

27 February 2008

Results for the year ended 31 December 2007

## Year of investment establishes strong platform for future growth

- **Net client cash flows (NCCF) of £23.4 billion, 9.9% of opening funds under management (FUM)**
- **FUM up 18% to £278.9 billion despite unsettled market conditions**
- **Life APE sales up 12% to £1,760 million (up 16% at constant exchange rates)**
- **Mutual fund sales of £8,268 million: strong US and ELAM growth offset by market declines in UK**
- **Value of new business up 5% to £266 million**
- **Profit before tax (IFRS) up 2% to £1,750 million**
- **Adjusted operating profit\* on an IFRS basis up 11% to £1,624 million (2006: £1,459 million)**
- **Adjusted operating earnings per share\*\* up 12% to 16.9p on an IFRS basis (31 December 2006: 15.1p)**
- **Adjusted Embedded Value per share 173.3p at 31 December 2007 (31 December 2006: 161.1p\*\*\*)**
- **Recommended final dividend up 10% to 4.55p (68.92 cents\*\*\*\*) per share, in line with underlying growth rates**

### **Jim Sutcliffe, Chief Executive, commented:**

"In 2007, in conditions which became very challenging during the second half of the year, we focused on building our capabilities across our international portfolio. I am delighted that during this period of investment we were able to produce strong earnings growth. Particularly pleasing was the continued delivery of excellent investment performance across the Group, which stimulated good growth in net client cash flows and funds under management which will stand us in good stead going forward.

Looking ahead, while currency movements and the continued turbulent state of global markets will have an impact on earnings, diversity in product mix and geography, coupled with our robust capital position and operating momentum in our businesses, give me confidence that we will deliver a resilient performance in 2008. "

# Old Mutual plc

## Results for the year ended 31 December 2007 continued

### Enquiries

#### Investor Relations

Aleida White	UK	+44 (0)20 7002 7287
Deward Serfontein	SA	+27 (0)21 509 8709

#### Media

James Crampton	UK	+44 (0)20 7002 7133
Nad Pillay	SA	+27 (0)21 504 8026

#### College Hill (UK)

Tony Friend	UK	+44 (0)20 7457 2020
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### Notes

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

- \* For long-term business and general insurance businesses, adjusted operating profit is based on a long-term investment return, includes investment returns on life funds' investments in Group equity and debt instruments, and is stated net of income tax attributable to policyholder returns. For the US Asset Management business it includes compensation costs in respect of certain long-term incentive schemes defined as minority interests in accordance with IFRS. For all businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, put revaluations related to long-term incentive schemes, the impact of closure of unclaimed shares trusts, profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments, dividends declared to holders of perpetual preferred callable securities, and fair value (profits)/losses on certain Group debt movements.
- \*\* Adjusted operating earnings per ordinary share is calculated on the same basis as adjusted operating profit. It is stated after tax attributable to adjusted operating profit and minority interests. It excludes income attributable to Black Economic Empowerment (BEE) trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and BEE trusts.
- \*\*\* The 2006 comparative has been restated from that previously published to reflect the value of own shares held by the Group's Employee Share Ownership Plans (ESOP)
- \*\*\*\* Indicative only, being the Rand equivalent of 4.55p converted at the exchange rate prevailing on 25 February 2008. The actual amount to be paid by way of final dividend to holders of shares on the South African branch register will be calculated by reference to the exchange rate prevailing at the close of business on 17 April 2008, as determined by the Company, and will be announced on 18 April 2008.

### Forward-looking statements

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.

## Old Mutual plc

### Results for the year ended 31 December 2007 continued

#### Notes to Editors:

A webcast of the presentation and Q&A will be broadcast live at 9.00 a.m. (UK time), 10.00 a.m. (Swedish time) and 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 toll-free numbers:

UK	0500 551 077
Sweden	0200 887 651
South Africa	0800 991 468
North America	+1 877 491 0064

Playback (available until midnight on 12 March 2008):

UK	0207 031 4064
UK toll-free	0800 358 1860
Sweden	+46 (0) 850 520 333
North America toll-free	+1 888 365 0240
North America	+1 954 334 0342

Access code: 785355

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

A Financial Disclosure Supplement relating to the Company's Preliminary results can be found on the website. This contains a summary of key financial data for 2007 and 2006.

An interview with Jim Sutcliffe, Chief Executive and Jonathan Nicholls, Group Finance Director, in video, audio and text is available on the Company's website, [www.oldmutual.com](http://www.oldmutual.com), and on [www.cantos.com](http://www.cantos.com).

Photographs of management are available at the Visual Media website [www.vismedia.co.uk](http://www.vismedia.co.uk)

## Chief Executive's Statement

As previously outlined, Old Mutual implemented a programme of investment throughout 2007 to develop the Group, address specific issue areas and place the business on a sound footing for future growth. An enormous amount has been achieved in building scale and market share, and great steps have been taken to remain at the forefront of innovation and be competitive within our markets.

Despite these investments, exchange rate headwinds and tough market conditions in the latter part of the year, our 2007 results reflect the renewed focus Group-wide on delivering outstanding investment performance for customers and returns for shareholders.

### Net client cash flows remain excellent

Strong net client cash flows, a key indicator of business performance and a measure being increasingly adopted as a reporting value throughout the industry, were a strong feature of each of our businesses in 2007, in particular of US asset management. While mutual fund sales were impacted in the second half by unfavourable market conditions, life sales overall were good.

### Steady growth in IFRS profit, RoE and FUM

Notwithstanding planned infrastructural investments, tight control on cost elements continued, leading to an increase in IFRS adjusted operating profit of 11%. Earnings per share grew by 12% and we produced a solid return on equity of 13.2%. The 2008 target of £300 billion in funds under management remains firmly on track with the Group increasing funds by 18% to £279 billion in 2007 despite the problems that beset the market towards the end of the year.

### Positive value creation through Skandia

Skandia, in all its geographies, has shown impressive growth and 2008 will mark the conclusion of the integration programme embarked on when Old Mutual acquired the company in 2006. The platform business in the UK continues to go from strength to strength continuing to attract assets through its well-established IFA network. Skandia Europe and Latin America (ELAM) is also benefiting from the portfolio approach introduced to share practices across like-regions, which has resulted in strong unit-linked sales. While the competitive environment in Sweden continues to hamper margins, we are extremely pleased to report a positive turnaround in sales growth in our Skandia Nordic region. Overall, we believe, with the synergy targets on track, that the value our Group is able to extract from Skandia has made this a very successful, value accretive investment.

### South African earnings move ahead strongly

Investment in the retail distribution system, the improvement in the retail offering as well as new marketing initiatives helped drive sales at Old Mutual South Africa (OMSA). With a strong stock market in the early part of the year IFRS adjusted operating profit grew by a healthy 23%. Corporate sales dropped slightly after some large single outflows relating to changing client investment mandates and some hesitancy over the introduction of the new boutique asset management model. The new structure is in place, but as we have said, will take time to bed down, and our focus is now on boosting investment performance to attract inflows.

2007 was a milestone year for Nedbank. Management successfully achieved the three-year recovery targets in the first half, and established a revitalised working environment through investment in people, culture and values. This has provided Nedbank with a competitive edge in the market and a solid foundation from which to sustain its business performance and its credit and expense management in expected tough trading conditions in the current year.

Mutual and Federal (M&F) suffered from a turn in the underwriting cycle and a reduction in investment income. Although M&F is a solid business, we have stated that it is not core to our asset gathering and management strategy in South Africa, and toward the end of 2007 we announced that the Group was in discussion with Royal Bafokeng Holdings to sell Old Mutual's 77% share in M&F. The discussions continue and we hope them to conclude them during the course of 2008.

# Chief Executive's Statement

## US continues to deliver solid results

Strong investment performance again delivered a powerful net client cash flow result, and asset management earnings grew strongly. Acadian led the way, but there were also strong performances from Barrow Hanley, Dwight, and Rogge, and performance fees were particularly good at Campbell. The life business had exceptionally strong Variable Annuity sales results in the second half from the Bermuda business and earnings were a pleasing increase on the underlying trend in the first half. No further adjustments were required for the immediate annuity portfolio. The US business was cash generative as planned.

## Asia Pacific sales continue to grow

Our Asia Pacific businesses continue to reflect the impressive growth of the region. Sales, the value of new business and the level of funds under management have grown strongly, and our increased focus on the region, including the recent establishment of a regional headquarters in Hong Kong, stands us in good stead for the medium term.

## Summary and outlook

In 2007, in conditions which became very challenging during the second half of the year, we focused on building our capabilities across our international portfolio. I am delighted that during this period of investment we were able to produce strong earnings growth. Particularly pleasing was the continued delivery of excellent investment performance across the Group, which stimulated good growth in net client cash flows and funds under management which will stand us in good stead going forward.

Looking ahead, while currency movements and the continued turbulent state of global markets will have an impact on earnings, diversity in product mix and geography, coupled with our robust capital position and operating momentum in our businesses, give me confidence that we will deliver a resilient performance in 2008.

**Jim Sutcliffe**

Chief Executive

27 February 2008

# Group Finance Director's Review

## GROUP RESULTS

Group Highlights (£m)	2007	2006	% Change
Adjusted operating profit (IFRS basis) (pre-tax)	<b>1,624</b>	1,459	11%
Profit before tax (IFRS)	<b>1,750</b>	1,714	2%
Adjusted operating earnings per share (IFRS basis)	<b>16.9p</b>	15.1p	12%
Basic earnings per share (IFRS basis)	<b>19.2p</b>	17.0p	13%
Adjusted operating profit (EEV basis) (pre-tax)	<b>1,532</b>	1,605	(5%)
Adjusted operating earnings per share (EEV basis)	<b>17.2p</b>	17.8p	(3%)
Basic earnings per ordinary share from continuing operations	<b>18.3p</b>	15.8p	16%
Basic earnings per ordinary share from discontinued operations <sup>1</sup>	<b>0.9p</b>	1.2p	(25%)
Adjusted Group embedded Value (£bn)	<b>9.4</b>	8.9	6%
Adjusted Group embedded Value per share	<b>173.3p</b>	161.1p <sup>2</sup>	8%
Value of new business	<b>266</b>	253 <sup>3</sup>	5%
PVNB	<b>13,878</b>	12,185 <sup>3,4</sup>	14%
Life assurance sales (APE)	<b>1,760</b>	1,576 <sup>3,4</sup>	12%
Unit trust / mutual funds sales	<b>8,268</b>	8,408 <sup>3</sup>	(2%)
Net Client Cash Flows (£bn)	<b>23.4</b>	22.3	5%
Funds under management (£bn)	<b>278.9</b>	237.1	18%
Return on equity (%) <sup>5</sup>	<b>13.2%</b>	12.0%	
Return on Embedded Value (%)	<b>13.2%</b>	13.8%	
Full dividend in respect of the financial year 2007	<b>6.85p</b>	6.25p	10%

### Net client cash flows delivered through sustained investment performance

During 2007, the Group's net client cash flows were a very healthy £23.4 billion representing 9.9% of opening funds under management with good contributions resulting from business unit investment performance. Our US asset management business delivered excellent net inflows of £17.6 billion, while the Skandia businesses achieved £5.3 billion of net inflows. For OMSA, net client cash flows remained a challenge.

### Solid sales

In Europe we continued to benefit from being the open architecture leader in the UK with strong life assurance sales, whilst growth continued in ELAM with excellent unit trust sales. In Nordic, investment in the sales channel led to a turnaround from the decline in APE sales experienced during the first half of the year. In the second half, sales in that region recovered resulting in a 3% year-on-year increase overall. In the US, APE sales were up by 47% in US Dollar terms, driven by exceptional growth in Bermuda. South African life sales were 7% higher in Rand terms although 5% lower in Sterling.

1 The results of the Group's South Africa general insurance business, Mutual & Federal, are shown as a discontinued operation in these financial statements. The Group is currently in discussions with the investment group, Royal Bafokeng Holdings (Proprietary) Limited ('RBH') which is expected to result in the sale to RBH of a controlling interest in Mutual & Federal.

2 The 2006 comparative has been restated from that previously published to reflect the value of own shares held in Employee Share Ownership Plans (ESOP)

3 2006 comparatives restated to include acquired Skandia businesses on a pro forma 12 month basis.

4 Restated due to change in the calculation of US Life APE calculation to align with the value of new business calculation

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

## Group Finance Director's Review

### Value of new business up 5%

The value of new business (VNB) grew to £266 million, driven by excellent sales in US Life and strong sales in the UK. The APE profit margin increased to 21% for the US Life business, compared with 18% in 2006. The UK APE margin of 10% was sustained during the period and it is expected that this business will meet its 11-12% target in 2008. In Nordic, the APE margin declined mainly due to increased costs from the new Liv-Link agreement, strengthened lapse assumption, lowered changes and a different business mix, whereas in ELAM we exceeded the margin target. In OMSA, the margin declined slightly from the 2006 result largely due to operating assumptions and the VNB decreased slightly in local currency terms.

### IFRS adjusted operating earnings per share 16.9p

In spite of the significant impact of Rand and US Dollar currency depreciation, and the full impact of additional shares issued in relation to the acquisition of Skandia, the Group produced a 12% increase over 2006 in its overall earnings per share.

