |

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

Year ended 31 December 2009

£m

|  | Notes | Core continuing operations | Non-core continuing operations | Discontinued operations | Total        |
|--|-------|----------------------------|--------------------------------|-------------------------|--------------|
| <b>Adjusted operating Group MCEV earnings before tax</b>                         |       | <b>704</b>                 | <b>8</b>                       | <b>302</b>              | <b>1,014</b> |
| Tax on adjusted operating Group MCEV earnings                                    | B2    | (146)                      | (27)                           | (36)                    | (209)        |
| <b>Adjusted operating Group MCEV earnings after tax</b>                          |       | <b>558</b>                 | <b>(19)</b>                    | <b>266</b>              | <b>805</b>   |
| Non-controlling interests  |       |                            |                                |                         |              |
| Ordinary shares  |       | (179)                      | -                              | -                       | (179)        |
| Preferred securities   |       | (64)                       | -                              | -                       | (64)         |
| <b>Adjusted operating MCEV earnings after tax attributable to equity holders</b> |       | <b>315</b>                 | <b>(19)</b>                    | <b>266</b>              | <b>562</b>   |
| <b>Adjusted operating Group MCEV earnings per share*</b>                         |       | <b>6.0</b>                 | <b>(0.4)</b>                   | <b>5.1</b>              | <b>10.7</b>  |
| Adjusted weighted average number of shares – millions                            |       |                            |                                |                         | <b>5,229</b> |

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

# Components of Group MCEV and adjusted Group MCEV

At 31 December 2010

## Components of Group MCEV

|  |       | <b>£m</b>                          |                           |
|--|-------|------------------------------------|---------------------------|
|  | Notes | <b>At<br/>31 December<br/>2010</b> | At<br>31 December<br>2009 |
| <b>Adjusted net worth attributable to ordinary equity holders of the parent</b>                                |       | <b>5,737</b>                       | 4,417                     |
| Equity   |       | <b>8,951</b>                       | 8,464                     |
| Adjustment to include long-term business on a statutory solvency basis:  |       |                                    |                           |
| Long Term Savings  | C5    | <b>(2,053)</b>                     | (2,238)                   |
| Bermuda  | C5    | <b>(29)</b>                        | (6)                       |
| US Life  | C5    | <b>260</b>                         | (388)                     |
| Adjustment for market value of life funds' investments in Group equity and debt instruments held in life funds |       | <b>306</b>                         | 268                       |
| Adjustment to remove perpetual preferred callable securities and accrued dividends                             |       | <b>(688)</b>                       | (688)                     |
| Adjustment to exclude acquisition goodwill from the covered business:  |       |                                    |                           |
| Long Term Savings  | C5    | <b>(1,010)</b>                     | (995)                     |
| <b>Value of in-force business</b>  |       | <b>4,164</b>                       | 3,212                     |
| Present value of future profits  |       | <b>5,256</b>                       | 4,255                     |
| Additional time value of financial options and guarantees  |       | <b>(433)</b>                       | (416)                     |
| Frictional costs   |       | <b>(276)</b>                       | (221)                     |
| Cost of residual non-hedgeable risks   |       | <b>(383)</b>                       | (406)                     |
| <b>Group MCEV</b>  |       | <b>9,901</b>                       | 7,629                     |
| <b>Group MCEV value per share (pence)</b>  |       | <b>181.5</b>                       | 144.5                     |
| <b>Return on Group MCEV (RoEV) per annum from continuing core operations</b>                                   |       | <b>10.6%</b>                       | 6.0%                      |
| Return on Group MCEV (RoEV) per annum from continuing non-core operations                                      |       | <b>(0.3)%</b>                      | (0.4)%                    |
| Return on Group MCEV (RoEV) per annum from discontinued operations   |       | <b>0.6%</b>                        | 5.1%                      |
| Return on Group MCEV (RoEV) per annum  |       | <b>10.9%</b>                       | 10.7%                     |
| <b>Number of shares in issue at the end of the financial period less treasury shares – millions</b>            |       | <b>5,456</b>                       | 5,279                     |

The adjustments to include long-term business on a statutory solvency basis reflect the difference between the net worth of each business on the statutory basis (as required by the local regulator) and their portion of the Group's consolidated equity shareholders' funds. In South Africa, these values exclude items that are eliminated or shown separately on consolidation (such as Nedbank, and inter-company loans). For some European countries the value reflected in the adjustment to include long-term business on a statutory solvency basis includes the value of the deferred acquisition cost asset which is part of the equity.

The RoEV is calculated as the adjusted operating Group MCEV earnings after tax and non-controlling interests of £830 million (year ended 31 December 2009: £562 million) divided by the opening Group MCEV.

# Components of Group MCEV and adjusted Group MCEV

For the year ended 31 December 2010

## Components of adjusted Group MCEV

|   | Notes | At<br>31 December<br>2010 | At<br>31 December<br>2009 |
|---|-------|---------------------------|---------------------------|
| <b>Group MCEV</b>   |       | <b>9,901</b>              | 7,629                     |
| <b>Pro forma adjustments to bring Group investments to market value</b>                             |       |                           |                           |
| Adjustment to bring listed subsidiaries to market value   |       | 715                       | 805                       |
| Nedbank   |       | 715                       | 623                       |
| Mutual & Federal  |       | -                         | 182                       |
| Adjustment for value of own shares in ESOP schemes*   |       | 85                        | 71                        |
| Adjustment for present value of Black Economic Empowerment scheme deferred consideration            |       | 266                       | 221                       |
| Adjustment to bring external debt to market value   |       | 63                        | 302                       |
| <b>Adjusted Group MCEV</b>  | B1    | <b>11,030</b>             | 9,028                     |
| <b>Adjusted Group MCEV per share (pence)</b>  |       | <b>202.2</b>              | 171.0                     |
| <b>Number of shares in issue at the end of the financial period less treasury shares – millions</b> |       | <b>5,456</b>              | 5,279                     |

\* Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2009 and 31 December 2010 is the net effect of the increase in the Old Mutual plc share price, the reduction in excess own shares following employee share grants in March 2010 and the reduction in overall shares held due to exercises of rights to take delivery of, or net settle, share grants during the financial period.

## Reconciliation of movements in Group MCEV (after tax)

|                                    | Notes | Year ended 31 December 2010 |                                 |                     | Year ended 31 December 2009 |                                 |                     |
|------------------------------------|-------|-----------------------------|---------------------------------|---------------------|-----------------------------|---------------------------------|---------------------|
|                                    |       | Covered<br>business<br>MCEV | Non-covered<br>business<br>IFRS | Total Group<br>MCEV | Covered<br>business<br>MCEV | Non-covered<br>business<br>IFRS | Total Group<br>MCEV |
| <b>Opening Group MCEV</b>          |       | <b>6,027</b>                | <b>1,602</b>                    | <b>7,629</b>        | 4,183                       | 1,079                           | 5,262               |
| Adjusted operating MCEV earnings   |       | 590                         | 240                             | 830                 | 492                         | 70                              | 562                 |
| Non-operating MCEV earnings        |       | 786                         | (187)                           | 599                 | 1,191                       | (191)                           | 1,000               |
| <b>Total Group MCEV earnings</b>   |       | <b>1,376</b>                | <b>53</b>                       | <b>1,429</b>        | 1,683                       | (121)                           | 1,562               |
| Other movements in IFRS net equity | C4    | 112                         | 731                             | 843                 | 161                         | 644                             | 805                 |
| <b>Closing Group MCEV</b>          |       | <b>7,515</b>                | <b>2,386</b>                    | <b>9,901</b>        | 6,027                       | 1,602                           | 7,629               |

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010

## A: MCEV policies

### A1: Basis of preparation

The Market Consistent Embedded Value methodology (referred to herein and in the supplementary statements on pages 88 to 137 as 'MCEV') adopts the Market Consistent Embedded Value Principles issued in June 2008 and updated in October 2009 by the CFO Forum ('the Principles') as the basis for the methodology used in preparing the supplementary information.

The CFO Forum announced changes to the MCEV Principles in October 2009 to reflect *inter alia* the inclusion of a liquidity premium. These changes affirm that the risk free reference rate to be applied under MCEV should include both the swap yield curve appropriate to the currency of the cash flows and a liquidity premium where appropriate. The CFO Forum is undertaking further work to develop more detailed application guidance.

The Principles have been fully complied with for all businesses as at 31 December 2010. The detailed methodology and assumptions made in presenting this supplementary information are set out in notes A2 and A3.

Where reference is made to 'Europe' only, this generally captures the Nordic, Retail Europe and Wealth Management businesses.

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

- MCEV is a measure of the consolidated value of shareholders' interests in the covered business and consists of the sum of the shareholders' adjusted net worth in respect of the covered business and the value of the in-force covered business.
- Group MCEV is a measure of the consolidated value of shareholders' interests in covered and non-covered business. Non-covered business is valued at the IFRS net asset value detailed in the primary financial statements adjusted to eliminate inter-company loans.
- The adjusted Group MCEV, a measure used by management to assess the shareholders' interest in the value of the Group, includes the impact of marking all debt to market value, the market value of the Group's listed banking subsidiary, marking the value of deferred consideration due in respect of Black Economic Empowerment arrangements in South Africa ('the BEE schemes') to market, as well as including the market value of excess own shares held in ESOP schemes.

### A2: Methodology

#### Introduction

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

The MCEV consists of the sum of the following components:

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

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

MCEV is calculated net of non-controlling shareholder interests and excludes the value of future new business.

#### Coverage

Covered business includes, where material, any contracts that are regarded by local insurance supervisors as long-term life assurance business, and other business, where material, directly related to such long-term life assurance business where the profits are included in the IFRS long-term business profits in the primary financial statements.

The covered business does not include any business written in Skandia Liv. Skandia Liv is a mutual life insurance company wholly owned by Old Mutual plc. All assets and liabilities are wholly attributable to the policyholders of the mutual company.

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

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

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

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

### Free surplus

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

### Required capital

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

- Economic capital;
- Regulatory capital (i.e. the level of solvency capital which the local regulators require);
- Capital required by rating agencies in respect of the North American business in order to maintain the desired credit rating; and
- Any other required capital definition to meet internal management objectives.

Economic capital for the covered business is based upon Old Mutual's own internal assessment of risks inherent in the underlying business. It measures capital requirements on an economic statement of financial position, with MCEV as the available capital, consistent with a 99.93% confidence level over a one-year time horizon.

For Emerging Markets, Retail Europe and Wealth Management capital determined with reference to internal management objectives is the most onerous and is the capital measure used, whilst for Nordic the regulatory capital requirement is the most onerous. For US Life the required capital is based on the amount that management deems necessary to maintain the desired credit rating for the Company, whilst for Bermuda the required capital is set with reference to internal management objectives.

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

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

|                      | At 31 December 2010  |                        |             | At 31 December 2009  |                        |             |
|----------------------|----------------------|------------------------|-------------|----------------------|------------------------|-------------|
|                      | Required capital (a) | Regulatory capital (b) | Ratio (a/b) | Required capital (a) | Regulatory capital (b) | Ratio (a/b) |
| Emerging Markets     | 1,498                | 1,153                  | 1.3         | 1,225                | 930                    | 1.3         |
| Nordic*              | 135                  | 135                    | 1.0         | 104                  | 92                     | 1.1         |
| Retail Europe**      | 62                   | 85                     | 0.7         | 32                   | 52                     | 0.6         |
| Wealth Management*** | 278                  | 162                    | 1.7         | 213                  | 143                    | 1.5         |
| US Life              | 468                  | 196                    | 2.4         | 462                  | 193                    | 2.4         |
| Bermuda****          | 403                  | -                      | n/a         | 363                  | -                      | n/a         |
| <b>Total</b>         | <b>2,844</b>         | <b>1,731</b>           | <b>1.6</b>  | <b>2,399</b>         | <b>1,410</b>           | <b>1.7</b>  |

\* The regulatory capital for Nordic has increased from 31 December 2009 to 31 December 2010 as a result of an increase in funds under management.

\*\* Local regulators within many of the Retail Europe countries allow intangible assets to be included as admissible regulatory capital. In such cases the required capital reported for MCEV is net of these items, although each of the countries continues to be sufficiently capitalised on the local solvency basis. Skandia Leben in Germany is permitted under local regulations to include the unallocated policyholder profit sharing liability as admissible capital. The required capital has increased due to a legislative change in Germany which has impacted the factoring business; receivables from factoring are required to be covered by share capital.

\*\*\* The required capital for Wealth Management has increased from 31 December 2009 to 31 December 2010 as a result of modelling refinements. The regulatory capital requirement for Wealth Management has been restated at 31 December 2009 to exclude the impact of a policyholder tax credit in Italy, which may be used to offset the capital requirement.

\*\*\*\* The Bermudan regulator allows intangible assets to be included as admissible regulatory capital.

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## *Value of in-force covered business*

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

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

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

## *Present value of future profits*

The PVFP is calculated as the discounted value of future distributable earnings (taking account of local statutory reserving requirements) that are expected to emerge from the in-force covered business, including the value of contractual renewal of in-force business, on a best estimate basis where assumed earned rates of return and discount rates are equal to the risk free reference rates. It therefore represents a deterministic certainty equivalent valuation of future distributable earnings. The certainty equivalent valuation approach is described in more detail in note A3. Any limitations on distribution of such earnings due to statutory or internal capital requirements are taken into account separately in the calculation of frictional costs of required capital.

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

## *Financial options and guarantees*

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

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

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

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

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

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

## *Europe*

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

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## Emerging Markets

The financial options and guarantees mainly relate to maturity guarantees and guaranteed annuity options.

As required by the applicable Actuarial Society of South Africa guidance note, the time value of the financial options and guarantees included in the statutory reserves in the Emerging Markets businesses as at 31 December 2010 has been valued using a risk-neutral market consistent asset model, and is referred to as the 'Investment Guarantee Reserve' (IGR). This reserve includes a discretionary margin as defined by local guidelines to allow for the sensitivity of the reserve to future interest rate and equity market movements. This discretionary margin is valued in the VIF.

## US Life

The financial options and guarantees mainly relate to minimum crediting (bonus) rates.

## Bermuda

The financial options and guarantees mainly relate to the guaranteed minimum accumulation benefits on Variable Annuity contracts.

### *Frictional costs of required capital*

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

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

The allowance for frictional costs is independent of the allowance for the cost of residual non-hedgeable risks as described below.

### *Cost of residual non-hedgeable risks*

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

Residual non-financial risks include, for example, liability risks such as mortality, longevity and morbidity risks; business risks such as persistency, expense and reinsurance credit risks; and operational risk. All such risks for which no or insufficient allowance is made in the PVFP or time value of financial options and guarantees, together with some allowance for hedge risk and credit spread risk in the US Life and Bermudan businesses, are considered within the allowance for the CNHR.

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

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

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

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

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

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

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## Capital held in respect of non-hedgeable risks

|                     | <b>£m</b>          |                    |
|---------------------|--------------------|--------------------|
|                     | <b>At</b>          | <b>At</b>          |
|                     | <b>31 December</b> | <b>31 December</b> |
|                     | <b>2010</b>        | <b>2009</b>        |
| Emerging Markets*   | <b>751</b>         | 606                |
| Nordic              | <b>362</b>         | 333                |
| Retail Europe       | <b>115</b>         | 143                |
| Wealth Management** | <b>622</b>         | 563                |
| US Life             | <b>678</b>         | 661                |
| Bermuda***          | <b>274</b>         | 619                |
| <b>Total</b>        | <b>2,802</b>       | 2,925              |

\* The capital held in respect of non-hedgeable risk for Emerging Markets has increased from 31 December 2009 to 31 December 2010 as a result of the strengthening of the South African Rand to Sterling.

\*\* The capital held in respect of non-hedgeable risk for Wealth Management at 31 December 2009 has been restated from £640 million to £563 million due to calculation refinements.

\*\*\* The capital held in respect of non-hedgeable risks for Bermuda has reduced from 31 December 2009 to 31 December 2010 as a result of the change in the allowance for hedging basis risk that is now made in the determination of reserves for guaranteed benefits, as well as other calculation refinements.

A weighted average cost of capital rate of 2.0% has been applied to residual symmetric and asymmetric non-hedgeable capital at a business unit level over the life of the contracts. This translates into an equivalent cost of capital rate of approximately 2.9% being applied to the Group diversified capital required in respect of such non-hedgeable risks.

### Participating business

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

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

### Spread-based products

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

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

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

### Valuation of assets and treatment of unrealised losses

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

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

### Asset mix

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

### Defined benefit pension scheme

Where a defined benefit pension scheme within the covered business is in surplus or deficit on the liability basis that is used to determine future employer contributions, the employer pension fund expense assumptions incorporated within the VIF allow appropriately for the expected release of surplus or funding of the deficit.



### *Look through principle*

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

### *Taxation*

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

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

The value of deferred tax assets is partly recognised in the MCEV. Typically those tax assets are expected to be utilised in future by being offset against expected tax liabilities that are generated on expected profits emerging from in-force business. MCEV may therefore understate the true economic value of such deferred tax assets because it does not allow for future new business sales which could affect the utilisation of such assets.

There is currently uncertainty around both the basis and effective date for possible taxation of fee income earned from fund managers by Swedish insurance companies and the expenses that can be relieved against such income. At present we continue to treat fee income from our Swedish unit-linked business as being exempt from corporation tax within our MCEV. An allowance for adverse taxation treatment is included as an operational risk within our CNHR.

The Emergency Budget of 22 June 2010 announced a reduction in the UK corporation tax rate by 1% per year for four years from the financial year beginning April 2011, ultimately bringing the corporation tax rate down to 24%. The MCEV results at 31 December 2010 have been calculated using an ongoing UK corporation tax rate of 27% and each reduction in the tax rate will be included in future results as and when they are enacted. The estimated positive impact on the VIF in respect of Wealth Management at 31 December 2010, assuming that all the annual reductions in the tax rate will be enacted, is £18 million. However, only £4 million is allowed for at 31 December 2010 as an assumption change relating to the first tax rate reduction to 27%. Further allowance will be made once future annual reductions are enacted.

### *New business and renewals*

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

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

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

VNB is calculated as follows:

- Economic assumptions at the start of the reporting period are used, except for OMSA's Non-Profit Annuities and Fixed Bond products and US Life products where point of sale assumptions are used (where applicable using economic assumptions at the middle of the reporting period as a proxy).
- Demographic and operating assumptions at the end of the reporting period are used.
- At point of sale and rolled forward to the end of the reporting period.
- Generally using a standalone approach unless a marginal approach would better reflect the additional value to shareholders created through the activity of writing new business.
- Expense allowances include all acquisition expenses, including any acquisition expense overruns.
- Net of tax, reinsurance and non-controlling interests.
- No attribution of any investment and operating variances to VNB.

New business margins are disclosed as:

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

PVNBP is calculated at point of sale using premiums before reinsurance and applying a valuation approach that is consistent with the calculation of VNB.

### *Analysis of MCEV earnings*

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

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

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

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

- Economic variances incorporate the impact of changes in economic assumptions from the beginning of the reporting period to the end of the reporting period (for example, different opening and closing interest rates and equity volatility, increases in equity market values during the period) as well as the impact on earnings resulting from actual returns on assets being different to the expected returns on those assets as reflected in the expected existing business contribution. It therefore also includes the impact of economic variances in the reporting period on projected future earnings.
- Other non-operating variances include the impact of changes in mandatory local regulations and legislative changes in taxation.

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

Return on MCEV for covered business is calculated as the operating MCEV earnings after tax divided by opening MCEV in local currency, except for Wealth Management, Long Term Savings and total covered business where the calculations are performed in sterling.

The anticipated expected existing business contribution for the 12 months following the year ended 31 December 2010 (at the reference rate as well as in excess of the reference rate) is provided to assist users of the MCEV supplementary information in forecasting operating MCEV earnings. Note that the exchange rates that are used for such disclosure are the same rates that are used to translate current year earnings for comparability purposes. Therefore the ultimate expected existing business contribution for the financial year ending 31 December 2011 may differ from these results.

#### *Analysis of Group MCEV earnings*

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

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## A3: Assumptions

### Non-economic assumptions

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

These assumptions are based on the covered business being part of a going concern, although favourable changes in maintenance expenses such as productivity improvements are generally not included beyond what has been achieved by the end of the reporting period.

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

- All expected maintenance expense overruns affecting the covered business are allowed for in the calculations.
- The MCEV makes provision for future development costs and one-off exceptional expenses (such as those incurred on the integration of businesses following an acquisition, restructuring costs and costs related to Solvency II implementation) that relate to covered business to the extent that such project costs are known with sufficient certainty, based on three year business plans.
- Unallocated Group holding company expenses have been included to the extent that they relate to the covered business. The table below shows the future expenses attributable to the long-term business. The allocation of these expenses aligns to the proportion that the management expenses incurred by the covered businesses to the total management expenses incurred in the Group.

### Group holding Company expenses attributable to long-term business

|                   | At<br>31 December<br>2010 | At<br>31 December<br>2009 | %         |
|-------------------|---------------------------|---------------------------|-----------|
| Emerging Markets  | 17                        |                           | 16        |
| Nordic            | 4                         |                           | 4         |
| Retail Europe     | 3                         |                           | 3         |
| Wealth Management | 6                         |                           | 8         |
| US Life           | 2                         |                           | 2         |
| Bermuda           | -                         |                           | -         |
| <b>Total</b>      | <b>32</b>                 |                           | <b>33</b> |

In line with legislation in Germany, a specified proportion of miscellaneous profits is shared with policyholders. The revenue on in-force business can be reduced by various expense items, including those costs arising in respect of new business acquisition expenses in any year. Skandia Leben in Germany therefore sets the best estimate assumptions for the amount to be shared with policyholders in future years after making an allowance for the acquisition expenses in relation to the new business expected to be written over the next three years. However note that, as previously mentioned, MCEV excludes the value of future new business.

### Economic assumptions

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

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

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010

## Economic assumptions continued

### Risk free reference rates and inflation

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

At 31 December 2010, no adjustments are made to swap yields to allow for liquidity premiums or credit risk premiums, apart from a liquidity adjustment to the US Life business and OMSA's Immediate Annuity business. Any other risk premiums are recognised within the MCEV as and when they are earned.

A wide range of liquidity market data and literature was reviewed at 31 December 2010. This included the CRO/CFO Forum formula which derives the liquidity premium based on corporate bond spreads, with 100% of the liquidity premium applied to immediate annuity business and 75% applied to participating business and fixed deferred annuities to allow for differences in the predictability of cash flows on these products. The review also included the Barrie+Hibbert calibration of US corporate bond spreads using a structural Merton-style model which decomposes the yields of illiquid assets into their constituent parts, and a comparison of the yields of similar durations on South African government bonds and bonds issued by state-owned enterprises.

It is the directors' view that a proportion of corporate bond spreads at 31 December 2010 is attributable to a liquidity premium rather than only to credit and default allowances and that returns in excess of swap rates can be achieved, rather than entire corporate bond spreads being lost to worsening default experience. For the US Life business and OMSA's Immediate Annuity business the currency, credit quality and duration of the actual corporate bond portfolios were considered and adjusted risk free reference rates were derived at 31 December 2010 by adding 75bps of liquidity premium for the US Life business (31 December 2009: 100bps) and adding 45bps of liquidity premium for OMSA's Immediate Annuity business (31 December 2009: 50bps) to the swap rates used for setting investment return and discounting assumptions. These adjustments reflect the liquidity premium component in corporate bond spreads over swap rates that is expected to be earned on the portfolios. Old Mutual believes that the differences between market yields on US Life's and OMSA's bond portfolios and the adjusted risk free reference rates still provide substantial implied margins for default. At those durations where swap yields are not available, e.g. due to lack of a sufficiently liquid or deep swap market, the swap curve is extended using appropriate interpolation or extrapolation techniques.

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

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

| Risk free reference spot yields (excluding any applicable liquidity adjustments) |      |     |     |     |     | % |
|--|------|-----|-----|-----|-----|---|
| At 31 December 2010  | GBP* | EUR | USD | ZAR | SEK |   |
| 1 year   | 0.9  | 1.3 | 0.4 | 5.6 | 2.3 |   |
| 5 years  | 2.7  | 2.5 | 2.2 | 7.4 | 3.3 |   |
| 10 years   | 3.6  | 3.3 | 3.4 | 8.2 | 3.7 |   |
| 20 years   | 4.0  | 3.7 | 4.0 | 8.1 | 4.0 |   |
| At 31 December 2009  |      |     |     |     |     |   |
| 1 year   | 0.9  | 1.3 | 0.7 | 7.3 | 0.8 |   |
| 5 years  | 3.4  | 2.8 | 3.0 | 8.9 | 2.9 |   |
| 10 years   | 4.1  | 3.6 | 4.0 | 9.2 | 3.7 |   |
| 20 years   | 4.3  | 4.1 | 4.5 | 8.2 | 4.1 |   |

\* In prior reporting periods, the risk free spot yields disclosed for GBP were on a 1-year forward basis. The assumptions as at 31 December 2010, as well as 31 December 2009, are now shown as annualised spot yields, consistent with other regions.

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

| <b>Expense inflation</b>   | <b>%</b>   |            |            |            |            |
|----------------------------|------------|------------|------------|------------|------------|
| <b>At 31 December 2010</b> | <b>GBP</b> | <b>EUR</b> | <b>USD</b> | <b>ZAR</b> | <b>SEK</b> |
| 1 year                     | 3.0        | 2.5        | 3.0        | 5.0        | 2.2        |
| 5 years                    | 4.3        | 2.5        | 3.0        | 6.4        | 3.0        |
| 10 years                   | 5.3        | 2.5        | 3.0        | 7.2        | 3.2        |
| 20 years                   | 5.1        | 2.5        | 3.0        | 7.0        | 3.3        |
| <b>At 31 December 2009</b> |            |            |            |            |            |
| 1 year                     | 3.3        | 2.5        | 3.0        | 6.4        | 1.1        |
| 5 years                    | 3.8        | 2.5        | 3.0        | 7.5        | 2.6        |
| 10 years                   | 4.4        | 2.5        | 3.0        | 7.7        | 2.8        |
| 20 years                   | 4.8        | 2.5        | 3.0        | 6.7        | 3.0        |

### Volatilities and correlations

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

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

For the Emerging Markets stochastic models, due to the immateriality of corporate bond and property holdings, corporate bonds are assumed to yield the same returns as equivalent long-term government bonds and property is assumed to earn a return equal to a portfolio that is invested 50% in local equities and 50% in long-term government bonds.

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

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## ZAR volatilities\*

|                            |             |             |              |              | %                           |                               |
|----------------------------|-------------|-------------|--------------|--------------|-----------------------------|-------------------------------|
| At 31 December 2010        | 1 year swap | 5 year swap | 10 year swap | 20 year swap | Equity (total return index) | Property (total return index) |
| <b>Option term</b>         |             |             |              |              |                             |                               |
| 1 year                     | 18.7        | 16.9        | 15.8         | 15.1         | 23.4                        | 16.0                          |
| 5 years                    | 16.4        | 15.5        | 14.9         | 14.4         | 25.5                        | 15.7                          |
| 10 years                   | 15.6        | 15.0        | 14.5         | 13.9         | 27.0                        | 15.9                          |
| 20 years                   | 13.8        | 13.3        | 12.8         | 11.9         | 27.8                        | 15.4                          |
| <b>At 31 December 2009</b> |             |             |              |              |                             |                               |
| 1 year                     | 18.3        | 16.2        | 15.1         | 14.8         | 27.4                        | 17.1                          |
| 5 years                    | 16.9        | 15.8        | 15.3         | 15.1         | 25.5                        | 14.8                          |
| 10 years                   | 15.7        | 15.2        | 14.7         | 14.1         | 26.2                        | 14.1                          |
| 20 years                   | 14.5        | 13.8        | 13.1         | 12.0         | 27.0                        | 14.2                          |

\* Due to limited liquidity in the ZAR swaption and equity option market, the market consistent asset model has been calibrated by extrapolating swaption and equity option implied volatility data beyond terms of 2 years and 3 years respectively.

## USD volatilities\*

|                            |             |             |              |              | %    |      |
|----------------------------|-------------|-------------|--------------|--------------|------|------|
| At 31 December 2010        | 1 year swap | 5 year swap | 10 year swap | 20 year swap |      |      |
| <b>Option term</b>         |             |             |              |              |      |      |
| 1 year                     |             |             | 37.8         | 34.3         | 31.2 | 27.7 |
| 5 years                    |             |             | 26.2         | 24.7         | 23.0 | 20.9 |
| 10 years                   |             |             | 20.0         | 18.8         | 17.7 | 16.1 |
| 20 years                   |             |             | 16.8         | 15.7         | 14.7 | 13.1 |
| <b>At 31 December 2009</b> |             |             |              |              |      |      |
| 1 year                     |             |             | 39.0         | 36.5         | 33.2 | 29.6 |
| 5 years                    |             |             | 27.1         | 25.0         | 23.5 | 21.1 |
| 10 years                   |             |             | 19.4         | 18.9         | 17.6 | 16.2 |
| 20 years                   |             |             | 16.8         | 16.1         | 14.2 | 12.7 |

\* In prior reporting periods USD volatilities were based on market quoted information. The assumptions for 31 December 2010 as well as 31 December 2009 are now shown as modelled volatilities, consistent with the disclosure of interest rate volatilities in South Africa. Market volatilities for 1-year option terms and 1-year swap tenors are significantly different to modelled volatilities, with the calibration ensuring a reasonable fit across the entire spectrum of modelled option terms and swap tenors instead of focusing the calibration in this area.

## International equity volatilities (applicable to Old Mutual Bermuda)\*

| At 31 December 2010        | SPX  | RTY  | TPX  | HSCEI | TWY  | KOSP12 | NIFTY | SX5E | UKX  |
|----------------------------|------|------|------|-------|------|--------|-------|------|------|
| <b>Option term</b>         |      |      |      |       |      |        |       |      |      |
| 1 year                     | 21.5 | 28.1 | 26.7 | 27.8  | 21.5 | 21.4   | 22.0  | 24.3 | 21.5 |
| 5 years                    | 23.6 | 32.6 | 28.3 | 32.3  | 25.5 | 24.0   | 26.6  | 25.2 | 24.2 |
| 10 years                   | 23.6 | 32.6 | 28.3 | 32.3  | 25.5 | 24.0   | 26.6  | 25.2 | 24.2 |
| <b>At 31 December 2009</b> |      |      |      |       |      |        |       |      |      |
| 1 year                     | 22.1 | 28.6 | 28.3 | 33.5  | 22.9 | 23.3   | 26.5  | 24.7 | 23.1 |
| 5 years                    | 24.4 | 32.9 | 29.4 | 34.2  | 26.4 | 24.2   | 26.4  | 25.4 | 24.1 |
| 10 years                   | 25.0 | 32.6 | 29.0 | 37.4  | 27.5 | 30.0   | 31.2  | 27.4 | 25.9 |

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## International equity volatilities (applicable to Old Mutual Bermuda)\*

|                            |             |            |             | %           |
|----------------------------|-------------|------------|-------------|-------------|
| <b>At 31 December 2010</b> | <b>EEM</b>  | <b>USA</b> | <b>EU</b>   | <b>AP</b>   |
|                            |             | <b>Agg</b> | <b>Agg</b>  |             |
| <b>Option term</b>         |             |            |             |             |
| 1 year                     | <b>27.4</b> | <b>5.5</b> | <b>13.0</b> | <b>12.6</b> |
| 5 years                    | <b>27.7</b> | <b>5.5</b> | <b>13.0</b> | <b>12.6</b> |
| 10 years                   | <b>27.7</b> | <b>5.5</b> | <b>13.0</b> | <b>12.6</b> |
| <b>At 31 December 2009</b> |             |            |             |             |
| 1 year                     | 31.6        | 4.5        | 12.0        | 11.6        |
| 5 years                    | 30.8        | 4.5        | 12.0        | 11.6        |
| 10 years                   | 36.7        | 4.5        | 12.0        | 11.6        |

\* Long-term option implied volatility has been calibrated assuming a flat volatility term structure beyond 5 years due to limited data availability for some indices. In prior reporting periods, the volatilities disclosed for Bermuda were on a 1-year forward basis for most indices. The assumptions at 31 December 2010, as well as the comparatives for prior periods, are now shown as the annualised volatilities applicable over the entire option term specified, consistent with the disclosure of volatilities for other regions. These volatilities, as represented by their Bloomberg codes, refer to the price indices. Due to ongoing enhancements in the fund mapping process, the indices referenced may vary from period to period.