Group Highlights (£m)	2007	2006	2006 restated at 2007 rates
Adjusted operating profit			
Africa	1,254	1,118	988
United States	260	264	244
Europe	268	239	239
Other	2	1	1
	<b>1,784</b>	1,622	1,472
Other Shareholders' Expenses	(41)	(33)	(33)
Finance Costs	(119)	(130)	(130)
Adjusted operating profit before tax & minority interests	<b>1,624</b>	1,459	1,309
Tax	(418)	(395)	(354)
Minority Interest	(292)	(274)	(247)
Adjusted operating profit after tax & minority interests	<b>914</b>	790	708
Adjusted operating EPS (pence)	<b>16.9</b>	15.1	13.1

Assuming constant exchange rates, 2006 adjusted operating EPS would have been 13.1p with the currency impact being 1.5p and the impact of the increase in issued shares being 0.5p. 2007 EPS increased on this basis by 29%.

### Adjusted Embedded Value per share 173.3p

The adjusted Group EV per share was 173.3p and Adjusted Group Embedded Value (EV) was £9.4 billion at 31 December 2007 (31 December 2006: £8.9 billion). This represents an increase from 161.1p (restated from 157.2p<sup>6</sup> as at 31 December 2006). The movement in EV per share has largely been driven by the net impact of profit flows particularly from non covered business, strong investment market movements and a slight impact of currency appreciation. The EEV per share is after dividend payments and has also been affected by a reduction in the share price of the listed subsidiaries. The share buy back programme to 31 December 2007 has increased the EV per share by 0.2p.

<sup>6</sup> Note that after allowing for the opening adjustment calculated now as part of the fair value balance sheet exercise and including the adjustment for the value of ESOP shares, the adjusted Group EV at 1 January 2007 is £8.8 billion and the EEV per share at 1 January 2007 is 159.9p

## Group Finance Director's Review

### Return on Equity continued to improve

Return on Equity for the Group improved to 13% from 12%, reflecting the improvement in the earnings run rate compared to 2006 particularly for OMSA, Nedbank, US asset management and UK. In addition, the long term investment return improved partially due to the strong investment performance of the shareholders equity in South Africa.

Group Highlights 2007 (£m)	Long- term business	Asset Management	Banking	General Insurance	Other
Adjusted operating profit (IFRS basis) (pre-tax)	771	288	636	89	(160)
Adjusted operating profit (EEV basis) (pre-tax)	758	288	636	89	(150)
Profit before tax (IFRS)	862	299	650	82	(103)
Value of new business	266	-	-	-	-
Life assurance sales (APE)	1,760	-	-	-	-
Unit trust / mutual funds sales	-	8,268	-	-	-
Net client cash flows (£bn)	4.4	19	-	-	-
Funds under management (£bn)	82.0	193.3	-	-	3.6

Group Highlights 2006 (£m)	Long- term business	Asset Management	Banking	General Insurance	Other
Adjusted operating profit (IFRS basis) (pre-tax)	759	236	545	82	(163)
Adjusted operating profit (EEV basis) (pre-tax)	981	236	545	82	(157)
Profit before tax (IFRS)	742	294	555	132	(9)
Value of new business	244	-	-	-	-
Life assurance sales (APE)	1,520	-	-	-	-
Unit trust / mutual funds sales	-	8,408	-	-	-
Net client cash flows (£bn)	5.3	17.0	-	-	-
Funds under management (£bn)	72.8	163.1	-	-	3.5

### Robust capital position

The Group's gearing level remains comfortably within our target range, with senior debt gearing at 31 December 2007 of 1.9% (5.9% at 31 December 2006) and total gearing, including hybrid capital, of 20.5% (21.4% at 31 December 2006).

In January 2007, the Group issued €750 million of Lower Tier 2 Preferred Callable Securities, the proceeds of which were used, in part, to finance the repayment of a €400 million senior Eurobond that matured in April 2007.

The Group has continued to develop its Economic Capital programme and a comfortable surplus exists within each of our South African, US and European regions, meaning that the Group is not reliant for its economic solvency on the need to transfer capital between geographies.

The Group is in compliance with the Financial Groups Directive capital requirements, which apply to all EU-based financial conglomerates. Our FGD surplus was £1.7 billion at 31 December 2007 and we seek to maintain a FGD surplus of around £750 million to £1 billion.

Capital requirements are set by the Board whilst recognising the need to maintain appropriate credit ratings and to meet regulatory requirements at both the Group and local business level.



## Group Finance Director's Review

### Other

Our £350 million share buyback programme was announced at the beginning of October 2007 and we have so far repurchased approximately 184 million shares through the London and Johannesburg markets at a total sterling equivalent cost of £282 million.

### Holding company cash generation

The table below shows the cash flows of the Old Mutual plc holding company and its satellite holding companies. We believe this provides a clear picture of the cash receipts and payments of the holding companies.

	2007		2006	
	£m		£m	
Total net debt at start of period	2,407		1,278	
<b>Operational flows</b>				
Operational receipts	868		535	
Operational expenses	(152)		(156)	
Other expenses	(71)	645	–	379
<b>Capital flows</b>				
Capital receipts	69		356	
Acquisitions	(66)		(1,287)	
Organic investment	(220)	(217)	(214)	(1,145)
<b>Debt and equity movements</b>				
Old Mutual plc dividend paid	(333)		(281)	
Share repurchase	(177)		–	
New equity issuance	12		14	
Other movements	57	(441)	(96)	(363)
<b>Total net debt at end of period</b>	<b>2,420</b>		<b>2,407</b>	

Total net debt within the holding company at the end of 2006 was £2,407 million. A total of £937 million of operational and capital receipts were received from business units during 2007.

£220 million was invested in the businesses and £333 million was used to pay the 2006 final and 2007 interim dividends. In 2007, £177 million was spent on repurchasing shares.

Total net debt at the end of the year was £2,420 million.

### Taxation

The Group's effective IFRS AOP tax rate has decreased to 26% from 27% in 2006. This reflects M&F paying a lower special dividend in 2007 and reductions in the tax rates in the UK and Germany, partially offset by a changed profit mix in South Africa.

## Group Finance Director's Review

### Dividend

The directors of Old Mutual plc are recommending a final dividend of 4.55p per share<sup>7</sup> for the year ended 31 December 2007, to be paid on 30 May 2008. Together with the interim dividend of 2.3p per share paid in November 2007, this makes a total of 6.85p per share for the year, which represents an increase of 10% over 2006. The indicative Rand equivalent of this final dividend<sup>8</sup> is 68.92c, making a total of 103.75c, an increase of 17%. The Board's policy on dividends is to seek to achieve steadily increasing returns to shareholders over time, reflecting the underlying rate of progress and cash flow requirements of Old Mutual's businesses.

**Jonathan Nicholls**  
Group Finance Director

27 February 2008

### COMPARATIVE INFORMATION

The reporting format for Old Mutual plc for the 2007 reporting period is as follows:

- All Group comparative reporting information on earnings include Skandia from the date of acquisition of 1 February 2006 (unless indicated otherwise).
- Within the financial statements the Europe division comparative information is from the date of acquisition of 1 February 2006.
- Where Europe information is shown within the business review, this has been adjusted on a pro forma basis to reflect ownership from 1 January 2006.

<sup>7</sup> The record date for this dividend payment is the close of business on Friday, 9 May 2008 for all the Exchanges where the Company's shares are listed. The last day to trade cum-dividend on the JSE and on the Namibian, Zimbabwe and Malawi Stock Exchanges will be Friday, 2 May 2008 and on the London Stock Exchange, Tuesday, 6 May 2008. The shares will trade ex-dividend from the opening of business on Monday, 5 May 2008 on the JSE and the Namibian, Zimbabwe and Malawi Stock Exchanges, and from the opening of business on Wednesday, 7 May 2008 on the London Stock Exchange. Shareholders on the South African, Zimbabwe and Malawi branch registers and the Namibian section of the principal register will be paid the local currency equivalents of the dividend under the dividend access trust arrangements established in each country. Shareholders who hold their shares through VPC AB, the Swedish nominee, will be paid the equivalent of the dividend in Swedish Kronor (SEK). Local currency equivalents of the dividend for all five territories will be determined by the Company using exchange rates prevailing at close of business on Thursday, 17 April 2008 and will be announced by the Company on Friday, 18 April 2008. Share certificates may not be dematerialised or rematerialised on the South African branch register between Monday, 5 May and Friday, 9 May 2008, both dates inclusive, and transfers between the registers may not take place during that period.

<sup>8</sup> Based on rates at 25 February 2008 (R15.1467 = £1)

## Business Review

### UNITED KINGDOM AND OFFSHORE

Highlights (£m)	2007	Pro forma* 2006	% Change
IFRS adjusted operating profit (pre-tax) **	<b>173</b>	134	29%
EV adjusted operating profit (covered business) (pre-tax)	<b>266</b>	226	18%
Life assurance sales (APE)	<b>740</b>	646	15%
UK life assurance sales (APE)	<b>468</b>	396	18%
Unit trust sales	<b>2,275</b>	3,227	(30%)
Value of new business (post-tax)	<b>77</b>	65	18%
New business margin (post-tax)	<b>10%</b>	10%	
PVNBP	<b>6,297</b>	5,350	18%
Net client cash flows (£bn)	<b>3.9</b>	4.9	(20%)
Funds under management (£bn)	<b>41.9</b>	36.0	16%

\* The 2006 numbers are stated on a pro forma basis assuming ownership for 12 months rather than 11 months and have been restated to include the results of Old Mutual International.

\*\* From 2007 the treatment of Selestia deferred fee income has been harmonised with Skandia MultiFUNDS reducing the 2007 result. The impact of policyholder tax has been smoothed from 2007.

#### Positive net client cash flows and strong growth in funds under management

Net client cash flows were £3.9 billion for the year, representing 11% of opening funds under management. Whilst net client cash flows are down on 2006, they remain strongly positive, with 2006 being inflated by the post "A-Day" effect and the exceptional institutional mutual fund business mentioned below. Good inflows, combined with favourable market movements during the first half of the year, have driven an increase in funds under management during 2007 as a whole. In the second half, growth was constrained by volatile markets which affected investment performance and investor sentiment. This was partially offset by continued positive net client cash flows.

#### Pension sales higher

The increase in life assurance sales APE for 2007 is largely driven by UK pensions. Single premiums were the key driver, with sales of both Selestia's *Collective Retirement Account* and Skandia's *Monocharge* pension up by over 25%.

International business increased in the year, benefiting from strong portfolio bond sales into the UK in the first half and single premium business in Latin America and the Far East. A tail-off in offshore institutional short-term business following a tax change in the UK Budget has been offset by higher regular premium business in the latter part of the year. Although this business has experienced increased competition we believe the offshore market has good potential for growth.

#### Unit trust performance impacted by revised business mix

Although the year started very positively, the latter part of 2007 reflected the influence of increased uncertainty and volatility in equity markets. Unit trust sales were 30% down on 2006. This is largely accounted for by the low margin institutional mutual fund business being significantly down in the year, with no recurrence of the exceptional business volumes experienced in the third quarter of 2006. The year concluded with our new Selestia Investment Solutions, our market-leading open architecture platform experiencing increasing volumes, providing a solid base for future growth.

## Business Review

### Strong growth in IFRS adjusted operating profit

IFRS AOP increased by 29% to £173 million for the year. The improvement has been driven by significantly higher level of funds under management throughout the year as a result of positive net client cash flows being sustained well into 2007 as well as improved rebate terms. The effect of both of these factors is a rise in asset-based fees. In addition, there has been a positive impact from the growth in investment income. Both revenue and cost benefits continue to be derived from increased scale and synergies.

### Higher EV adjusted operating profit (covered business)

EV adjusted operating profit before tax increased by 18% to £266 million. The value of new business improved 18% to £77 million. Expense synergies and improved mix across the business helped sustain the new business margin of 10%, with sales of single premium pensions being especially strong.

The EV adjusted operating profits include £43 million post tax of positive impact from operating assumption changes largely due to a reduction in corporation tax assumption from 30% to 28%. Operating experience for persistency and expenditure continued in line with expectations. Modest offsetting revisions were required with positive impacts arising from improvement in the allowance for fee income following continuous commercial negotiations and increasing purchasing power.

### Further innovative investment solutions

Skandia Investment Management Ltd's (SIML) unconstrained *Best Ideas* range was expanded with the launch of *UK Strategic Best Ideas* in September 2007. *UK Strategic Best Ideas* is the first multi-manager UK UCITS III fund to use long and short equity positions, and has gathered over £90 million in assets since its launch, despite the difficult market environment.

Skandia's risk-focussed multi-manager funds have delivered strong absolute returns, typically with volatility far lower than that of our peers and, consequently, the majority of these funds have delivered better risk-adjusted returns. During the recent volatile market conditions these funds have performed ahead of our peers, showing the benefits of their specific mandates.

### Continued progress with integration activity

Integration activities remain on target to deliver the committed savings as well as providing significant revenue potential. The Selestia Investment Solutions platform was launched in August 2007, the full benefits of which will flow through following migration of Skandia MultiFUNDS investors on to the new platform in the second half of 2008. We launched the Skandia Investment Group during the course of the year. This brings sharper focus and energy to investment product manufacturing and strengthens our multi-manager business in a rapidly growing industry. It also improves revenue for divisions and shareholders through broadened and strengthened investment products and greater leverage of buying power with fund groups.

### Changes in the UK Market

Skandia responded positively to the FSA's review of the retail distribution market, supporting the proposal that there should be two types of distribution: an "advice channel" and a "no advice channel". Skandia has also supported the concept of "customer agreed remuneration" and has suggested that individuals interfacing with consumers should have appropriate qualifications and be a member of appropriate professional bodies that require commitment to a code of ethics.