## Exchange rates

All MCEV figures are calculated in local currency and translated to GBP using the appropriate exchange rates as detailed in Note C2 of the IFRS statements.

## Expected asset returns in excess of the risk free reference rates

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

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

- The equity risk premium is 3.5% for Africa and 3% for Europe and the United States.
- The corporate bond return is based on actual corporate bond spreads on the reporting date less an allowance for defaults.
- The property risk premium is 1.5% in Africa and 2% in Europe.

## Tax

The weighted average effective tax rates that apply to the cash flow projections within the VIF at 31 December 2010 are set out below:

- OMSA – 33% (31 December 2009: 33%)
- Namibia – 0% (31 December 2009: 0%)
- Nordic – 4% (31 December 2009: 4%)
- Retail Europe – 27% (31 December 2009: 28%)
- Wealth Management – 11% (31 December 2009: 13%)
- US Life – 0% (31 December 2009: 0%)
- Bermuda – 0% (31 December 2009: 0%)

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## B: Segment information

B1: Adjusted Group MCEV presented per business line

|   | <b>£m</b>                          |                           |
|---|------------------------------------|---------------------------|
|   | <b>At<br/>31 December<br/>2010</b> | At<br>31 December<br>2009 |
| <b>MCEV of the core covered business</b>  | <b>7,417</b>                       | 6,147                     |
| Adjusted net worth*   | 2,414                              | 1,954                     |
| Value of in-force business  | 5,003                              | 4,193                     |
| <b>MCEV of the Bermuda non core covered business</b>  | <b>287</b>                         | 198                       |
| Adjusted net worth*   | 403                                | 363                       |
| Value of in-force business  | (116)                              | (165)                     |
| <b>MCEV of the US Life discontinued covered business</b>  | <b>(189)</b>                       | (318)                     |
| Adjusted net worth*   | 534                                | 498                       |
| Value of in-force business  | (723)                              | (816)                     |
| <b>Adjusted net worth of asset management and other businesses</b>                              | <b>1,950</b>                       | 1,716                     |
| Emerging Markets  | 289                                | 216                       |
| Nordic**  | 4                                  | (75)                      |
| Retail Europe   | 14                                 | 12                        |
| Wealth Management   | 171                                | 152                       |
| US Asset Management   | 1,472                              | 1,411                     |
| <b>Value of the banking business</b>  | <b>3,603</b>                       | 2,948                     |
| Nordic (adjusted net worth)   | 328                                | 314                       |
| Nedbank (market value)  | 3,275                              | 2,634                     |
| <b>Value of the general insurance business</b>  |                                    |                           |
| Mutual & Federal***   | 409                                | 448                       |
| <b>Net other business</b>   | <b>31</b>                          | 123                       |
| <b>Adjustment for present value of Black Economic Empowerment scheme deferred consideration</b> | <b>266</b>                         | 221                       |
| <b>Adjustment for value of own shares in ESOP schemes****</b>                                   | <b>85</b>                          | 71                        |
| <b>Perpetual preferred securities (US\$ denominated)</b>  | <b>(449)</b>                       | (385)                     |
| <b>Perpetual preferred callable securities</b>  | <b>(598)</b>                       | (477)                     |
| GBP denominated   | (270)                              | (224)                     |
| Euro denominated  | (328)                              | (253)                     |
| <b>Debt</b>   | <b>(1,782)</b>                     | (1,664)                   |
| Rand denominated  | (304)                              | (290)                     |
| USD denominated   | (337)                              | (338)                     |
| GBP denominated   | (842)                              | (759)                     |
| SEK denominated   | (297)                              | (256)                     |
| Euro denominated  | (2)                                | (21)                      |
| <b>Adjusted Group MCEV</b>  | <b>11,030</b>                      | 9,028                     |

\* Adjusted net worth is after the elimination of inter-company loans.

\*\* Includes the adjusted net worth of Nordic holding companies that are classified as non-covered business, net of the holding companies' investment in Group subsidiaries.

\*\*\* Reflected at IFRS net asset value at 31 December 2010 and at market value for 31 December 2009 as a result of the acquisition of the remaining non-controlling interest in Mutual & Federal.

\*\*\*\* Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2009 and 31 December 2010 is the net effect of the increase in the Old Mutual plc share price, the reduction in excess own shares following employee share grants in March 2010 and the reduction in overall shares held due to exercises of rights to take delivery of, or net settle, share grants during the year.



## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

B2: Adjusted operating MCEV earnings for the covered business

|   | £m                                |                                   |
|---|-----------------------------------|-----------------------------------|
|   | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009 |
| <b>Adjusted operating MCEV earnings before tax for the covered business</b> |                                   |                                   |
| <b>Long Term Savings</b>  | <b>705</b>                        | 252                               |
| Emerging Markets  | 443                               | 272                               |
| Nordic  | 65                                | 78                                |
| Retail Europe   | 68                                | (58)                              |
| Wealth Management   | 129                               | (40)                              |
| <b>US Life</b>  | <b>48</b>                         | 302                               |
| <b>Bermuda</b>  | <b>(28)</b>                       | 8                                 |
|   | <b>725</b>                        | 562                               |
| <b>Tax on adjusted operating MCEV earnings for the covered business</b>     |                                   |                                   |
| <b>Long Term Savings</b>  | <b>(138)</b>                      | (7)                               |
| Emerging Markets  | (99)                              | (60)                              |
| Nordic  | (20)                              | 3                                 |
| Retail Europe   | (2)                               | 14                                |
| Wealth Management   | (17)                              | 36                                |
| <b>US Life</b>  | <b>(1)</b>                        | (36)                              |
| <b>Bermuda</b>  | <b>4</b>                          | (27)                              |
|   | <b>(135)</b>                      | (70)                              |
| <b>Adjusted operating MCEV earnings after tax for the covered business</b>  |                                   |                                   |
| <b>Long Term Savings</b>  | <b>567</b>                        | 245                               |
| Emerging Markets  | 344                               | 212                               |
| Nordic  | 45                                | 81                                |
| Retail Europe   | 66                                | (44)                              |
| Wealth Management   | 112                               | (4)                               |
| <b>US Life</b>  | <b>47</b>                         | 266                               |
| <b>Bermuda</b>  | <b>(24)</b>                       | (19)                              |
|   | <b>590</b>                        | 492                               |
| <b>Tax on adjusted operating MCEV earnings comprises</b>                    |                                   |                                   |
| Tax on adjusted operating MCEV earnings for the covered business            | (135)                             | (70)                              |
| Tax on adjusted operating MCEV earnings for other business                  | (175)                             | (139)                             |
| <b>Tax on adjusted operating MCEV earnings</b>                              | <b>(310)</b>                      | (209)                             |

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

B3: Components of MCEV of the covered business

|   | <b>£m</b>                 |                           |
|---|---------------------------|---------------------------|
|   | At<br>31 December<br>2010 | At<br>31 December<br>2009 |
| <b>MCEV of the covered business</b>                       | <b>7,515</b>              | 6,027                     |
| Adjusted net worth  | <b>3,351</b>              | 2,815                     |
| Value of in-force business                                | <b>4,164</b>              | 3,212                     |
| <b>Long Term Savings</b>                                  |                           |                           |
| <b>Adjusted net worth</b>                                 | <b>2,414</b>              | 1,954                     |
| Free surplus  | <b>441</b>                | 380                       |
| Required capital  | <b>1,973</b>              | 1,574                     |
| <b>Value of in-force business</b>                         | <b>5,003</b>              | 4,193                     |
| Present value of future profits                           | <b>5,557</b>              | 4,667                     |
| Additional time value of financial options and guarantees | <b>(12)</b>               | (7)                       |
| Frictional costs  | <b>(267)</b>              | (211)                     |
| Cost of residual non-hedgeable risks                      | <b>(275)</b>              | (256)                     |
| Consisting of :   |                           |                           |
| <b>Emerging Markets</b>                                   |                           |                           |
| <b>Adjusted net worth*</b>                                | <b>1,804</b>              | 1,305                     |
| Free surplus  | <b>306</b>                | 80                        |
| Required capital  | <b>1,498</b>              | 1,225                     |
| <b>Value of in-force business</b>                         | <b>1,509</b>              | 1,158                     |
| Present value of future profits                           | <b>1,849</b>              | 1,424                     |
| Additional time value of financial options and guarantees | -                         | -                         |
| Frictional costs  | <b>(240)</b>              | (181)                     |
| Cost of residual non-hedgeable risks                      | <b>(100)</b>              | (85)                      |
| <b>Nordic</b>   |                           |                           |
| <b>Adjusted net worth</b>                                 | <b>186</b>                | 195                       |
| Free surplus  | <b>51</b>                 | 91                        |
| Required capital  | <b>135</b>                | 104                       |
| <b>Value of in-force business</b>                         | <b>1,318</b>              | 1,114                     |
| Present value of future profits                           | <b>1,397</b>              | 1,196                     |
| Additional time value of financial options and guarantees | -                         | -                         |
| Frictional costs  | <b>(6)</b>                | (11)                      |
| Cost of residual non-hedgeable risks                      | <b>(73)</b>               | (71)                      |
| <b>Retail Europe</b>                                      |                           |                           |
| <b>Adjusted net worth</b>                                 | <b>103</b>                | 78                        |
| Free surplus  | <b>41</b>                 | 46                        |
| Required capital  | <b>62</b>                 | 32                        |
| <b>Value of in-force business</b>                         | <b>520</b>                | 453                       |
| Present value of future profits                           | <b>573</b>                | 507                       |
| Additional time value of financial options and guarantees | <b>(10)</b>               | (6)                       |
| Frictional costs  | <b>(11)</b>               | (7)                       |
| Cost of residual non-hedgeable risks                      | <b>(32)</b>               | (41)                      |

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

B3: Components of MCEV of the covered business

|   | <b>£m</b>                          |                           |
|---|------------------------------------|---------------------------|
|   | <b>At<br/>31 December<br/>2010</b> | At<br>31 December<br>2009 |
| <b>Wealth management</b>                                  |                                    |                           |
| <b>Adjusted net worth</b>                                 | <b>321</b>                         | 376                       |
| Free surplus  | <b>43</b>                          | 163                       |
| Required capital  | <b>278</b>                         | 213                       |
| <b>Value of in-force business</b>                         | <b>1,656</b>                       | 1,468                     |
| Present value of future profits                           | <b>1,738</b>                       | 1,540                     |
| Additional time value of financial options and guarantees | <b>(2)</b>                         | (1)                       |
| Frictional costs  | <b>(10)</b>                        | (12)                      |
| Cost of residual non-hedgeable risks                      | <b>(70)</b>                        | (59)                      |
| <b>US Life (Discontinued)</b>                             |                                    |                           |
| <b>Adjusted net worth</b>                                 | <b>534</b>                         | 498                       |
| Free surplus  | <b>66</b>                          | 36                        |
| Required capital  | <b>468</b>                         | 462                       |
| <b>Value of in-force business</b>                         | <b>(723)</b>                       | (816)                     |
| Present value of future profits                           | <b>(446)</b>                       | (511)                     |
| Additional time value of financial options and guarantees | <b>(186)</b>                       | (213)                     |
| Frictional costs  | <b>(7)</b>                         | (6)                       |
| Cost of residual non-hedgeable risks                      | <b>(84)</b>                        | (86)                      |
| <b>Bermuda (Non core)</b>                                 |                                    |                           |
| <b>Adjusted net worth</b>                                 | <b>403</b>                         | 363                       |
| Free surplus  | <b>-</b>                           | -                         |
| Required capital  | <b>403</b>                         | 363                       |
| <b>Value of in-force business</b>                         | <b>(116)</b>                       | (165)                     |
| Present value of future profits                           | <b>145</b>                         | 99                        |
| Additional time value of financial options and guarantees | <b>(235)</b>                       | (196)                     |
| Frictional costs  | <b>(2)</b>                         | (4)                       |
| Cost of residual non-hedgeable risks                      | <b>(24)</b>                        | (64)                      |

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

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax)

The Long Term Savings segment consists of Emerging Markets, Nordic, Retail Europe and Wealth Management.

| Long Term Savings (LTS)   | Year ended 31 December 2010 |                  |                    |                   |              | Year ended 31 December 2009 |                  |                    |                   |       |      |
|---|-----------------------------|------------------|--------------------|-------------------|--------------|-----------------------------|------------------|--------------------|-------------------|-------|------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV         | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV  |      |
| <b>Opening MCEV</b>   | <b>380</b>                  | <b>1,574</b>     | <b>1,954</b>       | <b>4,193</b>      | <b>6,147</b> | 101                         | 1,441            | 1,542              | 3,950             | 5,492 |      |
| New business value  | (419)                       | 160              | (259)              | 459               | 200          | (438)                       | 129              | (309)              | 462               | 153   |      |
| Expected existing business contribution (reference rate)              | 8                           | 77               | 85                 | 168               | 253          | 5                           | 92               | 97                 | 191               | 288   |      |
| Expected existing business contribution (in excess of reference rate) | 7                           | (3)              | 4                  | 59                | 63           | (1)                         | 5                | 4                  | 59                | 63    |      |
| Transfers from VIF and required capital to free surplus               | 802                         | (184)            | 618                | (618)             | -            | 766                         | (186)            | 580                | (580)             | -     |      |
| Experience variances  | (16)                        | 28               | 12                 | 43                | 55           | (11)                        | (8)              | (19)               | (64)              | (83)  |      |
| Assumption changes  | 23                          | 2                | 25                 | (25)              | -            | 33                          | (22)             | 11                 | (242)             | (231) |      |
| Other operating variance  | (93)                        | 37               | (56)               | 52                | (4)          | 154                         | (44)             | 110                | (55)              | 55    |      |
| <b>Operating MCEV earnings</b>  | <b>312</b>                  | <b>117</b>       | <b>429</b>         | <b>138</b>        | <b>567</b>   | 508                         | (34)             | 474                | (229)             | 245   |      |
| Economic variances  | 100                         | 41               | 141                | 342               | 483          | 50                          | 34               | 84                 | 217               | 301   |      |
| Other non-operating variance  | (7)                         | 25               | 18                 | -                 | 18           | 39                          | (20)             | 19                 | 168               | 187   |      |
| <b>Total MCEV earnings</b>  | <b>405</b>                  | <b>183</b>       | <b>588</b>         | <b>480</b>        | <b>1,068</b> | 597                         | (20)             | 577                | 156               | 733   |      |
| Closing adjustments   | (344)                       | 216              | (128)              | 330               | 202          | (318)                       | 153              | (165)              | 87                | (78)  |      |
| Capital and dividend flows  | (383)                       | -                | (383)              | -                 | (383)        | (335)                       | (1)              | (336)              | 0                 | (336) |      |
| Foreign exchange variance   | 39                          | 216              | 255                | 330               | 585          | 4                           | 151              | 155                | 111               | 266   |      |
| MCEV of acquired/sold business  | -                           | -                | -                  | -                 | -            | 13                          | 3                | 16                 | (24)              | (8)   |      |
| <b>Closing MCEV</b>   | <b>441</b>                  | <b>1,973</b>     | <b>2,414</b>       | <b>5,003</b>      | <b>7,417</b> | 380                         | 1,574            | 1,954              | 4,193             | 6,147 |      |
| <b>Return on MCEV (RoEV)% per annum</b>                               |                             |                  |                    |                   |              | <b>9.2%</b>                 |                  |                    |                   |       | 4.5% |

| Long Term Savings (LTS)     | Year ended 31 December 2010 |                   |           | Year ended 31 December 2009 |                   |       |
|-----------------------------|-----------------------------|-------------------|-----------|-----------------------------|-------------------|-------|
|                             | Adjusted net worth          | Value of in-force | MCEV      | Adjusted net worth          | Value of in-force | MCEV  |
| <b>Experience variances</b> | <b>12</b>                   | <b>43</b>         | <b>55</b> | (19)                        | (64)              | (83)  |
| Persistence                 | 18                          | 20                | 38        | (18)                        | (80)              | (98)  |
| Risk                        | 22                          | 8                 | 30        | 31                          | -                 | 31    |
| Expenses                    | (54)                        | 5                 | (49)      | (56)                        | 13                | (43)  |
| Other                       | 26                          | 10                | 36        | 24                          | 2                 | 26    |
| <b>Assumption changes</b>   | <b>25</b>                   | <b>(25)</b>       | <b>-</b>  | 11                          | (242)             | (231) |
| Persistence                 | -                           | (4)               | (4)       | (29)                        | (164)             | (193) |
| Risk                        | 17                          | 14                | 31        | 30                          | 53                | 83    |
| Expenses                    | (2)                         | (20)              | (22)      | 10                          | (161)             | (151) |
| Other                       | 10                          | (15)              | (5)       | (1)                         | 31                | 30    |