The pre-Budget report of October 2007 proposed a change in capital gains tax (CGT) to 18% for unit trust investments, without a similar change in CGT for insurance bonds. Investment bonds will continue to be tax advantageous for certain consumer segments and there will continue to be demand for such solutions. However, total bond demand is likely to soften and we have already seen a material reduction in bond sales since November 2007. It is likely that such demand will switch towards collective investments, outside of an insurance tax wrapper, where it should be noted that Skandia UK has a market leading position, albeit with lower margins than for investment bonds.

## Business Review

### NORDIC

Highlights (SEKm)	2007	Pro forma* 2006	% Change
IFRS adjusted operating profit (pre-tax)	<b>874</b>	1,075	(19%)
EV adjusted operating profit (covered business) (pre-tax)	<b>700</b>	1,589	(56%)
Life assurance sales (APE)	<b>1,992</b>	1,942	3%
Mutual funds sales	<b>3,474</b>	2,940	18%
Value of new business (post-tax)	<b>254</b>	529	(52%)
New business margin (post-tax)	<b>13%</b>	27%	
PVNBP	<b>8,700</b>	9,675	(10%)
Net client cash flows (SEK bn)	<b>2.7</b>	3.5	(23%)
Funds under management (SEK bn)	<b>116.7</b>	107.1	9%

\* The 2006 numbers are a pro forma result assuming ownership for 12 months rather than 11 months.

#### Strong market performance contributed to funds under management

Funds under management increased to SEK116.7 billion due to solid investment performance and continued positive net client cash flows. Volatile equity markets during the latter part of 2007 slowed asset growth, but closing funds under management were still up 9% over 2006.

#### Sales performance improving

Life sales on an APE basis exceeded the prior year by 3%. The negative sales trend experienced in the first half of 2007 was finally reversed in the third quarter and continued to improve significantly during the fourth quarter with the subsequent turnaround in market share. The unit-linked business in Denmark also contributed to this turnaround with a strong sales performance. The turnaround in Sweden was the result of broadening the product and fund ranges and a refocus of our sales initiatives through our tied sales force (up 47% comparing the fourth quarter of 2007 to the fourth quarter of 2006) and the broker channel (up 15% comparing the fourth quarter of 2007 to the fourth quarter of 2006). The tied sales force performance was driven by a greater focus on unit-linked products. From 1 February 2007 the tax advantages of the Swedish *Kapitalpension* product were removed following a change in regulations. This negatively impacted sales as *Kapitalpension* products accounted for 10% of sales in 2006.

#### Margins under pressure in the short term

Life new business margin was down from an exceptional 27% in 2006 to 13% in 2007. The decline can be attributed to a change in arrangements between Skandia AB and Skandia Liv (the Liv-Link agreement), the strengthened lapse assumptions, lowered charges (due to market competition), and a change in business mix in Sweden, particularly since *Kapitalpension* product tax advantages were removed.

In the medium term, the new business margin is expected to improve to reach high teens. This will be achieved through continued growth in sales leading to economies of scale, product development and the introduction of a new more cost-efficient IT platform and other expense led initiatives. During 2007, investment in IT commenced with the development of the new *Investment Portfolio* system which enables an enhanced product offering.

#### Underlying IFRS AOP profit solid

IFRS AOP decreased by 19% for the year primarily due to the introduction of the Liv-Link agreement, which deals with the administration and distribution costs associated with the jointly marketed products.

## Business Review

### EV adjusted operating profit impacted by market pressure

EV AOP is down 56% on 2006 mainly driven by a net negative effect from assumption changes and recalibration of risk margin of SEK735 million in 2007. There is strong price pressure in the Swedish market and in order to adapt to market conditions fees have been reduced for the “tick-the-box” collective agreements and the tendered corporate business during 2007. Persistency assumptions have also been strengthened which is offset by capitalisation of future waiver of premium business profits which was previously not valued. The drop in value of new business is another driver for the lower EV AOP in 2007 compared to 2006.

### Continued growth in banking business and increased focus

Both deposit and loan books at SkandiaBanken continued to increase in 2007. The growth in loans has slowed down, but the net interest margin was maintained at prior year levels, despite stiff competition. Lending increased to SEK52.7 billion, up 20% on 2006, mainly due to good growth in Norway in both mortgage lending and car financing. The number of customers increased 3% over 2006. SkandiaBanken's operating profit for 2007 was SEK191 million, 31% higher than 2006.

During 2007, SkandiaBanken started a major shift in strategic direction to a bank focused on a broader long-term savings and client offerings. In October we announced the sale of SkandiaBanken Bilfinans, the vehicle finance business, to DnB NOR. The total book profit expected to be realised is SEK1 billion. The Danish banking operations were also divested in the third quarter of 2007 to strengthen profitability and to bring focus to the remaining businesses.

### Putting the business on a sound footing for the future

The focus during the year has been on improving operational efficiency and aggressive marketing activities and these are continuing in 2008. The investment programme and restructuring activities within Nordic reduced IFRS adjusted operating profit for the year by SEK81 million, however, we have strengthened the savings offering during 2007 by widening the fund range in both Skandia AB and SkandiaBanken. The unit-linked products have been improved with several new product offerings during 2007 and further improvement is underway. One example of the latter is the new *Investment Portfolio* product launched during February 2008.

### Positive outlook

In future years, the Nordic savings market is likely to be affected by a number of legislative changes impacting tax neutrality between savings with and without insurance wrap, transfer rights, market competition and changes to collective pensions agreements. However, with a full range of product offerings – traditional life, unit-linked, banking, financial advisory, mutual funds and healthcare – Skandia Nordic is well positioned in a growing savings market.

The key focus going forward is building an offering which provides both end-customers and distributors with advisory tools and top quality advice, innovative products, top-quartile returns and the market's best client service. There are strong synergies in terms of scale, brand and cross-selling and administration. The second half of 2007 marked a watershed for Skandia Nordic, particularly in Sweden, with renewed optimism founded on a new CEO, sales increases, product launches and much improved relations with Skandia Liv, the media and customers.

# Business Review

## EUROPE AND LATIN AMERICA (ELAM)

Highlights (€m)	2007	Pro forma* 2006	% Change
IFRS adjusted operating profit (pre-tax)	43	42	2%
EV adjusted operating profit (covered business) (pre-tax)	48	121	(60%)
Life assurance sales (APE)	276	252	10%
Mutual fund sales	3,071	2,188	40%
Value of new business (post-tax)	54	52	4%
New business margin (post-tax)	20%	21%	
PVNB	2,139	2,062	4%
Net client cash flows (€bn)	1.8	1.7	6%
Funds under management (€bn)	13.0	10.8	20%

\* The 2006 numbers are restated on a pro forma basis assuming ownership for 12 months and excludes the Skandia Vida business sold in 2007, except EV AOP, which includes Vida

### Funds under management growing significantly

Net client cash flows during the year represented 17% of opening funds under management, or 23% of opening funds under management when adjusted for the planned divestiture from the Spanish institutional business reflecting the continued growth of the business. Market movements for ELAM were positive for the first six months of the year, but experienced a downturn in the second half of the year following market trends across the world, to end the year broadly flat. Despite the market volatility created by the sub-prime mortgage crisis and credit crunch, as well as the closure of the Spanish institutional asset management business (resulting in a €0.6 billion reduction in net client cash flows against 2006), funds under management increased 20% from the start of the year as a result of strong inflows.

### Continuing growth in life sales (APE)

2007 was generally a tougher year for sales than 2006 in the majority of the ELAM countries. In many of the markets, unit-linked sales slowed down, recording negative net cash flows, and the tax-driven incentives which positively impacted some of the markets in 2006 were not repeated in 2007. Life sales on an APE basis rose 10% over the prior year, with strong growth in regular premium sales in Central Europe, partially offset by lower single premium sales in Southern Europe. Overall, we are satisfied with the progress that the business made in the ELAM territories, with increased market share evident in the majority of instances.

### Mutual fund sales up strongly and margins improved

Mutual fund sales were up 40% over 2006 with strong contributions from our discretionary asset manager, Skandia Global Funds, and from Palladyne. Our Latin American pensions business performed well, supplemented by strong institutional inflows. Average margins on mutual fund business improved as funds placed in the low margin institutional asset management business in Spain have been replaced by funds in the higher margin discretionary asset management and long-term businesses. This led to a significantly improved adjusted operating result for the mutual fund portion of the business.

### Value of new business increasing with profit margins exceeding the target range at 20%

VNB for the year was up slightly against the prior year. The post-tax new business margin of 20% achieved for the year exceeded the medium-term target range of 16-18%. During 2007, we reduced our margin on key products to maintain our competitive position and we expect that pricing pressure will continue in the future.

## Business Review

### Continued strong underlying adjusted operating profit result

IFRS AOP was in line with the 2006 result, with 2007 results constrained by incurring costs of €7 million to realise synergies. Growth was driven by the larger in-force book of business and by healthy net client cash flows. As a consequence, fund-based fees are up on the prior year, while premium-based fees are at approximately the same level.

Poland has grown strongly over the last 18 months and is a significant contributor to both new sales and ELAM's overall result. This is a reflection of the efforts put into this business over recent years, with particular emphasis on growing distribution. In our Italian business, we have renegotiated commercial terms with key distributor groups in order to secure the business model for the future. Colombia has performed well in very difficult market conditions, growing market share considerably, while new business sales in Mexico have increased markedly on the back of the increase in the financial planner distribution force.

### EV AOP impacted by assumption changes

EV AOP has been impacted by three main items during the year. Firstly, net unfavourable assumption changes of €70 million have been recorded in 2007. As reported during the year, we reassessed the operating assumptions in Italy, in particular the surrender assumptions, following unexpected surrender experience of products exiting the surrender penalty period during the first half of the year. This review resulted in an adjustment to EV AOP of €49 million, and changes to persistency assumptions in other countries were also undertaken that contributed further to a net unfavourable impact. Secondly, there have been changes to Divisional overhead capitalisation during 2007 following the changes made to the operating structures within Skandia since the acquisition. Finally, the current year EV AOP result was positively impacted by changes to the tax rate in Germany.

### Well positioned

ELAM continues to be well placed to achieve further growth, as evidenced by rising market shares in most of the countries in which we operate. Product development and innovation remain at the heart of our offering, with close to 40 new products and product enhancements launched during the year. Early indications are that innovative major new product launches in Austria and Switzerland have been very well received in their local markets.



## Business Review

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

Strong recurring premium sales performance in Retail Businesses.

Highlights (Rm)	2007	2006	% Change
Long-term business adjusted operating profit	<b>3,082</b>	3,077	-
Asset management adjusted operating profit	<b>946</b>	874	8%
Long-term investment return (LTIR)	<b>2,988</b>	1,773	69%
IFRS adjusted operating profit	<b>7,016</b>	5,724	23%
Return on Allocated Capital	<b>24%</b>	23%	
EV adjusted operating profit (covered business)	<b>4,769</b>	5,752	(17%)
EV (covered business)	<b>34,678</b>	33,274	4%
Return on EV (covered business)	<b>11.2%</b>	13.5%	
Life assurance sales (APE)	<b>4,699</b>	4,416	6%
Unit trust sales	<b>15,547</b>	14,833	5%
Value of new business (post-tax)	<b>756</b>	781	(3%)
APE margin (post-tax)	<b>16%</b>	18%	
PVNBP	<b>31,380</b>	30,004	5%
Net client cash flows (Rbn)	<b>(18.7)</b>	(29.1)	36%
SA client funds under management (Rbn)	<b>445</b>	424	5%

OMSA net client cash flow remained a challenge for us in 2007, primarily due to net outflows from institutional clients, notably from two multi-managers, following changes of portfolio managers and concerns about short-term performance in 2006. Inflows were lower as consultants and investors adopted a “wait and see” approach because of uncertainty over the implications of the new boutique structure on performance. Investment performance for 2007 remained disappointing, with figures for the year showing 24% of funds outperforming benchmarks and achievement of the positions four and six in the Alexander Forbes Large Manager Watch over one and three years respectively. We deliberately took defensive positions in most portfolios in 2007 anticipating a market correction and this cost us performance for the year.

Life sales on an APE basis increased by 6% over 2006. Recurring premium sales grew strongly, up 14% on the back of an increased sales force in the Retail Mass market business as well as competitive risk product and credit life sales in the Retail Affluent market. Life Single premium sales were down 7% on 2006 primarily due to competitor margin pressure, and also, because we had a significant deal in our *Symmetry* multi-manager business at the end of 2006 which was non-recurring. The launch of the *Absolute Return Fund* and enhancements to the fixed bond rates on the *Investment Frontiers* product at mid-year helped improve sales in the second half of the year. We continued to gain market share in the Life retail sector.

Unit trust sales were up after including sales through Marriott for the full year in 2007. Excluding Marriott, sales were down 10% on 2006 because of residual concerns over portfolio manager changes and short-term investment performance on certain core funds (*Dynamic Floor* and *Enhanced Income* funds). The new *Stable Growth Fund*, was launched in July 2007 and has had good early sales.

## Business Review

IFRS AOP was 23% higher than in 2006. Within this result, our long-term business AOP increased marginally and the LTIR increased 69% after changes in calculation method to more appropriately recognise the value of the shareholders' fund, and the higher asset base. The marginal increase in long-term business profit was a result of the continued switch to less capital intensive, lower margin products. Positive contributions arose from an increase in the average level of policyholders' funds under management driven by higher market levels and a significantly lower IFRS2 share-based payments charge. These were offset by an increase in the investment guarantee reserve, which resulted from the adoption of a market-consistent basis for the valuation of these reserves as well as the application of a discretionary margin.

Asset management AOP was up 8% due to higher market levels. The good returns achieved also led to a good flow of performance-related fees, and higher property profits after the first full-year contribution from Marriott Income Specialists (Marriott). However the profit growth was tempered by additional advertising costs associated with the launch of the new boutique structure in OMIGSA, a review of incentive levels for fund managers and loss of fee income as a result of the withdrawal of client funds.

We declared strong bonuses in February 2008 on many of our with-profits products, in spite of market volatility in early 2008. This reflects the good returns these products have generated. Our portfolios' *Bonus Smoothing Accounts* remain in very strong positions following these strong bonus declarations.

Embedded Value was impacted by net capital transfers to Old Mutual plc of R5.9 billion during the year. Excluding these capital transfers, EV increased by 22% over the year and was positively impacted by market levels. However, the EV AOP is lower than in 2006 because the prior year profit was boosted by the recalibration of the risk margin in the discount rate of R1,093 million (R711 million post-tax), while the 2007 profit is reduced by the substantial increase in the investment guarantee reserve to reflect the use of a market consistent methodology, the switch to lower margin business of certain liabilities (which has resulted in lower capital requirements and improved ROC), and the reduction of certain margins in the Corporate segment aimed at providing better value for our customers.

### Retail Mass

Rm	2007	2006	% Change
Life sales (APE)			
Savings	613	476	29%
Protection	477	411	16%
<b>Total</b>	<b>1,090</b>	887	23%
Life VNB	322	263	22%
Life APE margin (post-tax)	30%	30%	
Net client cash flow (Rbn)	1.9	1.7	12%

Retail Mass sales were up 23% on 2006. This result reflects the continued focus on growing the sales force, which at 31 December 2007 was 11% higher than at the beginning of the year. Excellent growth was also achieved in sales through the broker channel, which were 106% up on the prior year. There was, however, a small swing to lower margin savings business.

VNB was 22% higher than 2006, with the new business APE margin constant at 30%, the latter benefitting from improved burial society results and a lower secondary tax on companies being offset by an increase in the proportion of low margin savings business. We responded to the shift in mix and the lower margins on savings business following the Statement of Intent, which sets minimum standards for surrender and paid-up values, by implementing changes to adviser remuneration and increasing minimum premiums for savings business. This had a negligible impact on mix, but did improve the profitability of savings business slightly.

In 2007, we continued innovating and delivering financial solutions relevant to our customers. In October we launched the *Domestic Workers Fund*, in collaboration with the Presidential Working Group on Women, a fund targeted at extending retirement provisioning and risk benefits for domestic workers. In November we launched *Pay-When-You-Can*, an innovative flexible premium funeral product for the entry level market, in Shoprite stores nationwide. In December we launched *Zimele* compliant funeral plans (contributing to Financial Sector Charter scores), which also address the need for affordable products for the previously untapped entry-level market.

## Business Review

### Retail Affluent

Rm	2007	2006	% Change
Life sales (APE)			
Savings	1,321	1,278	3%
Protection	1,056	897	18%
Annuity	197	193	2%
<b>Total</b>	<b>2,574</b>	<b>2,368</b>	<b>9%</b>
Life sales (APE)			
Single	868	838	4%
Recurring	1,706	1,530	12%
Non-life sales*	1,821	1,949	(7%)
Life VNB	330	289	14%
Life APE margin (post-tax)	13%	12%	
Net client cash flow (Rbn)	(2.7)	0.9	

\* Includes non-life flows in respect of OMUT, Galaxy and Linked Investment Service Provider (LISP) sales on an APE basis

Life recurring premium sales were 11% higher than for the prior year, driven by continued good sales of risk business, leveraged from enhancements to our *Greenlight* risk product range (17% higher) and good credit life sales (26% higher), reflecting the extension of personal credit through Nedbank. Recurring premium *Max Investment* savings business (both life and non-life wrappers) performed well ending the year 17% up, with significant growth (62%) of the non-life recurring option, but from a relatively low base.

Single premium life sales were 4% up on 2006. Single premium investment sales were flat as we were challenged by perceptions about OMIGSA restructuring, key staff losses and OMIGSA investment performance in some of the flagship funds, principally our *Dynamic Floor* and *Enhanced Income* funds. These effects were offset by improved investment performance, the new *Absolute Return Fund* launch and enhancements to the fixed bond rates of the life product. In the last quarter there were large non-recurring inflows into the private equity fund of *Investment Frontiers*. Single premium sales of the offshore investment product through Old Mutual International continued to accelerate and were 56% up over 2006.

Life VNB was 14% higher than 2006, with the new business APE margin improving from 12% to 13%. The biggest driver of the improvement was the impact of increased volumes, particularly on the recurring premium book on the absorption of initial distribution costs, both at a product level and in the distribution channels.

Bancassurance sales through Nedbank continued to grow and were up 16% over 2006. The launch of a new, low cost, simple savings product through Nedbank branches was very well received. Credit life sales slowed following the introduction of the National Credit Act, but were offset by the new savings and risk product flows.

## Business Review

### Corporate Segment

Rm	2007	2006	% Change
Life sales (APE)			
Savings	597	629	(5%)
Protection	145	99	46%
Annuity	111	193	(42%)
Healthcare	183	239	(23%)
<b>Total</b>	<b>1,036</b>	<b>1,160</b>	<b>(11%)</b>
Life sales (APE)			
Single	644	788	(18%)
Recurring	392	372	5%
Non-life sales*	755	1,678	(55%)
Life VNB	104	229	(55%)
APE margin (post-tax)	10%	20%	
Net client cash flow (Rbn) **	(17.9)	(31.7)	44%

\* Includes non-life flows in respect of OMIGSA and Old Mutual Properties on an APE basis

\*\* Includes NCCF for OMIGSA

Net client cash flows in the Corporate market, although still strongly negative, were less severe than in 2006, and Employee Benefits net client cash flow was significantly better than 2006. Termination experience, in particular, was very good and the impacts of the launch of the *Absolute Growth Portfolios*, as well as strong bonuses, were factors in this regard. Net client cash flows in OMIGSA were adversely affected by withdrawals following the loss of two key portfolio managers, clients switching from core and balanced mandates and residual concerns about short-term performance in 2006.

Total Corporate sales were lower than 2006, driven by lower sales of *Symmetry* (who had a very large deal in 2006), Annuities and Healthcare. There was a strong performance in the second half of 2007 in the *Guaranteed Products* where the launch of the *Absolute Growth Portfolios* was successful and has started to attract good new sales. Risk sales were also strong in 2007 compared to the prior year. Although Annuity sales were lower than 2006, the pipeline for 2008 is strong and business was secured at the end of 2007 which should flow through to 2008.

Healthcare sales are below last year due to a shrinking market, with government employees moving to GEMS, and a somewhat reduced focus on Oxygen within the distribution channels. Appointments have been made to drive the distribution of Healthcare more effectively, especially in the Retail distribution channels.

The decrease in new business margins and VNB relative to 2006 is mainly a result of a reduction in the *Platinum Pensions 2003* capital charge which was done so as to offer better value to customers and drive future sales, as well as lower volumes of high margin annuity business towards smoothed bonus products. Lower sales volume in *Symmetry* and Healthcare also contributed. This has had a knock-on impact reducing the overall life new business margin.

## Business Review

### Old Mutual Investment Group South Africa (OMIGSA)

Sources of FUM (Rbn)	2007	2006	% Change
Life	319	283	13%
Unit trusts	48	40	20%
Third party	88	95	(7%)
<b>Total OMIGSA managed assets</b>	<b>455</b>	418	9%
Managed by external fund managers	34	30	13%
<b>Total OMSA FUM</b>	<b>489</b>	448	9%
Less: managed by group companies for OMSA	(44)	(24)	(83%)
<b>Total OMSA client funds managed in SA</b>	<b>445</b>	424	5%

The implementation of the boutique structure in OMIGSA has been a key feature for 2007. We continue to focus on stabilising the structure and increasing investors' confidence in individual boutique investment philosophies.

Non-life sales (OMIGSA) are significantly lower than prior year as a result of the non-repetition of two very large deals in the first half of 2006 (R11.1 billion), and the smaller pipeline at the start of 2007. The investor and consultant concerns relating to OMIGSA's restructuring into a multi-boutique business and some areas of investment performance have also contributed to low sales. These, however, have started to improve.

2007 ended on a highly volatile note as the unravelling global sub-prime crisis dented investor confidence and global financial markets. Against this uncertain backdrop, the investment performance across our different boutiques was satisfactory. Although the three year performance slipped as poorer short-term equity performance fed through to the longer term performance numbers, we had anticipated a market correction and generally the portfolios were defensively positioned. Overall, just over half of the funds outperformed their benchmarks over one and three years respectively to the end of December. For the peer cognisant institutional funds, 45% and 9% of mandates were above the industry median over one and three years respectively. More than half of institutional mandates outperformed their benchmarks over these same periods. The Macro Strategy Investments boutique's *Profile Balanced Fund* was ranked fourth over one year, sixth over three years and third over five years ending 31 December 2007 in the Alexander Forbes Global Large Manager Watch survey.

In 2007, half of the key unit trust funds, representing 69% of unit trust assets, were first and second quartile performers over one year, 69% were first and second quartile over three years and 64% over five years to the end of December 2007.

The boutiques with the most notable performance for the three years ending 2007 were the Absolute Return, Macro Strategy Investments, Fixed Income and Select Equity boutiques, with 100%, 99%, 95% and 76% respectively of their funds under management beating their benchmarks.

During the year, Marriott Income Specialists' launched the *Marriott International Income Growth Fund*, OMIGSA Property launched *Triangle*, an industry defining direct property fund, Umbono Fund Managers launched the *RAFI 40 Index Fund* and OMUT launched their *Stable Growth Funds*.

## Business Review

### Outlook

The long-term outlook for savings and wealth management in South Africa remains positive, with the following points as key contributors:

- > Prudent fiscal and monetary policy is expected to return the economy to a robust growth path in the latter half of 2008.
- > Continued growth of black middle class and affluent markets off the back of a growing economy and Black Economic Empowerment efforts.
- > Government is formulating policy that would create a framework for mandatory retirement savings.
- > Strong growth in household incomes, enabling more people to start or increase savings for retirement.
- > Improvements in financial education and transparency of financial products enhancing accessibility.

In the short term, a slow down in growth rates of both the economy and disposable incomes is expected as monetary policy is tightened to contain inflationary pressures and as global economic growth slows. Increased competition is expected for the flows into the market, and also for existing assets, especially for retirement annuities that have been transferable between funds from October 2007. In this environment, distribution, superior investment performance and coverage of all asset classes will be crucial for success. Old Mutual is well placed to compete in this environment, with our investment boutiques continuing to grow and the coverage of asset classes increasing, and we have the ability to leverage our large distribution network to deliver financial solutions to our advantage.

We also see great short term opportunities of growth of insurance products in the lower to middle income market where product penetration is low. Old Mutual has strong market leadership through our Retail Mass Market business to benefit from these opportunities.

# Business Review

## BANKING - NEDBANK GROUP (NEDBANK)

### 2007 financial targets achieved

Highlights (Rm)	2007	2006	% Change
IFRS adjusted operating profit	<b>9,220</b>	6,973	32%
Headline earnings*	<b>5,921</b>	4,435	34%
Net interest income*	<b>14,146</b>	10,963	29%
Non-interest revenue*	<b>10,445</b>	9,468	10%
Net interest margin*	<b>3.94%</b>	3.94%	
Cost to income ratio*	<b>54.9%</b>	58.2%	
ROE*	<b>21.4%</b>	18.6%	
ROE* (excluding goodwill)	<b>24.8%</b>	22.1%	

\* As reported by Nedbank

We are pleased with the balance we have achieved between delivering on our short-term performance targets and investing to build a platform for long-term growth. Although the financial performance is now benchmarking closer to that of Nedbank's peers, we aspire to improve further.

Headline earnings increased by 34% to R5,921 million. Basic earnings grew by 33% to R6,025 million.

Headline earnings per share (EPS) increased by 34% to 1,485 cents (2006: 1,110 cents). Diluted headline EPS increased by 33% from 1,076 cents to 1,429 cents. Basic EPS grew by 33% from 1,135 cents in 2006 to 1,511 cents in 2007.

Nedbank's return on average ordinary shareholders' equity (ROE) improved from 18.6% to 21.4% for the year, exceeding the target of 20% that was set in 2004 at the start of our recovery programme. ROE, excluding goodwill, improved from 22.1% to 24.8%.

### Net interest income (NII)

NII grew 29% to R14,146 million (2006: R10,963 million) due to strong growth in average interest-earning banking assets of 29%.

Nedbank's net interest margin for the year was 3.94%, unchanged from 2006. The margin benefitted from the endowment impact of interest rate increases on capital and current and savings accounts of 0.4%, and decreased from liability margin compression of 0.1% as deposit interest rates continued to price in upside risk and as the sector had to source a higher proportion of funding from the wholesale deposit market. In addition, the NII margin decreased from asset margin compression of 0.3% mainly from the impact of strategic changes in the product mix of personal loans and competitive pricing behaviour particularly in home loans and commercial mortgages.