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV in sterling.

| Long Term Savings (LTS)   | Year ended 31 December 2011 |                  |                    |                   |      |
|---|-----------------------------|------------------|--------------------|-------------------|------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV |
| Expected existing business contribution (reference rate)              | 16                          | 65               | 81                 | 173               | 254  |
| Expected existing business contribution (in excess of reference rate) | 6                           | (4)              | 2                  | 67                | 69   |

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

| Emerging Markets*   | Year ended 31 December 2010 |                  |                    |                   |              | Year ended 31 December 2009 |                  |                    |                   |       |             |
|---|-----------------------------|------------------|--------------------|-------------------|--------------|-----------------------------|------------------|--------------------|-------------------|-------|-------------|
|   | Free surplus                | Required Capital | Adjusted net worth | Value of in-force | MCEV         | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV  |             |
| <b>Opening MCEV</b>   | <b>80</b>                   | <b>1,225</b>     | <b>1,305</b>       | <b>1,158</b>      | <b>2,463</b> | (92)                        | 1,075            | 983                | 1,090             | 2,073 |             |
| New business value  | (159)                       | 134              | (25)               | 111               | 86           | (136)                       | 110              | (26)               | 91                | 65    |             |
| Expected existing business contribution (reference rate)              | 6                           | 73               | 79                 | 124               | 203          | (7)                         | 85               | 78                 | 129               | 207   |             |
| Expected existing business contribution (in excess of reference rate) | -                           | (3)              | (3)                | 16                | 13           | -                           | 5                | 5                  | 16                | 21    |             |
| Transfers from VIF and required capital to free surplus               | 356                         | (166)            | 190                | (190)             | -            | 314                         | (146)            | 168                | (168)             | -     |             |
| Experience variances  | 11                          | 14               | 25                 | 10                | 35           | (9)                         | (9)              | (18)               | (35)              | (53)  |             |
| Assumption changes  | 19                          | -                | 19                 | 18                | 37           | 40                          | (29)             | 11                 | (90)              | (79)  |             |
| Other operating variance  | (6)                         | (2)              | (8)                | (22)              | (30)         | 46                          | (27)             | 19                 | 32                | 51    |             |
| <b>Operating MCEV earnings</b>  | <b>227</b>                  | <b>50</b>        | <b>277</b>         | <b>67</b>         | <b>344</b>   | 248                         | (11)             | 237                | (25)              | 212   |             |
| Economic variances  | 57                          | 21               | 78                 | 84                | 162          | 54                          | 1                | 55                 | (39)              | 16    |             |
| Other non-operating variance  | 4                           | -                | 4                  | 1                 | 5            | -                           | -                | -                  | -                 | -     |             |
| <b>Total MCEV earnings</b>  | <b>288</b>                  | <b>71</b>        | <b>359</b>         | <b>152</b>        | <b>511</b>   | 302                         | (10)             | 292                | (64)              | 228   |             |
| Closing adjustments   | (62)                        | 202              | 140                | 199               | 339          | (130)                       | 160              | 30                 | 132               | 162   |             |
| Capital and dividend flows  | (93)                        | -                | (93)               | -                 | (93)         | (146)                       | (3)              | (149)              | -                 | (149) |             |
| Foreign exchange variance   | 31                          | 202              | 233                | 199               | 432          | 3                           | 160              | 163                | 156               | 319   |             |
| MCEV of acquired/sold business  | -                           | -                | -                  | -                 | -            | 13                          | 3                | 16                 | (24)              | (8)   |             |
| <b>Closing MCEV</b>   | <b>306</b>                  | <b>1,498</b>     | <b>1,804</b>       | <b>1,509</b>      | <b>3,313</b> | 80                          | 1,225            | 1,305              | 1,158             | 2,463 |             |
| <b>Return on MCEV (RoEV)% per annum</b>                               |                             |                  |                    |                   |              | <b>13.2%</b>                |                  |                    |                   |       | <b>9.8%</b> |

| Emerging Markets            | Year ended 31 December 2010 |                   |           | Year ended 31 December 2009 |                   |      |
|-----------------------------|-----------------------------|-------------------|-----------|-----------------------------|-------------------|------|
|                             | Adjusted net worth          | Value of in-force | MCEV      | Adjusted net worth          | Value of in-force | MCEV |
| <b>Experience variances</b> | <b>25</b>                   | <b>10</b>         | <b>35</b> | (18)                        | (35)              | (53) |
| Persistence                 | 29                          | 5                 | 34        | (9)                         | (44)              | (53) |
| Risk                        | 11                          | 7                 | 18        | 16                          | -                 | 16   |
| Expenses                    | (15)                        | 4                 | (11)      | (30)                        | 11                | (19) |
| Other                       | -                           | (6)               | (6)       | 5                           | (2)               | 3    |
| <b>Assumption changes</b>   | <b>19</b>                   | <b>18</b>         | <b>37</b> | 11                          | (90)              | (79) |
| Persistence                 | -                           | 2                 | 2         | (29)                        | (55)              | (84) |
| Risk                        | 17                          | (1)               | 16        | 30                          | 20                | 50   |
| Expenses                    | 2                           | 15                | 17        | 10                          | (55)              | (45) |
| Other                       | -                           | 2                 | 2         | -                           | -                 | -    |

| Emerging Markets  | Year ended 31 December 2011 |                  |                    |                   |      |
|---|-----------------------------|------------------|--------------------|-------------------|------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV |
| Expected existing business contribution (reference rate)              | 12                          | 60               | 72                 | 107               | 179  |
| Expected existing business contribution (in excess of reference rate) | -                           | (4)              | (4)                | 16                | 12   |

\* The MCEV for Emerging Markets is presented after the adjustment for market value of life fund investments in Group equity and debt instruments.

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

### B4: Analysis of covered business MCEV earnings (after tax) continued

The marginal decrease in 'expected existing business contribution (reference rate)' from 2009 to 2010 is mainly attributable to a lower one-year swap rate at 31 December 2009 (7.3%) compared to 31 December 2008 (9.3%) offset by a higher opening MCEV.

The 'expected existing business contribution (in excess of reference rate)' on the ANW has reduced from 2009 to 2010 due to a higher cash allocation assumed for shareholder funds.

The positive experience variances are mainly attributable to favourable persistency experience, as well as a small positive contribution from risk experience.

Operating assumption changes are positive in 2010 consisting mainly of an improvement in fees relative to maintenance expenses in the Corporate Segment due to economies of scale from an increasing fund membership; and an increase in annuitant mortality rates in Retail Affluent, following a recent mortality investigation which is supported by positive annuitant mortality experience variances.

The negative other operating variance was caused by various methodology changes and error corrections.

In addition to the effects above, other significant movements affecting the closing MCEV include a large positive impact from economic variances due to a combination of better than assumed equity returns and the effect of the changes in the shape of the swap yield curve. This was partially offset by modelling enhancements to the economic scenario generator used to calculate the investment guarantee reserve, which caused a decrease in the margin (buffer) held to protect against future market volatility, resulting in less value being released as profit in the future.

The capital and dividend flows mainly consist of the purchase of additional Nedbank shares.

The strengthening of the rand relative to sterling had a significant positive effect on the increase in MCEV.

Return on MCEV is the operating MCEV earnings after tax divided by opening MCEV in rand (including conversion of results for Mexico to rand).

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

## Nordic

|   | Year ended 31 December 2010 |                  |                    |                   |       | Year ended 31 December 2009 |                  |                    |                   |       |      |
|---|-----------------------------|------------------|--------------------|-------------------|-------|-----------------------------|------------------|--------------------|-------------------|-------|------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV  | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV  |      |
| <b>Opening MCEV</b>   | 91                          | 104              | 195                | 1,114             | 1,309 | 58                          | 105              | 163                | 882               | 1,045 |      |
| New business value  | (49)                        | 6                | (43)               | 84                | 41    | (57)                        | 6                | (51)               | 95                | 44    |      |
| Expected existing business contribution (reference rate)              | -                           | 1                | 1                  | 14                | 15    | 4                           | -                | 4                  | 18                | 22    |      |
| Expected existing business contribution (in excess of reference rate) | -                           | -                | -                  | 26                | 26    | -                           | -                | -                  | 14                | 14    |      |
| Transfers from VIF and required capital to free surplus               | 103                         | -                | 103                | (103)             | -     | 81                          | (17)             | 64                 | (64)              | -     |      |
| Experience variances  | 30                          | (5)              | 25                 | (1)               | 24    | 28                          | (7)              | 21                 | 10                | 31    |      |
| Assumption changes  | -                           | -                | -                  | (55)              | (55)  | 3                           | -                | 3                  | (30)              | (27)  |      |
| Other operating variance  | (44)                        | 4                | (40)               | 34                | (6)   | -                           | -                | -                  | (3)               | (3)   |      |
| <b>Operating MCEV earnings</b>  | 40                          | 6                | 46                 | (1)               | 45    | 59                          | (18)             | 41                 | 40                | 81    |      |
| Economic variances  | (4)                         | 12               | 8                  | 86                | 94    | (5)                         | 17               | 12                 | 192               | 204   |      |
| Other non-operating variance  | 17                          | -                | 17                 | -                 | 17    | 18                          | -                | 18                 | 1                 | 19    |      |
| <b>Total MCEV earnings</b>  | 53                          | 18               | 71                 | 85                | 156   | 72                          | (1)              | 71                 | 233               | 304   |      |
| Closing adjustments   | (93)                        | 13               | (80)               | 119               | 39    | (39)                        | -                | (39)               | (1)               | (40)  |      |
| Capital and dividend flows  | (100)                       | -                | (100)              | -                 | (100) | (37)                        | -                | (37)               | -                 | (37)  |      |
| Foreign exchange variance   | 7                           | 13               | 20                 | 119               | 139   | (2)                         | -                | (2)                | (1)               | (3)   |      |
| <b>Closing MCEV</b>   | 51                          | 135              | 186                | 1,318             | 1,504 | 91                          | 104              | 195                | 1,114             | 1,309 |      |
| <b>Return on MCEV (RoEV)% per annum</b>                               |                             |                  |                    |                   |       | 3.3%                        |                  |                    |                   |       | 8.1% |

£m

|                             | Year ended 31 December 2010 |                   |      | Year ended 31 December 2009 |                   |      |
|-----------------------------|-----------------------------|-------------------|------|-----------------------------|-------------------|------|
|                             | Adjusted net worth          | Value of in-force | MCEV | Adjusted net worth          | Value of in-force | MCEV |
| <b>Experience variances</b> | 25                          | (1)               | 24   | 21                          | 10                | 31   |
| Persistence                 | (2)                         | (6)               | (8)  | (2)                         | 5                 | 3    |
| Risk                        | 5                           | -                 | 5    | 6                           | (1)               | 5    |
| Expenses                    | 2                           | -                 | 2    | 3                           | (1)               | 2    |
| Other                       | 20                          | 5                 | 25   | 14                          | 7                 | 21   |
| <b>Assumption changes</b>   | -                           | (55)              | (55) | 3                           | (30)              | (27) |
| Persistence                 | -                           | (7)               | (7)  | -                           | (29)              | (29) |
| Risk                        | -                           | -                 | -    | -                           | 19                | 19   |
| Expenses                    | -                           | (18)              | (18) | -                           | (18)              | (18) |
| Other                       | -                           | (30)              | (30) | 3                           | (2)               | 1    |

£m

## Nordic

|   | Year ended 31 December 2011 |                  |                    |                   |      |
|---|-----------------------------|------------------|--------------------|-------------------|------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV |
| Expected existing business contribution (reference rate)              | 3                           | 2                | 5                  | 34                | 39   |
| Expected existing business contribution (in excess of reference rate) | -                           | -                | -                  | 30                | 30   |

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

### B4: Analysis of covered business MCEV earnings (after tax) continued

The 'expected existing business contribution (in excess of reference rate)' is not significant on the adjusted net worth portion of the business. This is because shareholder assets backing capital requirements are typically invested in highly secure government paper and other short-term instruments.

Expected existing business contributions in 2011 are significantly higher than in 2010 due to higher one-year swap rates at 31 December 2010 relative to those at 31 December 2009 and a higher opening value of in-force.

The positive experience variances were largely caused by profit made on the sale of a private equity investment, higher than expected fee income and increased take-ups of drawdown products. There were no one-off expense variances.

Operating assumption changes were made to recognise higher expected commission payments, anticipated pricing pressure in the corporate segment, expectations of adverse persistency and adjustments to pricing of the Waiver of Premium business.

The other operating variance was mainly due to modelling refinements to deferred tax assets and more accurate valuation of tendered business.

The economic variances were mainly due to the positive effect of market movements on funds under management.

The capital and dividend flows mainly represent dividends, repayment of loans, internal re-classification and capital injections.