### Impairments charge on loans and advances

The credit loss ratio increased from 0.52% in 2006 to 0.62% in 2007. The growth in advances and the increase in the credit loss ratio are reflected in a 46% increase in the impairments charge to R2,164 million. Impairment levels have risen in Nedbank Retail and Imperial Bank, while the credit loss ratios in Nedbank Capital and Nedbank Corporate have remained at lower than expected levels, assisted by active credit management and unusually high levels of recoveries. The effect of the deteriorating retail environment has been mitigated to some extent through tighter credit policies and an early focus on collection processes and systems. Nedbank has continued to apply stringent credit management policies and has tightened credit granting requirements in the retail areas most affected by the worsening credit cycle over the last two years.

## Business Review

Nedbank has no direct exposure to US sub-prime mortgages. The group is indirectly exposed in that it does have some banking relationships with institutions with sub-prime exposure. These are relatively small and are not currently expected to lead to any losses in the Nedbank group.

Nedbank Retail raised an additional Incurred But Not Reported (IBNR) provision of R167 million in December 2007 to anticipate the effect of the current higher interest rates not yet evident in the historic data used for provisioning calculations.

### Non-interest revenue (NIR)

NIR for the year increased by 10% to R10,445 million.

This growth in NIR was driven primarily by commission and fee income growth of 15% and an increase in private equity revaluations, realisations and dividend income.

This growth was partially offset by weak trading results as reported in the first half, mainly due to poor trading within the business alliance with Macquarie, the competitive pricing structure for transactional products adopted in Nedbank Retail, where fees have been reduced by an average of 19% since mid-2006, and a continuing move from cheques to electronic channels by business banking clients.

### Expenses

Expenses continue to be tightly managed increasing by 14% to R13,489 million. The 'jaws' ratio continued to improve throughout the year, with total revenue growth of 20% being 6% above expense growth of 14%, resulting in the efficiency ratio improving from 58.2% for 2006 to 54.9%.

Growth in operating expenses slowed, as anticipated, while staff expenses increased reflecting the investment Nedbank has made in client-facing staff and an increase in variable pay as a result of the continued improvement in operating performance. Marketing costs increased as planned as Nedbank continued to invest in repositioning the Nedbank brand.

Expenses included the costs for the integration of Old Mutual Bank into Nedbank, Bond Choice's expenses and the IFRS2 charge in respect of the group's BEE transaction.

### Advances and Deposits

During 2007, advances grew 21% to R374 billion, with average interest-earning banking assets increasing by 29% to R359 billion.

As a result of the strong advances growth, total assets increased 15% to R489 billion. Growth in higher-risk areas, such as personal loans, slowed as the group tightened credit criteria and focused on higher-quality, lower-margin personal loans. Deposits increased by 18% from December 2006 to R385 billion at December 2007.

Nedbank's liquidity remains sound in an overall liquidity environment that was made more challenging by the negative international liquidity developments. Contagion of South African markets has been limited, with little direct exposure by local banks to the US sub-prime markets. The primary impact has been limited to a reduction in international liquidity, which has traditionally not been a large portion of the funding base, and an increase in the cost of capital market debt. This has had a small negative impact on the cost of rolling over conduit paper and new subordinated-debt issues.

During 2007 Nedbank successfully launched its inaugural auto loans and residential mortgage-backed securitisation programmes, raising R1.7 billion and R1.87 billion respectively. These programmes have diversified the funding base and added tenor to the bank's existing funding profile. In addition, Nedbank issued a further foreign syndicated loan of \$500 million in February 2007, raising additional foreign funding and creating further funding diversification.



## Business Review

### Risk and capital management

Nedbank has successfully implemented its Basel II blueprint. This is in line with the revisions to the Banks Act and the new internationally based Basel II banking regulations introduced by the South African Reserve Bank (SARB), which were effective from 1 January 2008. The main purpose of Basel II is to promote significant enhancement and sophistication of risk and capital measurement and management, thereby further elevating the safety and soundness of the banking industry.

Nedbank has received formal approval from the SARB for the Advanced Internal Ratings Based (AIRB) approach for credit risk for its principle operations in SA, while Imperial Bank and the African subsidiaries have adopted the standardised approach. Nedbank's risk and capital management capabilities allow it to optimise the risk/return trade-offs equation and grow the businesses profitably within a clearly established risk appetite.

During the year Nedbank continued to actively manage its capital:

- > the expensive NED2 R4 billion bond on its call date in July 2007 was redeemed;
- > execution of several Tier 2 subordinated-debt issues totalling R6.77 billion, thereby continuing to build a smooth and diversified subordinated-debt maturity profile. (A highlight was the R2 billion inaugural Tier 2 investment in a South African bank by the International Finance Corporation and the African Development Bank);
- > completion of a R1.7 billion Imperial Bank asset securitisation;
- > completion of a R1.87 billion Nedbank Retail home loan securitisation; and
- > issue of Tier 1 perpetual preference shares of R364 million.

Certain hybrid capital instruments now qualify as Tier 1 regulatory capital under Basel II and Nedbank is well-advanced in planning its inaugural hybrid Tier 1 issue.

Nedbank Group, Nedbank Limited and Imperial Bank Limited all received rating upgrades from Moody's and Fitch during 2007. This was very pleasing and recognises the successful turnaround of Nedbank over the past few years.

Nedbank expects to issue further Tier 2 capital and hybrid forms of Tier 1 capital in 2008. Nedbank is committed to improving its profile as an issuer in the debt capital markets and this should result in a more robust subordinated-debt yield curve.

### Prospects

The slowdown in consumer spending, the increase in consumer credit stress, continuing electricity shortages and sustained dislocation in credit and equity markets are likely to make the year ahead significantly more challenging for the South African economy and the banking sector. The key factors influencing performance in 2008 are:

- > slower growth in retail advances;
- > continued good growth in wholesale advances, although the influence of electricity shortages on the economy may cause this to slow;
- > lower margins as a result of margin compression in certain categories of advances and continued reliance on wholesale funding, which are only partially offset by the endowment benefit arising from past interest rate increases;
- > higher impairment charges due to the impact of higher interest rates on the retail portfolios and lower wholesale recoveries; and
- > fewer positive non-recurring items and revaluations in the private equity portfolios.

While the general banking environment will be much tougher than in previous years, Nedbank is confident of continuing to improve its performance off the solid platform built over the past four years. Nedbank's focus is now on working towards its vision of becoming southern Africa's most highly rated and respected bank.

## Business Review

The main focus areas for Nedbank in 2008 include building on its transformation journey, and growing our retail distribution network, transactional banking market share, relevance in the public sector, business banking franchise and mass-market strategy.

In addition, Nedbank is focussed on being involved in social and community projects, managing the credit cycle, disciplined expense management, ongoing capital management activities, with an active process of continuous improvement in all operations and applying economic-value-based management. From 2008 economic profit (EP) replaces ROE as the primary internal financial performance measure in the group. EP is a best-practice measure since it incentivises an appropriate balance between return and growth, and better aligns with shareholder value creation.

### Medium- to long-term financial targets

After successfully delivering on the short-term financial targets of a 20% ROE and 55% efficiency ratio in 2007, Nedbank set the following key medium- to long-term external targets:

- > ROE (excluding goodwill) 10% above Nedbank's monthly weighted average cost of ordinary shareholders' equity.
- > Growth in diluted headline EPS of at least average CPIX plus GDP growth plus 5%.

In the medium term Nedbank targets to meet or exceed the comparable performance of its peers.

# Business Review

## GENERAL INSURANCE – MUTUAL & FEDERAL

### Solid performance in a challenging year

Highlights (Rm)	2007	2006	% Change
IFRS adjusted operating profit	<b>1,256</b>	1,039	21%
Gross premiums*	<b>9,323</b>	8,549	9%
Earned premiums*	<b>7,948</b>	7,458	7%
Claims ratio*	<b>66%</b>	63%	
Combined ratio*	<b>95.4%</b>	93.9%	
Solvency ratio*	<b>42%</b>	49%	
Return on capital* (3 year average)	<b>31.7%</b>	27.5%	

\* As reported by Mutual & Federal

Mutual & Federal maintained solid results in the context of a highly competitive trading environment and a gradual decline in the underwriting cycle following the record results achieved in 2004 and 2005.

The underwriting result for the year was adversely impacted by an increase in the severity and frequency of large claims, particularly industrial fires. Severe weather conditions experienced in South Africa also negatively impacted the results. In addition, despite strong rating adjustments and underwriting interventions, results in the motor account continued to be negatively impacted by an increase in claims emanating from high levels of accidents on South African roads.

### Gross premiums

Gross premiums in Risk Finance grew by only 2%, but the Personal and Commercial portfolios grew 9% and 13% respectively, giving an overall increase of 9% against the prior year. This was achieved despite the cancellation of certain uneconomical blocks of business within the Personal division. Mutual & Federal does not accept risks at sub-economic rates and has diligently followed prudent underwriting practices.

### Combined ratio weakens

Mutual & Federal generated an underwriting surplus of R366 million (2006: R455 million), or a ratio of 4.6% to earned premiums (2006: 6.1%), which is above our long-term objective of 4%. The estimation methods used in providing for claims and other technical liabilities were further refined and this released R96 million (2006: R215 million) into the underwriting result. If these adjustments are excluded, the underwriting result improved over the previous year by R52 million.

The trading environment remains conducive to producing an improved underwriting profit in 2008 with signs of a hardening of rates in certain sectors. Recent electricity load shedding has created substantial inconvenience to Mutual & Federal, but it is unlikely to impact the underwriting account significantly.

### Solvency ratio

The solvency ratio has decreased from 49% to 42% following the payment of a special dividend of R2 per share in December 2007.

### Strong growth in adjusted operating profit and return on capital exceeding target

The adjusted operating profit includes R262 million arising from a change in the long-term investment return rate from 11.1% to 15.6%. This, together with the special dividend of R8 per share paid in 2006, and R2 per share in 2007 has contributed to the increase in the return on capital from 27.5% in 2006 to 31.7% in 2007. This is well ahead of our targeted return of 20%.

## Business Review

### Sale discussions continue

Old Mutual announced in November 2007 that it had entered discussions with community-based investment group, Royal Bafokeng Holdings, regarding a potential sale of its controlling interest in Mutual & Federal. The discussions are continuing, and a further announcement will be made in due course.

# Business Review

## US LIFE

### Continuing strong international variable annuity sales add to diversity of earnings

Highlights (\$m)	2007	2006	% Change
IFRS adjusted operating profit (pre-tax)	<b>195</b>	230	(15%)
Return on equity	<b>5.9%</b>	7.3%*	
EV adjusted operating profit (pre-tax)	<b>126</b>	181	(30%)
Return on Embedded Value	<b>3.8%</b>	6.1%	
Life assurance sales (APE)	<b>671</b>	455**	47%
Value of new business (post-tax)	<b>144</b>	83	73%
New business margin (post-tax)	<b>21%</b>	18%**	
PVNB	<b>6,305</b>	4,093**	54%
Funds under management (\$bn)	<b>24.1</b>	22.1	9%

\* Restated due to change in ROE methodology

\*\* Restated due to change in US Life APE calculation to align with the volume of new business calculation.

### Growth in funds under management

Funds under management of \$24.1 billion at year end were up 9% due to positive net client cash flows of \$2.4 billion, primarily driven by strong Old Mutual Bermuda variable annuity sales partially offset by increased surrenders on the Multi-Year Guaranteed Annuity block of business and a 1% decrease in fair value of invested assets.

The business returned cash in 2007, while exceeding targeted risk-based capital ratios in the operating entities including OM Financial Life Insurance Company and Old Mutual Bermuda.

### Excellent sales growth in international variable annuity business

Total life sales were \$6.1 billion on a gross basis, up 58% over 2006. Total life sales APE were \$671 million, a 47% increase over 2006. Sales by Old Mutual Bermuda were the largest contributor to the increase over the prior year.

Old Mutual Bermuda increased sales on an APE basis by 201% to \$360 million compared to 2006, representing 54% of APE sales in the US Life business. The increase in sales was due to a new product launch in April 2007 and new distribution agreements in Asia. Bermuda now represents 25% of the total funds under management. Universal Life sales were up over the comparative period by 28% as part of a shift from a term life focused distribution to a more balanced life portfolio. Continued demand for fixed indexed annuities was also a contributing factor. We have an attractive and diverse mix of product offerings including variable annuities, fixed indexed annuities, term life and universal life.

### Value of new business and healthy margins driven by strong offshore variable annuity sales

VNB for the year of \$144 million was up 73% due to the higher volume of Bermuda variable annuity business. The new business margin of 21% was at the high end of our longer-term expectations primarily driven by Bermuda variable annuity business. The overall business continues to benefit from good investment performance and enhanced distribution. Our coordinated retail distribution strategy has made good progress.

## Business Review

### Underlying results solid

IFRS and EV adjusted operating profit and returns decreased in 2007 compared to 2006. This was due to assumption and modelling changes recorded during 2007 and non-recurring net investment income in the first half of 2006 of \$18 million. As indicated at our interim results, we strengthened our annuitant mortality assumptions and adopted a more conservative approach to future assumed spreads. These changes resulted in a \$277 million (\$186 million post-tax) adjustment to Embedded Value (of which \$195 million (\$131 million post-tax) is in respect of annuitant mortality assumptions which are included within EV adjusted operating profit) and a \$60 million adjustment to pre-tax IFRS adjusted operating profits. Excluding these impacts, IFRS adjusted operating profit was up 20%, driven by higher average asset levels.

### Credit update

3% of US Life's fixed income portfolio of \$21 billion has direct exposure to sub-prime debt and this helped US Life weather the market turbulence during the second half of 2007. The sub-prime exposure is highly rated (86% is AAA, 99% is AA and higher, and 100% is A and higher), concentrated in first mortgages without rate-reset risk, and owner-occupied, rather than investor properties.

Approximately 2.3% of US Life's investment portfolio has exposure to monoline insurers, of which \$493 million (85% of the total exposure) is indirect (wrapped) exposure, with a 95% fair value-to-book value ratio, and \$90 million is direct (unsecured) exposure, with a 87% fair value-to-book value ratio. Of the 15% that represents the unsecured exposure, most are being recapitalised, or have sufficient funds to go into run-off mode, if necessary.

US Life was not fully immune to the unfavourable credit conditions and recorded \$64 million of impairment provisions during the fourth quarter. For IFRS adjusted operating profit, the impairment provision did not impact the long-term investment return in 2007.

The investment portfolio's aggregate credit experience remained within expectations and is in line with long-term assumptions.

# Business Review

## US ASSET MANAGEMENT

### Another year of strong investment performance and asset growth

Highlights (\$m)	2007	2006*	% Change
IFRS adjusted operating profit	<b>324</b>	259	25%
Mutual fund / unit trust sales	<b>3,782</b>	3,088	22%
Net client cash flows (\$bn)	<b>35.2</b>	31.0	14%
Operating margin	<b>27%</b>	27%	
Funds under management (\$bn)	<b>332.6</b>	272.6	22%

\* 2006 comparative information has been restated to include OMAM (UK) (transferred from the Skandia UK segment to the US asset management segment), and to exclude fund flows related to eSecLending, which was sold in 2006

### Investment performance drives growth in funds under management

Strong investment performance at our affiliates continued to attract new funds during a volatile year in global equity markets. At 31 December 2007, 83% of assets had outperformed their benchmarks and 83% were ranked above the median of their peer group over the trailing three year period. A pleasing \$35.2 billion of net client cash flows, 13% of opening funds under management, were up 14% on 2006 with Rogge, Acadian, Barrow Hanley and Dwight the largest contributors. Market appreciation of \$22 billion and the acquisition of \$3 billion in assets at Ashfield Capital Partners contributed to an overall increase in funds under management of 22% to \$332.6 billion at 31 December 2007.

### Retail sales growth continues

Old Mutual Capital's gross mutual fund sales increased 3% from 2006 to \$1,408 million despite the impact of volatile markets during the second half of the year. At year end, fourteen of Old Mutual Capital's mutual funds carried four or five star rankings by Morningstar. OMAM (UK) unit trust sales increased 38% over 2006 to \$2,374 million, benefiting from investments made during 2006 to enhance the product offering and distribution capabilities of the business.

### IFRS adjusted operating profit increases 25%

AOP for the year was up 25% compared to the prior year, primarily as a result of increased funds under management and higher performance fees. The operating margin remained in line with the prior year, dampened during 2007 by expenses associated with long-term equity plan implementations. The loss of margin is offset, however, by above average net client cash flows. Aligning the interests of our affiliates and shareholders through equity plans is critical to setting us apart in this regard.

# Business Review

## ASIA PACIFIC

Highlights (£m)	2007	2006	% Change
Australia unit trust / mutual funds sales	<b>604</b>	560*	8%
Australia institutional sales	<b>115</b>	-	n/a
Skandia:BSAM (China) Gross Premiums **	<b>122</b>	38	221%
Advisors selling Skandia: BSAM products	<b>2,477</b>	799	210%
KMOM (India) Gross Premiums **	<b>163</b>	108	51%
KMOM branches	<b>106</b>	65	63%

\* Skandia businesses included in the 2006 numbers have been adjusted on a pro forma basis assuming ownership for 12 months rather than 11 months

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

In January we announced the appointment of Steffen Gilbert as Regional Head of Asia Pacific and we announced the establishment of our Asia Pacific headquarters, based in Hong Kong. This will form the base from which we intend to expand our existing operations throughout the region.

### Australia

Operations in Skandia Group Australia include retail mutual funds and institutional investment funds. After breaking even for the first time in 2006, the business generated an operating profit of AUD7.8 million (£3.3 million) in 2007. At 31 December 2007, funds under management were AUD14.5 billion (£6.4 billion), up 2% from AUD14.2 billion (£5.7 billion) at 31 December 2006. This was made up of institutional funds of AUD8.7 billion and retail funds of AUD5.8 billion. Integration of the institutional business, acquired in late 2006, is now complete and on track to generate the expected cost savings. The 2007 John West Platform awards in Australia named Australian Skandia Limited as the rising star for having above average platform funds under management growth.

### China

Skandia:BSAM, our 50:50 joint venture with the Beijing State-owned Asset Management Company (BSAM), is now in its third full year of operation and continues to show strong sales growth (gross premiums for the year were over three times the comparative prior year). The business sells unit-linked products and has licences to operate in Beijing, Shanghai, Jiangsu Province and Guangdong Province. Despite its recent entry into the market, of the 24 foreign owned joint venture insurance companies in China, Skandia:BSAM had, for 2007, the eighth largest gross premium flows (up two places compared to 2006). Our unit-linked product range was granted "the most welcome financial product" award at the Shanghai Financial Expo 2007. New business margins are just over 25% which is higher than our long-term expectations.

### India

Kotak Mahindra Old Mutual Life Insurance Ltd (KMOM), our joint venture with the Kotak Mahindra Group, in which we have a 26% stake, continues to show steady progress. The business now operates in 74 cities and 106 branches across India. Gross premiums for the calendar year were £163 million, up 51% from £108 million for the comparative period. In September we agreed to boost the venture with a capital injection of INR1.5 billion (approximately £19 million) in order for the business to extend its office network and increase its workforce. New business margins are healthy and are consistent with those of listed competitors in the country.



## Business Review

### Outlook

Our key Asia Pacific objective is to develop a credible operation in terms of both size and profitability. As well as building and widening our presence in existing markets, we will develop opportunities for geographic expansion.

We will continue to provide working capital to our Indian and Chinese joint ventures to support their further expansion and expect our Australian business to continue to grow profitably in 2008.

GBP exchange rates	AUD	RMB	INR
Closing	2.26	14.47	78.15
YTD Average	2.39	15.23	82.77

# Consolidated income statement

## For the year ended 31 December 2007

		£m	
	Notes	Year ended 31 December 2007	Year ended 31 December 2006 Restated
<b>Revenue</b>			
Gross earned premiums	3(iii)	4,941	4,026
Outward reinsurance		(201)	(178)
Net earned premiums		4,740	3,848
Investment return (non-banking)		6,071	10,188
Banking interest and similar income		3,190	2,427
Banking trading, investment and similar income		170	181
Fee and commission income, and income from service activities		2,457	2,171
Other income		212	307
Share of associated undertakings' (loss)/profit after tax		(1)	6
Profit on disposal of subsidiaries, associated undertakings and strategic investments	4(iii)	25	85
<b>Total revenues</b>		<b>16,864</b>	<b>19,213</b>
<b>Expenses</b>			
Claims and benefits (including change in insurance contract provisions)		(6,612)	(7,554)
Reinsurance recoveries		184	216
Net claims and benefits incurred		(6,428)	(7,338)
Change in investment contract liabilities		(2,618)	(4,655)
Losses on loans and advances		(157)	(123)
Finance costs		(50)	(91)
Banking interest payable and similar expenses		(2,053)	(1,461)
Fee and commission expense, and other acquisition costs		(650)	(592)
Other operating and administrative expenses		(2,724)	(2,709)
Change in third party interest in consolidated funds		(156)	(278)
Goodwill impairment	4(ii)	–	(5)
Amortisation of PVIF and other acquired intangibles	4(ii)	(360)	(379)
<b>Total expenses</b>		<b>(15,196)</b>	<b>(17,631)</b>
<b>Profit before tax</b>		<b>1,668</b>	<b>1,582</b>
Income tax expense	5(i)	(479)	(563)
Profit from continuing operations after tax		1,189	1,019
Profit from discontinued operations after tax		57	74
<b>Profit after tax for the financial year</b>		<b>1,246</b>	<b>1,093</b>
<b>Profit for the financial year attributable to:</b>			
Equity holders of the parent		972	836
Minority interests			
Ordinary shares	6	224	207
Preferred securities	6	50	50
<b>Profit after tax for the financial year</b>		<b>1,246</b>	<b>1,093</b>
<b>Earnings per share</b>			
Based on profit from continuing operations (pence)		18.3p	15.8p
Based on profit from discontinued operations (pence)		0.9p	1.2p
Basic earnings per ordinary share (pence)	7(i)	19.2p	17.0p
Based on profit from continuing operations (pence)		17.3p	15.0p
Based on profit from discontinued operations (pence)		0.8p	1.1p
Diluted earnings per ordinary share (pence)	7(i)	18.1p	16.1p
Weighted average number of shares – millions		4,894	4,705

## Adjusted operating profit

### For the year ended 31 December 2007

#### Reconciliation of adjusted operating profit to profit after tax

		£m	
		Year ended 31 December 2007	Year ended 31 December 2006 Restated
	Notes		
South Africa	3(ii)	1,165	1,036
United States	3(ii)	260	264
Europe	3(ii)	268	239
Other	3(ii)	2	1
		<b>1,695</b>	1,540
Finance costs		(119)	(130)
Other shareholders' expenses		(41)	(33)
<b>Adjusted operating profit before tax*</b>		<b>1,535</b>	1,377
Adjusting items	4(i)	73	(34)
<b>Profit for the financial year before tax (excluding policyholder tax)</b>		<b>1,608</b>	1,343
Total income tax expense	5(i)	(479)	(563)
Income tax attributable to policyholder returns		60	239
Profit for the financial year after tax from continuing operations		1,189	1,019
Profit for the financial year after tax from discontinued operations		57	74
<b>Profit after tax for the financial year</b>		<b>1,246</b>	1,093

#### Adjusted operating profit after tax attributable to ordinary equity holders

		£m	
		Year ended 31 December 2007	Year ended 31 December 2006 Restated
	Notes		
<b>Adjusted operating profit* before tax</b>		<b>1,535</b>	1,377
Tax on adjusted operating profit	5(iii)	(390)	(352)
<b>Adjusted operating profit* after tax from continuing operations</b>		<b>1,145</b>	1,025
Adjusted operating profit* after tax from continuing operations		1,145	1,025
Adjusted operating profit* after tax from discontinued operations		61	39
<b>Adjusted operating profit* after tax</b>		<b>1,206</b>	1,064
Minority interest – ordinary shares	6(iii)	(242)	(224)
Minority interest – preferred securities	6(ii)	(50)	(50)
		<b>914</b>	790
Adjusted weighted average number of shares – (millions)	7(i)	<b>5,411</b>	5,222
Based on adjusted operating profit from continuing operations** (pence)		<b>16.1p</b>	14.6p
Based on adjusted operating profit from discontinued operations** (pence)		<b>0.8p</b>	0.5p
<b>Adjusted operating earnings per share** – (pence)</b>	7(ii)	<b>16.9p</b>	15.1p

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

\*\* Adjusted operating earnings per ordinary share is calculated on the same basis as adjusted operating profit. It is stated after tax attributable to adjusted operating profit and minority interests. It excludes income attributable to Black Economic Empowerment 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 balance sheet

At 31 December 2007

	£m	
	At 31 December 2007	At 31 December 2006 Restated
<b>Assets</b>		
Goodwill and other intangible assets	5,459	5,367
Mandatory reserve deposits with central banks	615	515
Property, plant and equipment	608	499
Investment property	1,479	1,149
Deferred tax assets	683	511
Investments in associated undertakings and joint ventures	81	83
Deferred acquisition costs	2,253	1,578
Reinsurers' share of long-term business policyholder liabilities	1,394	1,314
Reinsurers' share of general insurance liabilities	–	57
Deposits held with reinsurers	213	247
Loans and advances	30,687	26,438
Investments and securities	90,220	81,915
Current tax receivable	83	60
Client indebtedness for acceptances	165	188
Other assets	2,181	3,106
Derivative financial instruments – assets	1,527	1,263
Cash and cash equivalents	3,469	3,101
Non-current assets held-for-sale	1,617	1,165
<b>Total assets</b>	<b>142,734</b>	<b>128,556</b>
<b>Liabilities</b>		
Long-term business policyholder liabilities	84,251	75,265
General insurance liabilities	–	265
Third party interests in consolidation of funds	3,547	3,041
Borrowed funds	2,353	1,978
Provisions	499	542
Deferred revenue	462	283
Deferred tax liabilities	1,413	1,393
Current tax payable	320	283
Other liabilities	6,180	7,247
Liabilities under acceptances	165	188
Amounts owed to bank depositors	31,817	27,130
Derivative financial instruments – liabilities	1,716	1,071
Non-current liabilities held-for-sale	414	1,107
<b>Total liabilities</b>	<b>133,137</b>	<b>119,793</b>
<b>Net assets</b>	<b>9,597</b>	<b>8,763</b>
<b>Shareholders' equity</b>		
Equity attributable to equity holders of the parent	7,961	7,237
Minority interests		
Ordinary shares	933	848
Preferred securities	703	678
Total minority interests	1,636	1,526
<b>Total equity</b>	<b>9,597</b>	<b>8,763</b>