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



# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

| Retail Europe   | Year ended 31 December 2010 |                  |                    |                   |            | Year ended 31 December 2009 |                  |                    |                   |             | £m            |
|---|-----------------------------|------------------|--------------------|-------------------|------------|-----------------------------|------------------|--------------------|-------------------|-------------|---------------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV       | Free surplus                | Required capital | Adjusted net worth | Value of In-force | MCEV        |               |
|   | <b>Opening MCEV</b>         | 46               | 32                 | 78                | 453        | 531                         | 15               | 64                 | 79                | 517         | 596           |
| New business value  | (69)                        | 1                | (68)               | 75                | 7          | (74)                        | 1                | (73)               | 68                | (5)         |               |
| Expected existing business contribution (reference rate)              | 1                           | -                | 1                  | 8                 | 9          | 1                           | -                | 1                  | 10                | 11          |               |
| Expected existing business contribution (in excess of reference rate) | -                           | -                | -                  | 3                 | 3          | -                           | -                | -                  | 3                 | 3           |               |
| Transfers from VIF and required capital to free surplus               | 97                          | 2                | 99                 | (99)              | -          | 97                          | 7                | 104                | (104)             | -           |               |
| Experience variances  | 5                           | (1)              | 4                  | 1                 | 5          | (20)                        | 1                | (19)               | (4)               | (23)        |               |
| Assumption changes  | -                           | -                | -                  | 11                | 11         | -                           | -                | -                  | (26)              | (26)        |               |
| Other operating variance  | (9)                         | -                | (9)                | 40                | 31         | 18                          | (19)             | (1)                | (3)               | (4)         |               |
| <b>Operating MCEV earnings</b>  | <b>25</b>                   | <b>2</b>         | <b>27</b>          | <b>39</b>         | <b>66</b>  | <b>22</b>                   | <b>(10)</b>      | <b>12</b>          | <b>(56)</b>       | <b>(44)</b> |               |
| Economic variances  | 1                           | 2                | 3                  | 19                | 22         | (1)                         | 4                | 3                  | 26                | 29          |               |
| Other non-operating variance  | (26)                        | 25               | (1)                | (5)               | (6)        | 20                          | (20)             | -                  | 3                 | 3           |               |
| <b>Total MCEV earnings</b>  | <b>-</b>                    | <b>29</b>        | <b>29</b>          | <b>53</b>         | <b>82</b>  | <b>41</b>                   | <b>(26)</b>      | <b>15</b>          | <b>(27)</b>       | <b>(12)</b> |               |
| Closing adjustments   | (5)                         | 1                | (4)                | 14                | 10         | (10)                        | (6)              | (16)               | (37)              | (53)        |               |
| Capital and dividend flows  | (6)                         | -                | (6)                | -                 | (6)        | (10)                        | (3)              | (13)               | -                 | (13)        |               |
| Foreign exchange variance   | 1                           | 1                | 2                  | 14                | 16         | -                           | (3)              | (3)                | (37)              | (40)        |               |
| <b>Closing MCEV</b>   | <b>41</b>                   | <b>62</b>        | <b>103</b>         | <b>520</b>        | <b>623</b> | <b>46</b>                   | <b>32</b>        | <b>78</b>          | <b>453</b>        | <b>531</b>  |               |
| <b>Return on MCEV (RoEV)% per annum</b>                               |                             |                  |                    |                   |            | <b>12.8%</b>                |                  |                    |                   |             | <b>(7.9)%</b> |

| Retail Europe             | Year ended 31 December 2010 |                   |           | Year ended 31 December 2009 |                   |             | £m          |
|---------------------------|-----------------------------|-------------------|-----------|-----------------------------|-------------------|-------------|-------------|
|                           | Adjusted net worth          | Value of in-force | MCEV      | Adjusted net worth          | Value of in-force | MCEV        |             |
|                           | <b>Experience variances</b> | <b>4</b>          | <b>1</b>  | <b>5</b>                    | <b>(19)</b>       | <b>(4)</b>  | <b>(23)</b> |
| Persistence               | (2)                         | 3                 | 1         | (1)                         | (1)               | (2)         |             |
| Risk                      | 3                           | -                 | 3         | 3                           | 1                 | 4           |             |
| Expenses                  | (3)                         | -                 | (3)       | (5)                         | -                 | (5)         |             |
| Other                     | 6                           | (2)               | 4         | (16)                        | (4)               | (20)        |             |
| <b>Assumption changes</b> | <b>-</b>                    | <b>11</b>         | <b>11</b> | <b>-</b>                    | <b>(26)</b>       | <b>(26)</b> |             |
| Persistence               | -                           | 9                 | 9         | -                           | 2                 | 2           |             |
| Risk                      | -                           | -                 | -         | -                           | 1                 | 1           |             |
| Expenses                  | -                           | (4)               | (4)       | -                           | (22)              | (22)        |             |
| Other                     | -                           | 6                 | 6         | -                           | (7)               | (7)         |             |

| Retail Europe   | Year ended 31 December 2011 |                  |                    |                   |      | £m |
|---|-----------------------------|------------------|--------------------|-------------------|------|----|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV |    |
| Expected existing business contribution (reference rate)              | -                           | 1                | 1                  | 9                 | 10   |    |
| Expected existing business contribution (in excess of reference rate) | -                           | -                | -                  | 4                 | 4    |    |

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

### B4: Analysis of covered business MCEV earnings (after tax) continued

The 'expected existing business contribution (in excess of reference rate)' is not significant on the adjusted net worth portion of the business. This is because shareholder assets backing capital requirements are typically invested in highly secure government paper and other short-term instruments.

Expected existing business contributions in 2011 are higher than in 2010 due to a higher opening asset-base.

Experience variances are mainly due to higher than anticipated profit sharing on participating contracts in Germany, as well as higher than expected fee income. In addition, there was a one-off expense variance in respect of project costs. Mortality and morbidity experience continues to be positive across all Retail Europe countries.

Operating assumption changes were made to recognise higher expected fee income in Germany and Poland following sustained favourable fee income experience. Future profit sharing assumptions for the German business were revised upwards in line with expected new business levels. Further operating assumption changes were made to recognise positive persistency experience and maintenance expense experience in Switzerland, and to reflect the capitalisation of Retail Europe overhead expenses.

The other operating variances are mainly due to improvements in the modelling of disability business in Switzerland and a reduction in the cost of non-hedgeable risk due to lower non-hedgeable risk capital.

The economic variances are mainly due to the positive effect of market movements on funds under management as well as the beneficial impact of lower swap rates across the region.

The capital and dividend flows mainly represent dividends.

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

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

| Wealth Management   | Year ended 31 December 2010 |                  |                    |                   |              | Year ended 31 December 2009 |                  |                    |                   |       |        |
|---|-----------------------------|------------------|--------------------|-------------------|--------------|-----------------------------|------------------|--------------------|-------------------|-------|--------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV         | Free surplus                | Required capital | Adjusted net worth | Value of In-force | MCEV  |        |
| <b>Opening MCEV</b>   | <b>163</b>                  | <b>213</b>       | <b>376</b>         | <b>1,468</b>      | <b>1,844</b> | 120                         | 197              | 317                | 1,461             | 1,778 |        |
| New business value  | (142)                       | 19               | (123)              | 189               | 66           | (171)                       | 12               | (159)              | 208               | 49    |        |
| Expected existing business contribution (reference rate)              | 1                           | 3                | 4                  | 22                | 26           | 7                           | 7                | 14                 | 34                | 48    |        |
| Expected existing business contribution (in excess of reference rate) | 7                           | -                | 7                  | 14                | 21           | (1)                         | -                | (1)                | 26                | 25    |        |
| Transfers from VIF and required capital to free surplus               | 246                         | (20)             | 226                | (226)             | -            | 274                         | (30)             | 244                | (244)             | -     |        |
| Experience variances  | (62)                        | 20               | (42)               | 33                | (9)          | (10)                        | 7                | (3)                | (35)              | (38)  |        |
| Assumption changes  | 4                           | 2                | 6                  | 1                 | 7            | (10)                        | 7                | (3)                | (96)              | (99)  |        |
| Other operating variance  | (34)                        | 35               | 1                  | -                 | 1            | 90                          | 2                | 92                 | (81)              | 11    |        |
| Operating MCEV earnings   | 20                          | 59               | 79                 | 33                | 112          | 179                         | 5                | 184                | (188)             | (4)   |        |
| Economic variances  | 46                          | 6                | 52                 | 153               | 205          | 2                           | 12               | 14                 | 38                | 52    |        |
| Other non-operating variance  | (2)                         | -                | (2)                | 4                 | 2            | 1                           | -                | 1                  | 164               | 165   |        |
| <b>Total MCEV earnings</b>  | <b>64</b>                   | <b>65</b>        | <b>129</b>         | <b>190</b>        | <b>319</b>   | 182                         | 17               | 199                | 14                | 213   |        |
| Closing adjustments   | (184)                       | -                | (184)              | (2)               | (186)        | (139)                       | (1)              | (140)              | (7)               | (147) |        |
| Capital and dividend flows  | (184)                       | -                | (184)              | -                 | (184)        | (142)                       | 5                | (137)              | -                 | (137) |        |
| Foreign exchange variance   | -                           | -                | -                  | (2)               | (2)          | 3                           | (6)              | (3)                | (7)               | (10)  |        |
| <b>Closing MCEV</b>   | <b>43</b>                   | <b>278</b>       | <b>321</b>         | <b>1,656</b>      | <b>1,977</b> | 163                         | 213              | 376                | 1,468             | 1,844 |        |
| <b>Return on MCEV (RoEV)% per annum</b>                               |                             |                  |                    |                   |              | 6.1%                        |                  |                    |                   |       | (0.3)% |

£m

|                             | Year ended 31 December 2010 |                   |            | Year ended 31 December 2009 |                   |      |
|-----------------------------|-----------------------------|-------------------|------------|-----------------------------|-------------------|------|
|                             | Adjusted net worth          | Value of in-force | MCEV       | Adjusted net worth          | Value of in-force | MCEV |
| <b>Experience variances</b> | <b>(42)</b>                 | <b>33</b>         | <b>(9)</b> | (3)                         | (35)              | (38) |
| Persistency                 | (7)                         | 18                | 11         | (6)                         | (39)              | (45) |
| Risk                        | 3                           | 1                 | 4          | 6                           | -                 | 6    |
| Expenses                    | (38)                        | 1                 | (37)       | (24)                        | 2                 | (22) |
| Other                       | -                           | 13                | 13         | 21                          | 2                 | 23   |
| <b>Assumption changes</b>   | <b>6</b>                    | <b>1</b>          | <b>7</b>   | (3)                         | (96)              | (99) |
| Persistency                 | -                           | (8)               | (8)        | -                           | (81)              | (81) |
| Risk                        | -                           | 15                | 15         | -                           | 12                | 12   |
| Expenses                    | (4)                         | (13)              | (17)       | -                           | (66)              | (66) |
| Other                       | 10                          | 7                 | 17         | (3)                         | 39                | 36   |

£m

| Wealth Management   | Year ended 31 December 2011 |                  |                    |                   |      |
|---|-----------------------------|------------------|--------------------|-------------------|------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV |
| Expected existing business contribution (reference rate)              | 1                           | 2                | 3                  | 24                | 27   |
| Expected existing business contribution (in excess of reference rate) | 6                           | -                | 6                  | 17                | 23   |

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

### B4: Analysis of covered business MCEV earnings (after tax) continued

The 'expected existing business contribution (in excess of reference rate)' is not significant on the required capital portion of the business. This is because shareholder assets backing capital requirements are typically invested in highly secure government paper and other short-term instruments.

Adverse expense variances were predominately one-off variances of £(38) million relating to software development and restructuring costs. The 'other' variances are predominantly fee income being higher than expected. Positive persistency variance is driven by positive experience in International and Continental Europe business.

Positive operating assumption changes were made to 'other' and risk assumptions. The 'other' assumption change relates to fee income, consistent with positive experience in 2010. The risk assumption change relates to positive experience in Skandia UK.

Expense and persistency assumptions were strengthened. The expense assumption change is largely due to changes to reflect the new expense allocation review in UK and International, and a new provision to streamline existing expense provisions relating to development projects. The persistency assumption change is driven by a reduction in persistency to allow for the potential impact of the Retail Distribution Review (RDR) in the UK offset by increasing persistency assumptions due to positive experience in International.

Economic variances are due to positive market movements, exchange rate movements and tax deductions on income and gains as a result of the current tax position of the UK tax group.

The other non-operating variance is driven by the effect from changes in the United Kingdom corporation tax rate from 28% to 27%.

The capital and dividend flows mainly represent dividends, repayments of loans and capital injections.

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

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

£m

## US Life

|   | Year ended 31 December 2010 |                  |                    |                   |       | Year ended 31 December 2009 |                  |                    |                   |         |       |
|---|-----------------------------|------------------|--------------------|-------------------|-------|-----------------------------|------------------|--------------------|-------------------|---------|-------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV  | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV    |       |
| <b>Opening MCEV</b>   | 36                          | 462              | 498                | (816)             | (318) | (85)                        | 550              | 465                | (1,725)           | (1,260) |       |
| New business value  | (66)                        | 66               | -                  | (28)              | (28)  | (35)                        | 41               | 6                  | 8                 | 14      |       |
| Expected existing business contribution (reference rate)              | 1                           | 9                | 10                 | 15                | 25    | (3)                         | 21               | 18                 | (45)              | (27)    |       |
| Expected existing business contribution (in excess of reference rate) | -                           | -                | -                  | 80                | 80    | -                           | 1                | 1                  | 257               | 258     |       |
| Transfers from VIF and required capital to free surplus               | 81                          | (47)             | 34                 | (34)              | -     | 52                          | (54)             | (2)                | 2                 | -       |       |
| Experience variances  | 33                          | (23)             | 10                 | 30                | 40    | 137                         | (103)            | 34                 | (35)              | (1)     |       |
| Assumption changes  | (6)                         | -                | (6)                | (57)              | (63)  | -                           | -                | -                  | 30                | 30      |       |
| Other operating variance  | -                           | -                | -                  | (7)               | (7)   | -                           | -                | -                  | (8)               | (8)     |       |
| <b>Operating MCEV earnings</b>  | 43                          | 5                | 48                 | (1)               | 47    | 151                         | (94)             | 57                 | 209               | 266     |       |
| Economic variances  | 71                          | (18)             | 53                 | 127               | 180   | (181)                       | 59               | (122)              | 556               | 434     |       |
| Other non-operating variance  | -                           | -                | -                  | -                 | -     | -                           | -                | -                  | -                 | -       |       |
| <b>Total MCEV earnings</b>  | 114                         | (13)             | 101                | 126               | 227   | (30)                        | (35)             | (65)               | 765               | 700     |       |
| Closing adjustments   | (84)                        | 19               | (65)               | (33)              | (98)  | 151                         | (53)             | 98                 | 144               | 242     |       |
| Capital and dividend flows  | (85)                        | -                | (85)               | -                 | (85)  | 146                         | -                | 146                | -                 | 146     |       |
| Foreign exchange variance   | 1                           | 19               | 20                 | (33)              | (13)  | 5                           | (53)             | (48)               | 144               | 96      |       |
| <b>Closing MCEV</b>   | 66                          | 468              | 534                | (723)             | (189) | 36                          | 462              | 498                | (816)             | (318)   |       |
| <b>Return on MCEV (RoEV)% per annum</b>                               |                             |                  |                    |                   |       | 14.1%                       |                  |                    |                   |         | 22.7% |

£m

|                             | Year ended 31 December 2010 |                   |      | Year ended 31 December 2009 |                   |      |
|-----------------------------|-----------------------------|-------------------|------|-----------------------------|-------------------|------|
|                             | Adjusted net worth          | Value of in-force | MCEV | Adjusted net worth          | Value of in-force | MCEV |
| <b>Experience variances</b> | 10                          | 30                | 40   | 34                          | (35)              | (1)  |
| Persistence                 | 4                           | 38                | 42   | (17)                        | 20                | 3    |
| Risk                        | -                           | (10)              | (10) | -                           | 17                | 17   |
| Expenses                    | 25                          | -                 | 25   | 17                          | -                 | 17   |
| Other                       | (19)                        | 2                 | (17) | 34                          | (72)              | (38) |
| <b>Assumption changes</b>   | (6)                         | (57)              | (63) | -                           | 30                | 30   |
| Persistence                 | (6)                         | (58)              | (64) | -                           | 18                | 18   |
| Risk                        | -                           | (1)               | (1)  | -                           | 12                | 12   |
| Expenses                    | -                           | 2                 | 2    | -                           | -                 | -    |
| Other                       | -                           | -                 | -    | -                           | -                 | -    |

£m

## US Life

|   | Year ended 31 December 2011 |                  |                    |                   |      |
|---|-----------------------------|------------------|--------------------|-------------------|------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV |
| Expected existing business contribution (reference rate)              | 1                           | 6                | 7                  | 18                | 25   |
| Expected existing business contribution (in excess of reference rate) | -                           | -                | -                  | 62                | 62   |

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

### B4: Analysis of covered business MCEV earnings (after tax) continued

The results for US Life include allowance for Old Mutual Reassurance (Ireland) Limited (OMRe), which provides reinsurance to the United States Life Companies.

The 'expected existing business contribution (in excess of reference rate)' is calculated using the corporate bond spread that is expected to be earned over and above the adjusted risk free reference rate (inclusive of the liquidity premium adjustment).

The main reason for the significantly negative VNB result is due to very low swap yields compressing potential earnings on spread-based annuity business, resulting in significant future losses anticipated on an MCEV basis.

The experience variances were largely caused by positive persistency experience due to higher surrenders of Fixed Indexed Annuity contracts, which make future losses on an MCEV basis. Expense variances benefited from tight cost controls in this business. There were no material experience variance items that were one-off in nature.

Operating assumption changes include the increasing of premium persistency assumptions on certain unprofitable Universal Life and Term Assurance products.

The other operating variance was mainly due to modelling changes and error corrections.

The economic variances were mainly due to gains in the underlying investment portfolio and lower swap yields, partially offset by a reduction in the assumed liquidity premium from 100bps to 75bps.

The capital and dividend flows include the payment of dividends to Old Mutual plc.

Return on MCEV was calculated as the operating MCEV earnings after tax divided by the absolute value of the opening MCEV in US dollars.

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

| Bermuda   | Year ended 31 December 2010 |                  |                    |                   |             | Year ended 31 December 2009 |                  |                    |                   |                |
|---|-----------------------------|------------------|--------------------|-------------------|-------------|-----------------------------|------------------|--------------------|-------------------|----------------|
|   | Free surplus                | Required Capital | Adjusted net worth | Value of in-force | MCEV        | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV           |
| <b>Opening MCEV</b>   | -                           | 363              | 363                | (165)             | 198         | 342                         | 34               | 376                | (425)             | (49)           |
| New business value  | -                           | -                | -                  | -                 | -           | -                           | -                | -                  | -                 | -              |
| Expected existing business contribution (reference rate)              | -                           | 3                | 3                  | 9                 | 12          | 5                           | 1                | 6                  | (4)               | 2              |
| Expected existing business contribution (in excess of reference rate) | -                           | 30               | 30                 | 35                | 65          | 33                          | -                | 33                 | 39                | 72             |
| Transfers from VIF and required capital to free surplus               | 16                          | (45)             | (29)               | 29                | -           | (5)                         | (4)              | (9)                | 9                 | -              |
| Experience variances  | (18)                        | 1                | (17)               | (2)               | (19)        | (72)                        | -                | (72)               | (21)              | (93)           |
| Assumption changes  | (19)                        | -                | (19)               | (16)              | (35)        | (36)                        | -                | (36)               | (46)              | (82)           |
| Other operating variance  | (32)                        | 37               | 5                  | (52)              | (47)        | (345)                       | 345              | -                  | 82                | 82             |
| <b>Operating MCEV earnings</b>  | <b>(53)</b>                 | <b>26</b>        | <b>(27)</b>        | <b>3</b>          | <b>(24)</b> | <b>(420)</b>                | <b>342</b>       | <b>(78)</b>        | <b>59</b>         | <b>(19)</b>    |
| Economic variances  | 53                          | -                | 53                 | 52                | 105         | 102                         | -                | 102                | 167               | 269            |
| Other non-operating variance  | -                           | -                | -                  | -                 | -           | -                           | -                | -                  | -                 | -              |
| <b>Total MCEV earnings</b>  | <b>-</b>                    | <b>26</b>        | <b>26</b>          | <b>55</b>         | <b>81</b>   | <b>(318)</b>                | <b>342</b>       | <b>24</b>          | <b>226</b>        | <b>250</b>     |
| Closing adjustments   | -                           | 14               | 14                 | (6)               | 8           | (24)                        | (13)             | (37)               | 34                | (3)            |
| Capital and dividend flows  | -                           | -                | -                  | -                 | -           | -                           | -                | -                  | -                 | -              |
| Foreign exchange variance   | -                           | 14               | 14                 | (6)               | 8           | (24)                        | (13)             | (37)               | 34                | (3)            |
| <b>Closing MCEV</b>   | <b>-</b>                    | <b>403</b>       | <b>403</b>         | <b>(116)</b>      | <b>287</b>  | <b>-</b>                    | <b>363</b>       | <b>363</b>         | <b>(165)</b>      | <b>198</b>     |
| <b>Return on MCEV (RoEV)% per annum</b>                               |                             |                  |                    |                   |             |                             |                  |                    |                   | <b>(11.4)%</b> |
|   |                             |                  |                    |                   |             |                             |                  |                    |                   | <b>(41.0)%</b> |

| Bermuda                     | Year ended 31 December 2010 |                   |             | Year ended 31 December 2009 |                   |             |
|-----------------------------|-----------------------------|-------------------|-------------|-----------------------------|-------------------|-------------|
|                             | Adjusted net worth          | Value of in-force | MCEV        | Adjusted net worth          | Value of in-force | MCEV        |
| <b>Experience variances</b> | <b>(17)</b>                 | <b>(2)</b>        | <b>(19)</b> | <b>(72)</b>                 | <b>(21)</b>       | <b>(93)</b> |
| Persistency                 | (15)                        | (1)               | (16)        | (52)                        | (13)              | (65)        |
| Risk                        | -                           | -                 | -           | -                           | -                 | -           |
| Expenses                    | (8)                         | -                 | (8)         | (10)                        | 1                 | (9)         |
| Other                       | 6                           | (1)               | 5           | (10)                        | (9)               | (19)        |
| <b>Assumption changes</b>   | <b>(19)</b>                 | <b>(16)</b>       | <b>(35)</b> | <b>(36)</b>                 | <b>(46)</b>       | <b>(82)</b> |
| Persistency                 | (16)                        | 9                 | (7)         | -                           | (65)              | (65)        |
| Risk                        | 2                           | (1)               | 1           | -                           | -                 | -           |
| Expenses                    | -                           | (26)              | (26)        | -                           | (29)              | (29)        |
| Other                       | (5)                         | 2                 | (3)         | (36)                        | 48                | 12          |

| Bermuda   | Year ended 31 December 2011 |                  |                    |                   |      |
|---|-----------------------------|------------------|--------------------|-------------------|------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV |
| Expected existing business contribution (reference rate)              | -                           | 2                | 2                  | 6                 | 8    |
| Expected existing business contribution (in excess of reference rate) | -                           | 24               | 24                 | 16                | 40   |

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

### B4: Analysis of covered business MCEV earnings (after tax) continued

The 'expected existing business contribution (in excess of reference rate)' is calculated using the corporate bond spread that is expected to be earned over and above the adjusted risk free reference rate (inclusive of the liquidity premium adjustment), while the adjusted net worth component includes interest received from Old Mutual plc.

The experience variances include adverse persistency experience on Variable Annuity contracts and expense losses as a result of higher than anticipated expenditure on projects £(4) million and an increased head-count. Other experience variances include a one-off tax variance of £5 million due to the release of a tax contingency reserve. There were no other material experience variance items that were one-off in nature.

Operating assumption changes include the strengthening of expense assumptions consistent with 2010 experience and refinements to surrender assumptions as a result of the most recent experience investigation.

The other operating variance was mainly due to modelling changes and error corrections.

Economic variances were driven by good equity market performance and gains on the corporate bond portfolio, partially offset by increased variable Annuity Guarantee costs due to declining interest rates.

Return on MCEV was calculated as the operating MCEV earnings after tax divided by the absolute value of the opening MCEV in US dollars.



## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

B4: Analysis of covered business MCEV earnings (after tax) continued

Total covered business includes the MCEV contribution from the US Life and Bermuda business segments.

| Total covered business  | Year ended 31 December 2010 |                  |                    |                   |              | Year ended 31 December 2009 |                  |                    |                   |       |
|---|-----------------------------|------------------|--------------------|-------------------|--------------|-----------------------------|------------------|--------------------|-------------------|-------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV         | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV  |
|   | <b>Opening MCEV</b>         | <b>416</b>       | <b>2,399</b>       | <b>2,815</b>      | <b>3,212</b> | <b>6,027</b>                | 358              | 2,025              | 2,383             | 1,800 |
| New business value  | (485)                       | 226              | (259)              | 431               | 172          | (473)                       | 170              | (303)              | 470               | 167   |
| Expected existing business contribution (reference rate)              | 9                           | 89               | 98                 | 192               | 290          | 7                           | 114              | 121                | 142               | 263   |
| Expected existing business contribution (in excess of reference rate) | 7                           | 27               | 34                 | 174               | 208          | 32                          | 6                | 38                 | 355               | 393   |
| Transfers from VIF and required capital to free surplus               | 899                         | (276)            | 623                | (623)             | -            | 813                         | (244)            | 569                | (569)             | -     |
| Experience variances  | (1)                         | 6                | 5                  | 71                | 76           | 54                          | (111)            | (57)               | (120)             | (177) |
| Assumption changes  | (2)                         | 2                | -                  | (98)              | (98)         | (3)                         | (22)             | (25)               | (258)             | (283) |
| Other operating variance  | (125)                       | 74               | (51)               | (7)               | (58)         | (191)                       | 301              | 110                | 19                | 129   |
| <b>Operating MCEV earnings</b>  | <b>302</b>                  | <b>148</b>       | <b>450</b>         | <b>140</b>        | <b>590</b>   | 239                         | 214              | 453                | 39                | 492   |
| Economic variances  | 224                         | 23               | 247                | 521               | 768          | (29)                        | 93               | 64                 | 940               | 1,004 |
| Other non-operating variance  | (7)                         | 25               | 18                 | -                 | 18           | 39                          | (20)             | 19                 | 168               | 187   |
| <b>Total MCEV earnings</b>  | <b>519</b>                  | <b>196</b>       | <b>715</b>         | <b>661</b>        | <b>1,376</b> | 249                         | 287              | 536                | 1,147             | 1,683 |
| Closing adjustments   | (428)                       | 249              | (179)              | 291               | 112          | (191)                       | 87               | (104)              | 265               | 161   |
| Capital and dividend flows  | (468)                       | -                | (468)              | -                 | (468)        | (189)                       | (1)              | (190)              | -                 | (190) |
| Foreign exchange variance   | 40                          | 249              | 289                | 291               | 580          | (15)                        | 85               | 70                 | 289               | 359   |
| MCEV of acquired/sold business  | -                           | -                | -                  | -                 | -            | 13                          | 3                | 16                 | (24)              | (8)   |
| <b>Closing MCEV</b>   | <b>507</b>                  | <b>2,844</b>     | <b>3,351</b>       | <b>4,164</b>      | <b>7,515</b> | 416                         | 2,399            | 2,815              | 3,212             | 6,027 |
| <b>Return on MCEV (RoEV)% per annum</b>                               |                             |                  |                    |                   | <b>9.8%</b>  |                             |                  |                    |                   | 11.8% |

| Total covered business    | Year ended 31 December 2010 |                   |             | Year ended 31 December 2009 |                   |       |
|---------------------------|-----------------------------|-------------------|-------------|-----------------------------|-------------------|-------|
|                           | Adjusted net worth          | Value of in-force | MCEV        | Adjusted net worth          | Value of in-force | MCEV  |
|                           | <b>Experience variances</b> | <b>5</b>          | <b>71</b>   | <b>76</b>                   | (57)              | (120) |
| Persistence               | 7                           | 57                | 64          | (87)                        | (72)              | (159) |
| Risk                      | 22                          | (2)               | 20          | 31                          | 17                | 48    |
| Expenses                  | (37)                        | 5                 | (32)        | (49)                        | 13                | (36)  |
| Other                     | 13                          | 11                | 24          | 48                          | (78)              | (30)  |
| <b>Assumption changes</b> | <b>-</b>                    | <b>(98)</b>       | <b>(98)</b> | (25)                        | (258)             | (283) |
| Persistence               | (22)                        | (53)              | (75)        | (29)                        | (210)             | (239) |
| Risk                      | 19                          | 12                | 31          | 30                          | 64                | 94    |
| Expenses                  | (2)                         | (44)              | (46)        | 10                          | (190)             | (180) |
| Other                     | 5                           | (13)              | (8)         | (36)                        | 78                | 42    |

| Total covered business  | Year ended 31 December 2011 |                  |                    |                   |      |
|---|-----------------------------|------------------|--------------------|-------------------|------|
|   | Free surplus                | Required capital | Adjusted net worth | Value of in-force | MCEV |
| Expected existing business contribution (reference rate)              | 17                          | 73               | 90                 | 197               | 287  |
| Expected existing business contribution (in excess of reference rate) | 6                           | 20               | 26                 | 145               | 171  |

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

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## C: Other key performance information

### C1: Value of new business (after tax)

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

|                                      | <b>£m</b>                                  |                                   |
|--------------------------------------|--|-----------------------------------|
|                                      | <b>Year ended<br/>31 December<br/>2010</b> | Year ended<br>31 December<br>2009 |
| <b>Annualised recurring premiums</b> |  |                                   |
| <b>Long Term Savings (LTS)</b>       | <b>698</b>                                 | 685                               |
| Emerging Markets                     | 325  | 249                               |
| Nordic                               | 144  | 183                               |
| Retail Europe                        | 63   | 62                                |
| Wealth Management                    | 166  | 191                               |
| US Life                              | 10   | 14                                |
| Bermuda                              | -  | -                                 |
|                                      | <b>708</b>                                 | 699                               |
| <b>Single premiums</b>               |  |                                   |
| <b>Long Term Savings (LTS)</b>       | <b>7,932</b>                               | 6,257                             |
| Emerging Markets                     | 1,611                                      | 1,437                             |
| Nordic                               | 573  | 527                               |
| Retail Europe                        | 63   | 53                                |
| Wealth Management                    | 5,685                                      | 4,240                             |
| US Life                              | 824  | 549                               |
| Bermuda                              | -  | 15                                |
|                                      | <b>8,756</b>                               | 6,821                             |
| <b>PVNBP</b>                         |  |                                   |
| <b>Long Term Savings (LTS)</b>       | <b>11,266</b>                              | 9,563                             |
| Emerging Markets                     | 3,269                                      | 2,834                             |
| Nordic                               | 1,104                                      | 1,150                             |
| Retail Europe                        | 513  | 537                               |
| Wealth Management                    | 6,380                                      | 5,042                             |
| US Life                              | 889  | 639                               |
| Bermuda                              | -  | 15                                |
|                                      | <b>12,155</b>                              | 10,217                            |
| <b>PVNBP capitalisation factors*</b> |  |                                   |
| <b>Long Term Savings (LTS)</b>       | <b>4.8</b>                                 | 4.8                               |
| Emerging Markets                     | 5.1  | 5.6                               |
| Nordic                               | 3.7  | 3.4                               |
| Retail Europe                        | 7.2  | 7.8                               |
| Wealth Management                    | 4.2  | 4.2                               |
| US Life                              | 6.6  | 6.6                               |
| Bermuda                              | n/a  | n/a                               |

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

| <b>APE</b>                     |              |              |
|--------------------------------|--------------|--------------|
| <b>Long Term Savings (LTS)</b> | <b>1,491</b> | <b>1,312</b> |
| Emerging Markets               | 487          | 393          |
| Nordic                         | 201          | 235          |
| Retail Europe                  | 69           | 67           |
| Wealth Management              | 734          | 617          |
| US Life                        | 92           | 68           |
| Bermuda                        | -            | 1            |
|                                | <b>1,583</b> | <b>1,381</b> |

| <b>VNB</b>                     |            |            |
|--------------------------------|------------|------------|
| <b>Long Term Savings (LTS)</b> | <b>200</b> | <b>153</b> |
| Emerging Markets               | 86         | 65         |
| Nordic                         | 41         | 44         |
| Retail Europe                  | 7          | (5)        |
| Wealth Management              | 66         | 49         |
| US Life*                       | (28)       | 14         |
| Bermuda                        | -          | -          |
|                                | <b>172</b> | <b>167</b> |

| <b>PVNB margin</b>             |             |             |
|--------------------------------|-------------|-------------|
| <b>Long Term Savings (LTS)</b> | <b>1.8%</b> | <b>1.6%</b> |
| Emerging Markets               | 2.6%        | 2.3%        |
| Nordic                         | 3.7%        | 3.8%        |
| Retail Europe                  | 1.4%        | (1.0)%      |
| Wealth Management              | 1.0%        | 1.0%        |
| US Life                        | (3.2)%      | 2.2%        |
| Bermuda                        | n/a         | n/a         |
|                                | <b>1.4%</b> | <b>1.6%</b> |

| <b>APE margin</b>              |            |            |
|--------------------------------|------------|------------|
| <b>Long Term Savings (LTS)</b> | <b>13%</b> | <b>12%</b> |
| Emerging Markets               | 18%        | 16%        |
| Nordic                         | 21%        | 19%        |
| Retail Europe                  | 11%        | (8)%       |
| Wealth Management              | 9%         | 8%         |
| US Life                        | (31)%      | 20%        |
| Bermuda                        | n/a        | n/a        |
|                                | <b>11%</b> | <b>12%</b> |

\* The US Life VNB is negative then calculated on an MCEV basis, due to the reliance on spread in the pricing basis, and the current low risk free swap curve.