	£m	
	Year ended 31 December 2007	Year ended 31 December 2006
<b>Cash flows from operating activities</b>		
<b>Profit before tax from continuing operations</b>	<b>1,668</b>	1,582
<b>Profit before tax from discontinued operations</b>	<b>82</b>	132
	<b>1,750</b>	1,714
Capital gains included in investment income	(1,836)	(4,076)
Profit/(loss) on disposal of property, plant and equipment	4	(1)
Depreciation of property, plant and equipment	73	68
Amortisation and impairment of intangible assets	403	428
Impairment of loans and receivables	183	143
Share-based compensation expense	15	40
Share of associated undertakings' loss after tax	(1)	(6)
Loss arising on disposal of subsidiaries, associated undertakings and strategic investments	(25)	(85)
Other non-cash amounts in profit	29	68
<b>Non-cash movements in profit before tax</b>	<b>(1,155)</b>	(3,421)
Reinsurers' share of long-term business policyholder liabilities	(53)	(785)
Deferred acquisition costs	(482)	(632)
Loans and advances	(5,339)	(5,543)
Insurance liabilities	1,962	2,886
Investment contracts	4,124	6,594
Amounts owed to bank depositors	4,647	5,251
Other operating assets and liabilities	(491)	555
<b>Changes in working capital</b>	<b>4,368</b>	8,326
Taxation paid	(563)	(317)
<b>Net cash inflow from operating activities</b>	<b>4,400</b>	6,302
<b>Cash flows from investing activities</b>		
Acquisitions of financial investments	(3,896)	(4,294)
Acquisitions of investment properties	(26)	(4)
Net acquisition of tangible fixed assets	(186)	(120)
Net acquisition of intangible fixed assets	(67)	(39)
Acquisition of interests in subsidiaries	(278)	(1,318)
Disposal of interests in subsidiaries, associated undertakings and strategic investments	106	78
<b>Net cash outflow from investing activities</b>	<b>(4,347)</b>	(5,697)
<b>Cash flows from financing activities</b>		
Dividends paid to:		
Equity holders of the Company	(333)	(282)
Equity minority interests and preferred security interests	(205)	(199)
Interest payable (excluding banking interest payable)	(83)	(52)
Net proceeds from issue of ordinary shares (including by subsidiaries to minority interests)	42	52
Net receipts from unclaimed shares trust	95	–
Issue of subordinated debt	699	297
Other debt repaid	(356)	(96)
<b>Net cash outflow from financing activities</b>	<b>(141)</b>	(280)
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(88)</b>	325

## Consolidated cash flow statement

### For the year ended 31 December 2007

	£m	
	Year ended 31 December 2007	Year ended 31 December 2006
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(88)</b>	<b>325</b>
Effects of exchange rate changes on cash and cash equivalents	50	(575)
Cash and cash equivalents on acquisition of new subsidiaries	–	581
Cash and cash equivalents at beginning of the year	<b>3,634</b>	<b>3,303</b>
<b>Cash and cash equivalents at end of the year</b>	<b>3,596</b>	<b>3,634</b>
<b>Consisting of:</b>		
Coins and bank notes	211	236
Money at call and short notice	3,169	2,856
Balances with central banks (other than mandatory reserve deposits)	121	9
Cash and cash equivalents from non-current assets held-for-sale	(32)	–
<b>Cash and cash equivalents</b>	<b>3,469</b>	<b>3,101</b>
Mandatory reserve deposits with central banks	615	515
Other cash equivalents	808	1,101
Cash and cash equivalents subject to consolidation of funds	<b>(1,296)</b>	<b>(1,083)</b>
<b>Total</b>	<b>3,596</b>	<b>3,634</b>
<b>Other supplementary cash flow disclosures</b>		
Interest income received (including banking interest)	4,858	4,059
Dividend income received	388	513
Interest payable (including banking interest)	2,130	1,552

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

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

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

## Consolidated statement of changes in equity

For the year ended 31 December 2007

	Millions			£m
	Number of shares issued and fully paid	Attributable to equity holders of the parent	Total minority interest	Total equity
<b>Year ended 31 December 2007</b>				
<b>Equity holders' funds at beginning of the year</b>	<b>5,501</b>	<b>7,237</b>	<b>1,526</b>	<b>8,763</b>
<b>Change in equity arising in the year</b>				
Fair value gains/(losses):				
Property revaluation	–	95	1	96
Net investment hedge	–	(13)	–	(13)
Available for sale investments:				
Fair value losses	–	(161)	–	(161)
Shadow accounting	–	25	–	25
Currency translation differences/exchange differences on translating foreign operations	–	129	4	133
Other movements	–	(4)	–	(4)
Aggregate tax effect of items taken directly to or transferred from equity	–	34	–	34
<b>Net income recognised directly in equity</b>	<b>–</b>	<b>105</b>	<b>5</b>	<b>110</b>
Profit for the year	–	972	274	1,246
<b>Total recognised income and expense for the year</b>	<b>–</b>	<b>1,077</b>	<b>279</b>	<b>1,356</b>
Dividends for the year	–	(373)	(165)	(538)
Net sale of treasury shares	–	149	–	149
Shares repurchased in the buyback programme	–	(177)	–	(177)
Issue of ordinary share capital by the Company	–	3	–	3
Net acquisition of interests in subsidiaries	–	–	(4)	(4)
Exercise of share options	9	9	–	9
Fair value of equity settled share options	–	36	–	36
<b>Equity holders' funds at end of the year</b>	<b>5,510</b>	<b>7,961</b>	<b>1,636</b>	<b>9,597</b>

## Consolidated statement of changes in equity

For the year ended 31 December 2007 continued

							£m
Year ended 31 December 2007	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>	550	746	2,901	(421)	2,773	688	7,237
<b>Changes in equity arising in the year:</b>							
Fair value gains/(losses):							
Property revaluation	-	-	95	-	-	-	95
Net investment hedge	-	-	-	(13)	-	-	(13)
Available for sale investments:							
Fair value losses	-	-	(161)	-	-	-	(161)
Shadow accounting	-	-	25	-	-	-	25
Currency translation differences/exchange differences on translating foreign operations	-	-	-	129	-	-	129
Other movements	-	-	(10)	(2)	8	-	(4)
Aggregate tax effect of items taken directly to or transferred from equity	-	-	22	3	9	-	34
<b>Net income recognised directly in equity</b>	-	-	(29)	117	17	-	105
Profit for the year	-	-	-	-	972	-	972
<b>Total recognised income and expense for the year</b>	-	-	(29)	117	989	-	1,077
Dividends for the year	-	-	-	-	(373)	-	(373)
Net sale of treasury shares	-	-	-	-	149	-	149
Shares repurchased in the buyback programme	-	-	-	-	(177)	-	(177)
Issue of ordinary share capital by the Company	-	3	-	-	-	-	3
Exercise of share options	1	8	-	-	-	-	9
Fair value of equity settled share options	-	-	36	-	-	-	36
<b>Attributable to equity holders of the parent at end of the year</b>	551	757	2,908	(304)	3,361	688	7,961

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

Retained earnings have been reduced by £588 million at 31 December 2007 in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings. Included in the dividend for the year is £40 million of dividends declared to holders of perpetual preferred callable securities. Within issue of ordinary share capital by the Company are prior year transaction costs totalling £2 million deducted from the share premium. Included within other reserves is the merger reserve for the additional share consideration made in respect of the Skandia acquisition, being the difference between the market value of the shares on the date of issue and the nominal value included as share capital.



	Millions			£m
	Number of shares issued and fully paid	Attributable to equity holders of the parent	Total minority interest	Total equity
<b>Year ended 31 December 2006</b>				
<b>Equity holders' funds at beginning of the year</b>	4,090	4,751	1,668	6,419
<b>Changes in equity arising in the year</b>				
Fair value gains/(losses):				
Property revaluation	–	28	–	28
Net investment hedge	–	75	–	75
Available for sale investments:				
Fair value losses	–	(111)	–	(111)
Recycled to income statement on realisation	–	17	–	17
Shadow accounting	–	28	–	28
Currency translation differences/exchange differences on translating foreign operations	–	(852)	(208)	(1,060)
Other movements	–	38	(42)	(4)
Aggregate tax effect of items taken directly to or transferred from equity	–	14	–	14
<b>Net expense recognised directly in equity</b>	–	(763)	(250)	(1,013)
Profit for the year	–	836	257	1,093
<b>Total recognised income and expense for the year</b>	–	73	7	80
Dividends for the year	–	(321)	(160)	(481)
Net sale of treasury shares	–	18	–	18
Issue of ordinary share capital by the Company	1,400	2,674	–	2,674
Net acquisition of interests in subsidiaries	–	–	11	11
Exercise of share options	11	14	–	14
Fair value of equity settled share options	–	28	–	28
<b>Equity holders' funds at end of the year</b>	<b>5,501</b>	<b>7,237</b>	<b>1,526</b>	<b>8,763</b>

## Consolidated statement of changes in equity

For the year ended 31 December 2007 continued

							£m
Year ended 31 December 2006	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>	410	730	374	357	2,192	688	4,751
<b>Changes in equity arising in the year:</b>							
Fair value gains/(losses):							
Property revaluation	–	–	28	–	–	–	28
Net investment hedge	–	–	–	75	–	–	75
Available for sale investments:							
Fair value losses	–	–	(111)	–	–	–	(111)
Recycled to income statement on realisation	–	–	17	–	–	–	17
Shadow accounting	–	–	28	–	–	–	28
Currency translation differences/exchange differences on translating foreign operations	–	–	–	(852)	–	–	(852)
Other movements	–	–	(6)	–	44	–	38
Aggregate tax effect of items taken directly to or transferred from equity	–	–	11	(1)	4	–	14
<b>Net expense recognised directly in equity</b>	–	–	(33)	(778)	48	–	(763)
Profit for the year	–	–	–	–	836	–	836
<b>Total recognised income and expense for the year</b>	–	–	(33)	(778)	884	–	73
Dividends for the year	–	–	–	–	(321)	–	(321)
Net sale of treasury shares	–	–	–	–	18	–	18
Issue of ordinary share capital by the Company	139	3	2,532	–	–	–	2,674
Exercise of share options	1	13	–	–	–	–	14
Fair value of equity settled share options	–	–	28	–	–	–	28
<b>Attributable to equity holders of the parent at end of the year</b>	550	746	2,901	(421)	2,773	688	7,237

Retained earnings have been reduced by £704 million at 31 December 2006 in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings. Included in the dividend for the year is £39 million of dividends declared to holders of perpetual preferred callable securities. Within issue of ordinary share capital by the Company are transaction costs totalling £2 million deducted from the share premium. Included within other reserves is the merger reserve for the additional share consideration made in respect of the Skandia acquisition, being the difference between the market value of the shares on the date of issue and the nominal value included as share capital.

# Notes to the consolidated financial statements

## For the year ended 31 December 2007

### 1 Accounting policies

#### Basis of preparation

The consolidated financial information contained herein has been prepared in accordance with International Financial Reporting Standards adopted by the EU. The Group's results for the year ended 31 December 2007 and the position at that date have been prepared using accounting policies consistent with those applied in the preparation of the Group's 2006 Annual Report and Accounts, except as set out below.

The financial information set out herein does not constitute the Company's statutory accounts for the years ended 31 December 2007 or 2006. Statutory accounts for 2006 have been delivered to the Registrar of Companies, and those for 2007 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports, and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

#### Segment presentation

The Group has adopted IFRS 8 'Operating Segments' for the year ended 31 December 2007 and note 3 has been amended accordingly. This resulted in only minor changes in the reported segment information as the Group was already largely compliant with the provisions of IFRS 8.

The Group's results are analysed across four geographic segments. This is consistent with the way the Group manages the business. The four geographic segments, based on the Group's management structure, are South Africa, United States, Europe and Other. Within the geographic segments, the Group generates revenue from four principal lines of business: long-term business, asset management, banking and general insurance. The general insurance line of business has been discontinued during the financial year as the Group has announced its intention to sell the business during 2007, however for the purposes of reporting adjusted operating profit, the result of the general insurance line of business are included in the segment analyses.

Segmental income statement information in note 3 is based on the Group's geographical management structure with revenue and expenses allocated to the lines of business. This follows the same format as the Consolidated income statement and is reconciled to Adjusted Operating Profit which is one of the key measures reported to the Group's chief operating decision makers 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. These measures are also presented and include an analysis of gross earned premiums and funds under management. Additional performance measures considered by management in assessing the performance of the segments can be found in the European Embedded Value Supplementary information.

#### Implementation of IFRS 7, Financial Instruments: Disclosures

IFRS 7 'Financial Instruments: Disclosures' has been adopted by the Group in the year ended 31 December 2007 resulting in a number of additional disclosures and a restatement of certain items in the 2006 financial statements. As part of the implementation of this standard, the published 2006 balance sheet has been restated to more appropriately reflect the Group's financial assets and liabilities on the basis of the nature and characteristics of those financial instruments. As a result, a number of the previously disclosed balance sheet headings have been changed or removed and new balance sheet captions have been created. Certain limited changes have also been made to the Group's Consolidated income statement. There was no change to any of the recognition and measurement principles applied by the Group as a result of the adoption of IFRS7.

# Notes to the consolidated financial statements

## For the year ended 31 December 2007 continued

### 2 Foreign currencies

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

	Income statement (average rate)	Balance sheet (closing rate)
<b>31 December 2007</b>		
Rand	14.1109	13.6043
US Dollars	2.0014	1.9827
Swedish Krona	13.5253	12.8320
Euro	1.4602	1.3596
<b>31 December 2006</b>		
Rand	12.4740	13.6746
US Dollars	1.8429	1.9569
Swedish Krona	13.5918*	13.3924
Euro	1.4671*	1.4837
<b>1 February 2006</b>		
Swedish Krona		13.5347

\* The 2006 income statement rate applied in respect of Skandia is an eleven month average rate.