The value of new individual unit trust linked retirement annuities and pension fund asset management business written by the Emerging Markets long-term business is excluded as the profits on this business arise in the asset management business. The value of new business also excludes premium increases arising from indexation arrangements in respect of existing business, as these are already included in the value of in-force business.

The value of new institutional investment platform pensions business written in Wealth Management is excluded as this is more appropriately classified as unit trust business.

|  | <b>£m</b>                                  |                                   |
|--|--|-----------------------------------|
|  | <b>Year ended<br/>31 December<br/>2010</b> | Year ended<br>31 December<br>2009 |
| <b>Gross premium excluded from value of new business</b> |  |                                   |
| Emerging Markets**                                       | <b>723</b>                                 | 1,658                             |
| Wealth Management  | <b>304</b>                                 | 153                               |

\*\* New business premiums not valued have reduced compared to 2009, mainly because single premium new business figures for 2009 include inflows relating to in-force business following OMSA's acquisition of Futuregrowth and Acis Life. The results for the year ended 31 December 2009 have also been restated to include Namibia's contribution to new business premiums not valued (£1,625 million excluding Namibia).

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

C2: Product analysis of new covered business premiums

|                            | Year ended<br>31 December 2010 |              | Year ended<br>31 December 2009 |        |
|----------------------------|--------------------------------|--------------|--------------------------------|--------|
|                            | Recurring                      | Single       | Recurring                      | Single |
| <b>Emerging Markets</b>    |                                |              |                                |        |
| <b>Total business</b>      | <b>325</b>                     | <b>1,611</b> | 249                            | 1,437  |
| <b>Individual business</b> | <b>284</b>                     | <b>889</b>   | 220                            | 716    |
| Savings                    | 69                             | 713          | 50                             | 539    |
| Protection                 | 70                             | -            | 56                             | 21     |
| Annuity                    | -                              | 176          | -                              | 155    |
| Mass foundation cluster*   | 145                            | -            | 114                            | 1      |
| <b>Group business</b>      | <b>41</b>                      | <b>722</b>   | 29                             | 721    |
| Savings                    | 20                             | 585          | 13                             | 564    |
| Protection                 | 21                             | 1            | 16                             | -      |
| Annuity                    | -                              | 136          | -                              | 157    |

\* Previously described as Retail Mass.

|                                | Year ended<br>31 December 2010 |        | Year ended<br>31 December 2009 |        |
|--------------------------------|--------------------------------|--------|--------------------------------|--------|
|                                | Recurring                      | Single | Recurring                      | Single |
| <b>Nordic</b>                  |                                |        |                                |        |
| Unit-linked and life assurance | 144                            | 573    | 183                            | 527    |

|                                | Year ended<br>31 December 2010 |        | Year ended<br>31 December 2009 |        |
|--------------------------------|--------------------------------|--------|--------------------------------|--------|
|                                | Recurring                      | Single | Recurring                      | Single |
| <b>Retail Europe</b>           |                                |        |                                |        |
| Unit-linked and life assurance | 63                             | 63     | 62                             | 53     |

|                                | Year ended<br>31 December 2010 |        | Year ended<br>31 December 2009 |        |
|--------------------------------|--------------------------------|--------|--------------------------------|--------|
|                                | Recurring                      | Single | Recurring                      | Single |
| <b>Wealth Management</b>       |                                |        |                                |        |
| Unit-linked and life assurance | 166                            | 5,685  | 191                            | 4,240  |

|                        | Year ended<br>31 December 2010 |            | Year ended<br>31 December 2009 |        |
|------------------------|--------------------------------|------------|--------------------------------|--------|
|                        | Recurring                      | Single     | Recurring                      | Single |
| <b>US Life</b>         |                                |            |                                |        |
| <b>Total business</b>  | <b>10</b>                      | <b>824</b> | 14                             | 549    |
| Fixed deferred annuity | -                              | 163        | -                              | 30     |
| Fixed indexed annuity  | -                              | 502        | -                              | 383    |
| Variable annuity       | -                              | -          | -                              | -      |
| Life                   | 10                             | 1          | 14                             | 13     |
| Immediate annuity      | -                              | 158        | -                              | 123    |

The table above does not include the contribution from the mutual fund business. This is detailed in the Business Review section.

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

C3: Adjustments applied in determining total Group MCEV earnings before tax

|  | Year ended 31 December 2010        |                           |                  | Year ended 31 December 2009 |                           |                  |
|--|------------------------------------|---------------------------|------------------|-----------------------------|---------------------------|------------------|
|  | Covered business MCEV              | Non-covered business IFRS | Total Group MCEV | Covered business MCEV       | Non-covered business IFRS | Total Group MCEV |
|  | <b>Analysis of adjusting items</b> |                           |                  |                             |                           |                  |
| <b>Income/(expense)</b>  |                                    |                           |                  |                             |                           |                  |
| Goodwill impairment and amortisation of non-covered business acquired intangible assets and impact of acquisition accounting | -                                  | (20)                      | (20)             | -                           | 65                        | 65               |
| Economic variances   | 864                                | (7)                       | 857              | 1,108                       | (10)                      | 1,098            |
| Other non-operating variances  | 17                                 | -                         | 17               | 18                          | -                         | 18               |
| Acquired/divested business   | -                                  | (22)                      | (22)             | -                           | (48)                      | (48)             |
| Closure of unclaimed share trust   | -                                  | -                         | -                | -                           | -                         | -                |
| Dividends declared to holders of perpetual preferred callable securities   | -                                  | 44                        | 44               | -                           | 45                        | 45               |
| Adjusting items relating to US Asset Management equity plans and non-controlling interests                                   | -                                  | 6                         | 6                | -                           | (1)                       | (1)              |
| Fair value gains on Group debt instruments   | -                                  | (203)                     | (203)            | -                           | (264)                     | (264)            |
| <b>Adjusting items</b>   | <b>881</b>                         | <b>(202)</b>              | <b>679</b>       | <b>1,126</b>                | <b>(213)</b>              | <b>913</b>       |
| Adjusting items from continuing operations   | 701                                | (202)                     | 499              | 691                         | (213)                     | 478              |
| Adjusting items from discontinued operations   | 180                                | -                         | 180              | 435                         | -                         | 435              |
| <b>Total MCEV adjusting items</b>  | <b>881</b>                         | <b>(202)</b>              | <b>679</b>       | <b>1,126</b>                | <b>(213)</b>              | <b>913</b>       |

C4: Other movements in IFRS net equity impacting Group MCEV

|   | Year ended 31 December 2010        |                           |                  | Year ended 31 December 2009 |                           |                  |
|---|------------------------------------|---------------------------|------------------|-----------------------------|---------------------------|------------------|
|   | Covered business MCEV              | Non-covered business IFRS | Total Group MCEV | Covered business MCEV       | Non-covered business IFRS | Total Group MCEV |
|   | <b>Analysis of adjusting items</b> |                           |                  |                             |                           |                  |
| Fair value gains/(losses)   | -                                  | 8                         | 8                | -                           | 2                         | 2                |
| Net investment hedge  | -                                  | (86)                      | (86)             | -                           | (41)                      | (41)             |
| Currency translation differences/exchange differences on translating foreign operations | 580                                | 448                       | 1,028            | 359                         | 197                       | 556              |
| Aggregate tax effects of items taken directly to or transferred from equity             | -                                  | 14                        | 14               | -                           | 13                        | 13               |
| Correction to transfers*  | -                                  | -                         | -                | -                           | 316                       | 316              |
| Other movements   | -                                  | (24)                      | (24)             | (8)                         | (7)                       | (15)             |
| <b>Net income recognised directly into equity</b>                                       | <b>580</b>                         | <b>360</b>                | <b>940</b>       | <b>351</b>                  | <b>480</b>                | <b>831</b>       |
| Capital and dividend flows for the year   | (468)                              | 322                       | (146)            | (190)                       | 145                       | (45)             |
| Net sale of treasury shares   | -                                  | (28)                      | (28)             | -                           | -                         | -                |
| Share buy back  | -                                  | -                         | -                | -                           | -                         | -                |
| Net issues of ordinary share capital by the Company                                     | -                                  | 162                       | 162              | -                           | 2                         | 2                |
| Acquisition of non-controlling interest in Mutual & Federal                             | -                                  | (93)                      | (93)             | -                           | -                         | -                |
| Exercise of share options   | -                                  | 4                         | 4                | -                           | 3                         | 3                |
| Change in share based payment reserve   | -                                  | 4                         | 4                | -                           | 14                        | 14               |
| <b>Other movements in net equity</b>  | <b>112</b>                         | <b>731</b>                | <b>843</b>       | <b>161</b>                  | <b>644</b>                | <b>805</b>       |

\* Refinement arising from the allocation of assets between covered and non-covered business at 31 December 2008

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

### C5: Reconciliation of MCEV adjusted net worth to IFRS net asset value for the covered business

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

|   | £m           |                   |                  |            |               |                   |            |            |
|---|--------------|-------------------|------------------|------------|---------------|-------------------|------------|------------|
| <b>At 31 December 2010</b>  | Total        | Long Term Savings | Emerging Markets | Nordic     | Retail Europe | Wealth Management | US Life    | Bermuda    |
| IFRS net asset value*   | 5,794        | 5,088             | 1,216            | 1,243      | 632           | 1,997             | 274        | 432        |
| Adjustment to include long-term business on a statutory solvency basis          | (1,822)      | (2,053)           | 207              | (851)      | (331)         | (1,078)           | 260        | (29)       |
| Inclusion of Group equity and debt instruments held in life funds               | 389          | 389               | 389              | -          | -             | -                 | -          | -          |
| Goodwill  | (1,010)      | (1,010)           | (8)              | (206)      | (198)         | (598)             | -          | -          |
| <b>Adjusted net worth attributable to ordinary equity holders of the parent</b> | <b>3,351</b> | <b>2,414</b>      | <b>1,804</b>     | <b>186</b> | <b>103</b>    | <b>321</b>        | <b>534</b> | <b>403</b> |

|   | £m           |                   |                  |            |               |                   |            |            |
|---|--------------|-------------------|------------------|------------|---------------|-------------------|------------|------------|
| <b>At 31 December 2009</b>  | Total        | Long Term Savings | Emerging Markets | Nordic     | Retail Europe | Wealth Management | US Life    | Bermuda    |
| IFRS net asset value*   | 6,103        | 4,848             | 821              | 1,222      | 664           | 2,141             | 886        | 369        |
| Adjustment to include long-term business on a statutory solvency basis          | (2,632)      | (2,238)           | 153              | (841)      | (382)         | (1,168)           | (388)      | (6)        |
| Inclusion of Group equity and debt instruments held in life funds               | 339          | 339               | 339              | -          | -             | -                 | -          | -          |
| Goodwill  | (995)        | (995)             | (8)              | (186)      | (204)         | (597)             | -          | -          |
| <b>Adjusted net worth attributable to ordinary equity holders of the parent</b> | <b>2,815</b> | <b>1,954</b>      | <b>1,305</b>     | <b>195</b> | <b>78</b>     | <b>376</b>        | <b>498</b> | <b>363</b> |

\* IFRS net asset value is after elimination of inter-company loans.

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

- The excess of the IFRS amount of the deferred acquisition cost (DAC) and value of business acquired (VOBA) assets over the statutory levels included in the VIF.
- When projecting future profits on a statutory basis, the VIF includes the shareholders' value of unrealised capital gains. To the extent that assets in IFRS are valued at market and the market value is higher than the statutory book value, these profits have already been taken into account in the IFRS equity.
- For the US Life business, the reversal of the IFRS impairment for discontinued operations which is included in the IFRS net asset value, as this is not recognised on a statutory solvency basis.

# Notes to the MCEV basis supplementary information

As at 31 December 2010 continued

## D: Other income statement notes

D1: Drivers of new business value for covered business

### PVNB Margin

|  | Year ended<br>31 December<br>2010 | Year ended<br>31 December<br>2009 | % |
|--|-----------------------------------|-----------------------------------|---|
| <b>Long Term Savings*</b>                      |                                   |                                   |   |
| <b>Margin at the end of comparative period</b> | <b>1.6</b>                        | <b>1.5</b>                        |   |
| Change in volume                               | (0.1)                             | (0.1)                             |   |
| Change in product mix                          | 0.2                               | -                                 |   |
| Change in country mix                          | -                                 | -                                 |   |
| Change in operating assumptions                | 0.1                               | 0.1                               |   |
| Change in economic assumptions                 | (0.1)                             | -                                 |   |
| Change in tax/regulation                       | -                                 | 0.1                               |   |
| Exchange rate movements                        | 0.1                               | -                                 |   |
| <b>Margin at the end of the period</b>         | <b>1.8</b>                        | <b>1.6</b>                        |   |
| <b>Emerging Markets**</b>                      |                                   |                                   |   |
| <b>Margin at the end of comparative period</b> | <b>2.3</b>                        | <b>2.2</b>                        |   |
| Change in volume                               | 0.1                               | (0.1)                             |   |
| Change in product mix                          | 0.4                               | (0.2)                             |   |
| Change in country mix                          | -                                 | -                                 |   |
| Change in operating assumptions                | (0.1)                             | 0.4                               |   |
| Change in economic assumptions                 | (0.1)                             | -                                 |   |
| <b>Margin at the end of the period</b>         | <b>2.6</b>                        | <b>2.3</b>                        |   |
| <b>Nordic***</b>                               |                                   |                                   |   |
| <b>Margin at the end of comparative period</b> | <b>3.8</b>                        | <b>3.3</b>                        |   |
| Change in volume                               | (0.1)                             | (0.1)                             |   |
| Change in product mix                          | 0.6                               | -                                 |   |
| Change in country mix                          | -                                 | -                                 |   |
| Change in operating assumptions                | (0.4)                             | 0.4                               |   |
| Change in economic assumptions                 | (0.2)                             | 0.2                               |   |
| <b>Margin at the end of the period</b>         | <b>3.7</b>                        | <b>3.8</b>                        |   |
| <b>Retail Europe****</b>                       |                                   |                                   |   |
| <b>Margin at the end of comparative period</b> | <b>(1.0)</b>                      | <b>1.8</b>                        |   |
| Change in volume                               | 1.6                               | (2.1)                             |   |
| Change in product mix                          | (0.2)                             | (0.8)                             |   |
| Change in country mix                          | -                                 | (0.1)                             |   |
| Change in operating assumptions                | 0.9                               | 0.5                               |   |
| Change in economic assumptions                 | 0.1                               | (0.3)                             |   |
| <b>Margin at the end of the period</b>         | <b>1.4</b>                        | <b>(1.0)</b>                      |   |
| <b>Wealth Management*</b>                      |                                   |                                   |   |
| <b>Margin at the end of comparative period</b> | <b>1.0</b>                        | <b>1.2</b>                        |   |
| Change in volume                               | (0.1)                             | (0.2)                             |   |
| Change in product mix                          | (0.1)                             | -                                 |   |
| Change in country mix                          | -                                 | -                                 |   |
| Change in operating assumptions                | 0.2                               | (0.2)                             |   |
| Change in economic assumptions                 | -                                 | -                                 |   |
| Change in tax/regulation                       | -                                 | 0.2                               |   |
| <b>Margin at the end of the period</b>         | <b>1.0</b>                        | <b>1.0</b>                        |   |

**US Life\*\*\*\*\***

|  |              |              |
|--|--------------|--------------|
| <b>Margin at the end of comparative period</b> | <b>2.2</b>   | <b>(0.9)</b> |
| Change in volume                               | <b>(0.1)</b> | -            |
| Change in product mix                          | <b>(0.9)</b> | 1.5          |
| Change in country mix                          | -            | -            |
| Change in operating assumptions                | <b>(0.6)</b> | -            |
| Change in economic assumptions                 | <b>(3.8)</b> | 1.6          |
| <b>Margin at the end of the period</b>         | <b>(3.2)</b> | 2.2          |

**Total covered business\***

|  |              |            |
|--|--------------|------------|
| <b>Margin at the end of comparative period</b> | <b>1.6</b>   | <b>0.8</b> |
| Change in volume                               | <b>(0.1)</b> | 0.8        |
| Change in product mix                          | <b>0.1</b>   | -          |
| Change in country mix                          | -            | -          |
| Change in operating assumptions                | <b>0.1</b>   | 0.1        |
| Change in economic assumptions                 | <b>(0.4)</b> | -          |
| Change in tax/regulation                       | -            | 0.1        |
| Exchange rate movements                        | <b>0.1</b>   | (0.2)      |
| <b>Margin at the end of the period</b>         | <b>1.4</b>   | 1.6        |

\* The PVNBP margin changes are calculated in sterling.

\*\* The PVNBP margin changes are calculated in rand.

\*\*\* The PVNBP margin changes are calculated in krona.

\*\*\*\* The PVNBP margin changes are calculated in euro.

\*\*\*\*\*The PVNBP margin changes are calculated in dollars.



# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## E1: Sensitivity tests

The tables below show the sensitivity of the MCEV, value of in-force business at 31 December 2010 and the value of new business for the year ended 31 December 2010 to changes in key assumptions.

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

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

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

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

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

## Long term savings (LTS)

|   |              | £m                                |                              |
|---|--------------|-----------------------------------|------------------------------|
| <b>At 31 December 2010</b>  | <b>MCEV</b>  | <b>Value of in-force business</b> | <b>Value of new business</b> |
| <b>Central assumptions</b>  | <b>7,417</b> | 5,003                             | 200                          |
| Effect of:  |              |                                   |                              |
| Required capital equal to the minimum statutory requirement   | <b>7,474</b> | 5,060                             | 204                          |
| Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | <b>7,289</b> | 4,887                             | 185                          |
| Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | <b>7,553</b> | 5,125                             | 216                          |
| Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately | <b>7,425</b> | 5,011                             | 202                          |
| Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged  | <b>7,736</b> | 5,274                             | 208                          |
| Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged  | <b>7,107</b> | 4,741                             | 193                          |
| 50bps contraction on corporate bond spreads   | <b>7,437</b> | 5,003                             | 200                          |
| 25% multiplicative increase in equity and property implied volatilities   | <b>7,395</b> | 4,981                             | 200                          |
| 25% multiplicative increase in swaption implied volatilities  | <b>7,408</b> | 4,994                             | 200                          |
| Voluntary discontinuance rates decreasing by 10%  | <b>7,606</b> | 5,193                             | 238                          |
| Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges  | <b>7,653</b> | 5,239                             | 220                          |
| Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges   | <b>7,536</b> | 5,122                             | 212                          |
| Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges   | <b>7,392</b> | 4,979                             | 199                          |
| For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges                                 | <b>n/a</b>   | n/a                               | 185                          |
| Value of new business calculated on economic assumptions at the end of reporting period   | <b>n/a</b>   | n/a                               | 219                          |
| Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business  | <b>7,462</b> | 5,049                             | 203                          |
| Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model   | <b>7,365</b> | 4,952                             | 196                          |

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## Emerging Markets

|   |              | <b>£m</b>                         |
|---|--------------|-----------------------------------|
| <b>At 31 December 2010</b>  | <b>MCEV</b>  | <b>Value of in-force business</b> |
| <b>Central assumptions</b>  |              | <b>Value of new business</b>      |
| <b>Central assumptions</b>  | <b>3,313</b> | 1,509                             |
| Effect of:  |              |                                   |
| Required capital equal to the minimum statutory requirement   | <b>3,366</b> | 1,562                             |
| Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | <b>3,285</b> | 1,479                             |
| Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | <b>3,342</b> | 1,540                             |
| Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately | <b>3,321</b> | 1,517                             |
| Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged  | <b>3,446</b> | 1,594                             |
| Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged  | <b>3,180</b> | 1,422                             |
| 50bps contraction on corporate bond spreads   | <b>3,333</b> | 1,509                             |
| 25% multiplicative increase in equity and property implied volatilities   | <b>3,292</b> | 1,488                             |
| 25% multiplicative increase in swaption implied volatilities  | <b>3,306</b> | 1,502                             |
| Voluntary discontinuance rates decreasing by 10%  | <b>3,369</b> | 1,566                             |
| Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges  | <b>3,446</b> | 1,641                             |
| Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges   | <b>3,414</b> | 1,609                             |
| Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges*  | <b>3,290</b> | 1,487                             |
| For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges                                 | <b>n/a</b>   | n/a                               |
| Value of new business calculated on economic assumptions at the end of reporting period   | <b>n/a</b>   | n/a                               |
| Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business  | <b>3,330</b> | 1,526                             |
| Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model   | <b>3,290</b> | 1,486                             |

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

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## Nordic

|   |              | £m                         |                       |
|---|--------------|----------------------------|-----------------------|
| At 31 December 2010   | MCEV         | Value of in-force business | Value of new business |
| <b>Central assumptions</b>  | <b>1,504</b> | 1,318                      | 41                    |
| Effect of:  |              |                            |                       |
| Required capital equal to the minimum statutory requirement   | 1,504        | 1,318                      | 41                    |
| Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | 1,480        | 1,294                      | 41                    |
| Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | 1,532        | 1,346                      | 42                    |
| Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged  | 1,610        | 1,424                      | 45                    |
| Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged  | 1,398        | 1,213                      | 37                    |
| 50bps contraction on corporate bond spreads   | 1,504        | 1,318                      | 41                    |
| 25% multiplicative increase in equity and property implied volatilities   | 1,504        | 1,318                      | 41                    |
| 25% multiplicative increase in swaption implied volatilities  | 1,504        | 1,318                      | 41                    |
| Voluntary discontinuance rates decreasing by 10%  | 1,544        | 1,358                      | 49                    |
| Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges  | 1,545        | 1,360                      | 43                    |
| Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges   | 1,506        | 1,320                      | 41                    |
| Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges   | 1,502        | 1,316                      | 41                    |
| For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges | n/a          | n/a                        | 40                    |
| Value of new business calculated on economic assumptions at the end of reporting period   | n/a          | n/a                        | 41                    |
| Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business                        | 1,522        | 1,337                      | 43                    |
| Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model                   | 1,504        | 1,318                      | 41                    |

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## Retail Europe

|   | £m         |                            |                       |
|---|------------|----------------------------|-----------------------|
| At 31 December 2010   | MCEV       | Value of in-force business | Value of new business |
| <b>Central assumptions</b>  | <b>623</b> | 520                        | 7                     |
| Effect of:  |            |                            |                       |
| Required capital equal to the minimum statutory requirement   | <b>626</b> | 523                        | 7                     |
| Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | <b>606</b> | 505                        | 5                     |
| Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | <b>637</b> | 533                        | 10                    |
| Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged  | <b>636</b> | 533                        | 7                     |
| Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged  | <b>610</b> | 508                        | 7                     |
| 50bps contraction on corporate bond spreads   | <b>623</b> | 520                        | 7                     |
| 25% multiplicative increase in equity and property implied volatilities   | <b>623</b> | 520                        | 7                     |
| 25% multiplicative increase in swaption implied volatilities  | <b>621</b> | 518                        | 7                     |
| Voluntary discontinuance rates decreasing by 10%  | <b>638</b> | 535                        | 9                     |
| Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges  | <b>648</b> | 546                        | 9                     |
| Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges   | <b>627</b> | 525                        | 8                     |
| Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges   | <b>623</b> | 520                        | 7                     |
| For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges | <b>n/a</b> | n/a                        | 6                     |
| Value of new business calculated on economic assumptions at the end of reporting period   | <b>n/a</b> | n/a                        | 8                     |
| Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business                        | <b>624</b> | 521                        | 6                     |
| Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model                   | <b>615</b> | 513                        | 7                     |

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## Wealth management

|   |              | £m                         |                       |
|---|--------------|----------------------------|-----------------------|
| At 31 December 2010   | MCEV         | Value of in-force business | Value of new business |
| <b>Central assumptions</b>  | <b>1,977</b> | 1,656                      | 66                    |
| Effect of:  |              |                            |                       |
| Required capital equal to the minimum statutory requirement   | <b>1,978</b> | 1,657                      | 66                    |
| Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | <b>1,918</b> | 1,609                      | 59                    |
| Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | <b>2,042</b> | 1,706                      | 73                    |
| Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged  | <b>2,044</b> | 1,723                      | 70                    |
| Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged  | <b>1,919</b> | 1,598                      | 63                    |
| 50bps contraction on corporate bond spreads   | <b>1,977</b> | 1,656                      | 66                    |
| 25% multiplicative increase in equity and property implied volatilities   | <b>1,976</b> | 1,655                      | 66                    |
| 25% multiplicative increase in swaption implied volatilities  | <b>1,977</b> | 1,656                      | 66                    |
| Voluntary discontinuance rates decreasing by 10%  | <b>2,055</b> | 1,734                      | 75                    |
| Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges  | <b>2,014</b> | 1,692                      | 70                    |
| Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges   | <b>1,989</b> | 1,668                      | 66                    |
| Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges   | <b>1,977</b> | 1,656                      | 66                    |
| For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges | <b>n/a</b>   | n/a                        | 60                    |
| Value of new business calculated on economic assumptions at the end of reporting period   | <b>n/a</b>   | n/a                        | 70                    |
| Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business                        | <b>1,986</b> | 1,665                      | 67                    |
| Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model                   | <b>1,956</b> | 1,635                      | 63                    |

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

US Life

|   | £m           |                            |                       |
|---|--------------|----------------------------|-----------------------|
| At 31 December 2010   | MCEV         | Value of in-force business | Value of new business |
| <b>Central assumptions</b>  | <b>(189)</b> | (723)                      | (28)                  |
| Effect of:  |              |                            |                       |
| Required capital equal to the minimum statutory requirement   | (185)        | (719)                      | (28)                  |
| Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | (380)        | (914)                      | (5)                   |
| Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | (18)         | (552)                      | (60)                  |
| Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately | (145)        | (679)                      | (26)                  |
| Recognising the present value of an additional 50% of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately*  | (34)         | (568)                      | (18)                  |
| Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged  | (189)        | (723)                      | (28)                  |
| Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged  | (189)        | (723)                      | (28)                  |
| 50bps contraction on corporate bond spreads   | 80           | (454)                      | (28)                  |
| 25% multiplicative increase in swaption implied volatilities  | (270)        | (804)                      | (53)                  |
| Voluntary discontinuance rates decreasing by 10%  | (137)        | (671)                      | (27)                  |
| Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges  | (173)        | (707)                      | (28)                  |
| Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges   | (169)        | (703)                      | (27)                  |
| Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges   | (215)        | (749)                      | (28)                  |
| For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges                                 | n/a          | n/a                        | (31)                  |
| Value of new business calculated on economic assumptions at the end of reporting period   | n/a          | n/a                        | (30)                  |
| Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business  | (187)        | (721)                      | (28)                  |
| Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model   | (209)        | (743)                      | (30)                  |

\* At 31 December 2010 the size of the base liquidity premium adjustment for US Life business of 75bps is greater than the base liquidity premium adjustment for OMSA's Retail Affluent Immediate Annuity business of 45bps. Therefore in addition to the 10bps liquidity spread sensitivity that is also shown for Emerging Markets, a sensitivity was calculated to illustrate the impact of an additional 50% of liquidity spreads for US Life business.

## Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

### Bermuda

|   |            | £m                         |                       |
|---|------------|----------------------------|-----------------------|
| At 31 December 2010   | MCEV       | Value of in-force business | Value of new business |
| <b>Central assumptions</b>  | <b>287</b> | (116)                      | n/a                   |
| Effect of:  |            |                            |                       |
| Required capital equal to the minimum statutory requirement   | 289        | (114)                      | n/a                   |
| Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | 350        | (126)                      | n/a                   |
| Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | 226        | (105)                      | n/a                   |
| Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged  | 339        | (110)                      | n/a                   |
| Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged  | 229        | (123)                      | n/a                   |
| 50bps contraction on corporate bond spreads   | 298        | (105)                      | n/a                   |
| 25% multiplicative increase in equity and property implied volatilities   | 190        | (120)                      | n/a                   |
| 25% multiplicative increase in swaption implied volatilities  | 285        | (118)                      | n/a                   |
| Voluntary discontinuance rates decreasing by 10%  | 278        | (107)                      | n/a                   |
| Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges  | 297        | (106)                      | n/a                   |
| Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges   | 287        | (115)                      | n/a                   |
| Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges   | 287        | (116)                      | n/a                   |
| For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges | n/a        | n/a                        | n/a                   |
| Value of new business calculated on economic assumptions at the end of reporting period   | n/a        | n/a                        | n/a                   |
| Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business                        | 290        | (113)                      | n/a                   |
| Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model                   | 281        | (122)                      | n/a                   |

# Notes to the MCEV basis supplementary information

For the year ended 31 December 2010 continued

## Total covered business

Total covered business includes the MCEV contribution from the US Life and Bermuda business segments.

|   |              | £m                         |                       |
|---|--------------|----------------------------|-----------------------|
| At 31 December 2010   | MCEV         | Value of in-force business | Value of new business |
| <b>Central assumptions</b>  | <b>7,515</b> | <b>4,164</b>               | <b>172</b>            |
| Effect of:  |              |                            |                       |
| Required capital equal to the minimum statutory requirement   | 7,578        | 4,227                      | 176                   |
| Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | 7,259        | 3,847                      | 180                   |
| Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | 7,761        | 4,468                      | 156                   |
| Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately | 7,567        | 4,216                      | 176                   |
| Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged  | 7,886        | 4,441                      | 180                   |
| Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged  | 7,147        | 3,895                      | 165                   |
| 50bps contraction on corporate bond spreads   | 7,815        | 4,444                      | 172                   |
| 25% multiplicative increase in equity and property implied volatilities   | 7,396        | 4,138                      | 172                   |
| 25% multiplicative increase in swaption implied volatilities  | 7,423        | 4,072                      | 147                   |
| Voluntary discontinuance rates decreasing by 10%  | 7,747        | 4,415                      | 211                   |
| Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges  | 7,777        | 4,426                      | 192                   |
| Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges   | 7,654        | 4,304                      | 185                   |
| Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges   | 7,464        | 4,114                      | 171                   |
| For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges                                 | n/a          | n/a                        | 154                   |
| Value of new business calculated on economic assumptions at the end of reporting period   | n/a          | n/a                        | 189                   |
| Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business  | 7,565        | 4,215                      | 175                   |
| Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model   | 7,437        | 4,087                      | 166                   |



|   |       | <b>£m</b>                        |                             |
|---|-------|----------------------------------|-----------------------------|
| <b>At 31 December 2009</b>  | MCEV  | Value of<br>in-force<br>business | Value of<br>new<br>business |
| <b>Central assumptions</b>  | 6,027 | 3,212                            | 167                         |
| Effect of:  |       |                                  |                             |
| Required capital equal to the minimum statutory requirement   | 6,076 | 3,262                            | 172                         |
| Increasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | 5,746 | 2,865                            | 161                         |
| Decreasing all pre-tax investment and economic assumptions by 1%, with credited rates and discount rates changing commensurately  | 6,346 | 3,589                            | 167                         |
| Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately | 6,080 | 3,266                            | 169                         |
| Equity and property market value increasing by 10%, with all pre-tax investment and economic assumptions unchanged  | 6,401 | 3,447                            | 179                         |
| Equity and property market value decreasing by 10%, with all pre-tax investment and economic assumptions unchanged  | 5,671 | 2,996                            | 157                         |
| 50bps contraction on corporate bond spreads   | 6,360 | 3,530                            | 167                         |
| 25% multiplicative increase in equity and property implied volatilities   | 5,929 | 3,190                            | 167                         |
| 25% multiplicative increase in swaption implied volatilities  | 5,906 | 3,092                            | 161                         |
| Voluntary discontinuance rates decreasing by 10%  | 6,211 | 3,492                            | 209                         |
| Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges  | 6,269 | 3,454                            | 188                         |
| Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges   | 6,166 | 3,351                            | 185                         |
| Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges   | 5,989 | 3,175                            | 167                         |
| For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges                                 | n/a   | n/a                              | 150                         |
| Value of new business calculated on economic assumptions at the end of reporting period   | n/a   | n/a                              | 153                         |
| Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business  | 6,160 | 3,345                            | 173                         |
| Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model   | 5,932 | 3,118                            | 161                         |