### **3 Segment information**

#### **(i) Basis of segmentation**

The Group's results are analysed across four geographic segments. This is consistent with the way the Group manages the business. The four geographic segments, based on the Group's management structure, are South Africa, United States, Europe and Other. Within the geographic segments, the Group generates revenue from four principal lines of business: long-term business, asset management, banking and general insurance. For IFRS purposes, the general insurance line of business has been discontinued during the financial year, however for the purposes of reporting adjusted operating profit, the result of the general insurance line of business is included in the following analyses.

The income statement information that follows is based on the Group's geographical management structure with revenue and expenses allocated to the lines of business. This follows the same format as the Consolidated income statement and is reconciled to Adjusted Operating Profit which is one of the key measures reported to the Group's chief operating decision makers 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. These measures are also presented and include an analysis of gross earned premiums and funds under management. Additional performance measures considered by management in assessing the performance of the segments can be found in the European Embedded Value information presented on pages 65 to 88.

# Notes to the consolidated financial statements

## For the year ended 31 December 2007 continued

### 3 Segment information continued

#### (ii) Income statement – segment information year ended 31 December 2007

	South Africa			United States	
	Long-term business	Asset management	Banking	Long-term business	Asset management
<b>Revenue</b>					
Gross earned premiums	1,563	–	–	3,148	–
Outward reinsurance	(41)	–	–	(88)	–
Net earned premiums	1,522	–	–	3,060	–
Investment return (non-banking)	3,203	89	–	528	13
Banking interest and similar income	–	–	2,979	–	–
Banking trading, investment and similar income	–	–	167	–	–
Fee and commission income, and income from service activities	108	161	474	–	570
Other income	77	36	52	9	12
Share of associated undertakings' profit after tax	11	–	8	–	–
Profit on disposal of subsidiaries, associated undertakings and strategic investments	–	–	1	–	8
Inter-segment revenues	144	49	39	–	12
<b>Total revenue</b>	<b>5,065</b>	<b>335</b>	<b>3,720</b>	<b>3,597</b>	<b>615</b>
<b>Expenses</b>					
Claims and benefits (including change in insurance contract provisions)	(2,981)	–	–	(3,480)	–
Reinsurance recoveries	39	–	–	95	–
Net claims and benefits incurred	(2,942)	–	–	(3,385)	–
Change in investment contract liabilities	(767)	–	–	–	–
Losses on loans and advances	–	–	(154)	–	–
Finance costs	–	–	–	–	–
Banking interest payable and similar expenses	–	–	(1,928)	–	–
Fee and commission expense, and other acquisition costs	(153)	–	–	(102)	(10)
Other operating and administrative expenses	(410)	(153)	(940)	(54)	(424)
Change in third party interest in consolidated funds	–	–	–	–	–
Goodwill impairment	–	–	–	–	–
Amortisation of PVIF and other acquired intangibles	–	–	–	(24)	–
Inter-segment expenses	(63)	(84)	(75)	(13)	–
<b>Total expenses</b>	<b>(4,335)</b>	<b>(237)</b>	<b>(3,097)</b>	<b>(3,578)</b>	<b>(434)</b>
<b>Profit before tax for the financial year (excluding policyholder tax)</b>	<b>730</b>	<b>98</b>	<b>623</b>	<b>19</b>	<b>181</b>
Adjusting items	(222)	–	(1)	79	(19)
Income tax attributable to policyholder returns	(63)	–	–	–	–
<b>Adjusted operating profit before tax</b>	<b>445</b>	<b>98</b>	<b>622</b>	<b>98</b>	<b>162</b>

### 3 Segment information continued

#### (ii) Income statement – segment information year ended 31 December 2007 continued

Europe			Other	Group					£m
Long-term business	Asset management	Banking	Asset management	Corporate	Inter-segment (revenues) / expense	Total continuing operations	Discontinued operations	Total	
230	–	–	–	–	–	4,941	625	5,566	
(72)	–	–	–	–	–	(201)	(92)	(293)	
158	–	–	–	–	–	4,740	533	5,273	
2,019	–	–	–	8	211	6,071	56	6,127	
–	–	211	–	–	–	3,190	–	3,190	
–	–	3	–	–	–	170	–	170	
730	345	27	42	–	–	2,457	–	2,457	
8	23	2	3	–	23	245	–	245	
–	–	–	(3)	(17)	–	(1)	–	(1)	
–	–	16	–	–	–	25	–	25	
178	27	13	2	15	(512)	(33)	33	–	
3,093	395	272	44	6	(278)	16,864	622	17,486	
(151)	–	–	–	–	–	(6,612)	(390)	(7,002)	
50	–	–	–	–	–	184	52	236	
(101)	–	–	–	–	–	(6,428)	(338)	(6,766)	
(1,851)	–	–	–	–	–	(2,618)	–	(2,618)	
–	–	(3)	–	–	–	(157)	–	(157)	
–	–	–	–	(50)	–	(50)	–	(50)	
–	–	(125)	–	–	–	(2,053)	–	(2,053)	
(201)	(103)	–	(11)	–	(70)	(650)	(110)	(760)	
(468)	(137)	(80)	(30)	(56)	(8)	(2,760)	(53)	(2,813)	
–	–	–	–	–	(156)	(156)	–	(156)	
–	–	–	–	–	–	–	(3)	(3)	
(326)	(5)	(5)	–	–	–	(360)	–	(360)	
(73)	(132)	(32)	(1)	(3)	512	36	(36)	–	
(3,020)	(377)	(245)	(42)	(109)	278	(15,196)	(540)	(15,736)	
73	18	27	2	(103)	–	1,668	82	1,750	
152	8	(13)	–	(57)	–	(73)	7	(66)	
3	–	–	–	–	–	(60)	–	(60)	
228	26	14	2	(160)	–	1,535	89	1,624	

# Notes to the consolidated financial statements

## For the year ended 31 December 2007 continued

### 3 Segment information continued

#### (ii) Income statement – segment information year ended 31 December 2006

	South Africa			United States	
	Long-term business	Asset management	Banking	Long-term business	Asset management
<b>Revenue</b>					
Gross earned premiums	1,628	–	–	2,128	–
Outward reinsurance	(33)	–	–	(81)	–
Net earned premiums	1,595	–	–	2,047	–
Investment return (non-banking)	5,207	43	–	736	17
Banking interest and similar income	–	–	2,285	–	–
Banking trading, investment and similar income	–	–	195	–	–
Fee and commission income, and income from service activities	107	153	499	–	465
Other income	73	28	36	–	21
Share of associated undertakings' profit after tax	6	–	6	–	–
Profit on disposal of subsidiaries, associated undertakings and strategic investments	–	–	17	–	68
Inter-segment revenues	96	53	8	–	14
<b>Total revenue</b>	<b>7,084</b>	<b>277</b>	<b>3,046</b>	<b>2,783</b>	<b>585</b>
<b>Expenses</b>					
Claims and benefits (including change in insurance contract provisions)	(4,706)	–	–	(2,667)	–
Reinsurance recoveries	21	–	–	164	–
Net claims and benefits incurred	(4,685)	–	–	(2,503)	–
Change in investment contract liabilities	(1,096)	–	–	–	–
Losses on loans and advances	–	–	(120)	–	–
Finance costs	–	–	–	–	–
Banking interest payable and similar expenses	–	–	(1,386)	–	–
Fee and commission expense, and other acquisition costs	(152)	(4)	–	(128)	(19)
Other operating and administrative expenses	(532)	(115)	(967)	(24)	(359)
Change in third party interest in consolidated funds	–	–	–	–	–
Goodwill impairment	–	–	(5)	–	–
Amortisation of PVIF and other acquired intangibles	–	–	–	(22)	–
Inter-segment expenses	(65)	(62)	(23)	(15)	–
<b>Total expenses</b>	<b>(6,530)</b>	<b>(181)</b>	<b>(2,501)</b>	<b>(2,692)</b>	<b>(378)</b>
<b>Profit before tax for the financial year (excluding policyholder tax)</b>	<b>554</b>	<b>96</b>	<b>545</b>	<b>91</b>	<b>207</b>
Adjusting items	(23)	–	(11)	33	(67)
Income tax attributable to policyholder returns	(125)	–	–	–	–
<b>Adjusted operating profit before tax</b>	<b>406</b>	<b>96</b>	<b>534</b>	<b>124</b>	<b>140</b>



### 3 Segment information continued

#### (ii) Income statement – segment information year ended 31 December 2006 continued

Europe			Other	Group					£m
Long-term business	Asset management	Banking	Asset management	Corporate	Inter-segment (revenues)/ expense	Total continuing operations	Discontinued operations	Total Restated	
270	–	–	–	–	–	4,026	687	4,713	
(64)	–	–	–	–	–	(178)	(89)	(267)	
206	–	–	–	–	–	3,848	598	4,446	
3,791	6	–	2	7	379	10,188	101	10,289	
–	–	142	–	–	–	2,427	–	2,427	
–	–	(14)	–	–	–	181	–	181	
613	269	24	41	–	–	2,171	–	2,171	
31	(3)	6	1	119	(5)	307	–	307	
–	–	–	(6)	–	–	6	–	6	
–	–	–	–	–	–	85	–	85	
180	39	33	1	11	(435)	–	–	–	
4,821	311	191	39	137	(61)	19,213	699	19,912	
(181)	–	–	–	–	–	(7,554)	(404)	(7,958)	
31	–	–	–	–	–	216	29	245	
(150)	–	–	–	–	–	(7,338)	(375)	(7,713)	
(3,559)	–	–	–	–	–	(4,655)	–	(4,655)	
–	–	(3)	–	–	–	(123)	–	(123)	
–	–	–	–	(91)	–	(91)	–	(91)	
–	–	(75)	–	–	–	(1,461)	–	(1,461)	
(163)	(57)	–	(9)	–	(60)	(592)	(125)	(717)	
(414)	(125)	(71)	(25)	(47)	(36)	(2,715)	(58)	(2,773)	
–	–	–	–	–	(278)	(278)	–	(278)	
–	–	–	–	–	–	(5)	(3)	(8)	
(349)	(7)	(1)	–	–	–	(379)	–	(379)	
(89)	(132)	(31)	(4)	(8)	435	6	(6)	–	
(4,724)	(321)	(181)	(38)	(146)	61	(17,631)	(567)	(18,198)	
97	(10)	10	1	(9)	–	1,582	132	1,714	
246	9	1	–	(154)	–	34	(50)	(16)	
(114)	–	–	–	–	–	(239)	–	(239)	
229	(1)	11	1	(163)	–	1,377	82	1,459	

# Notes to the consolidated financial statements

## For the year ended 31 December 2007 continued

### 3 Segment information continued

#### (iii) Gross earned premiums

	£m				
Year ended 31 December 2007	South Africa	United States	Europe	Other	Total
Long-term business – insurance contracts	1,048	3,148	230	–	4,426
Long-term business – investment contracts with discretionary participation features	515	–	–	–	515
<b>Gross earned premiums</b>	<b>1,563</b>	<b>3,148</b>	<b>230</b>	<b>–</b>	<b>4,941</b>
<b>Long-term business – other investment contracts recognised as deposits</b>	<b>1,315</b>	<b>177</b>	<b>8,450</b>	<b>–</b>	<b>9,942</b>

	£m				
Year ended 31 December 2006	South Africa	United States	Europe	Other	Total
Long-term business – insurance contracts	1,183	2,128	270	–	3,581
Long-term business – investment contracts with discretionary participation features	445	–	–	–	445
<b>Gross earned premiums</b>	<b>1,628</b>	<b>2,128</b>	<b>270</b>	<b>–</b>	<b>4,026</b>
<b>Long-term business – other investment contracts recognised as deposits</b>	<b>1,493</b>	<b>216</b>	<b>7,889</b>	<b>–</b>	<b>9,598</b>

#### (iv) Funds under management

	£m				
At 31 December 2007	South Africa	United States	Europe	Other	Total
Long-term business policyholder funds	22,469	14,822	44,674	122	82,087
Unit trusts and mutual funds	6,693	5,260	14,416	2,535	28,904
Third party client funds	10,517	149,850	–	3,833	164,200
Total client funds under management	39,679	169,932	59,090	6,490	275,191
Shareholder funds	2,042	191	1,454	–	3,687
<b>Total funds under management</b>	<b>41,721</b>	<b>170,123</b>	<b>60,544</b>	<b>6,490</b>	<b>278,878</b>

	£m				
At 31 December 2006	South Africa	United States	Europe	Other	Total Restated
Long-term business policyholder funds	19,937	13,704	39,113	41	72,795
Unit trusts and mutual funds	5,183	3,131	13,156	2,544	24,014
Third party client funds	12,950	122,945	–	3,167	139,062
Total client funds under management	38,070	139,780	52,269	5,752	235,871
Shareholder funds	2,066	200	1,296	–	3,562
<b>Total funds under management</b>	<b>40,136</b>	<b>139,980</b>	<b>53,565</b>	<b>5,752</b>	<b>239,433</b>

### 3 Segment information continued

#### (v) Balance sheet information

							£m
At 31 December 2007	South Africa	United States	Europe	Other	Unallocated to segment	Inter-segment assets/liabilities	Total
<b>Assets</b>							
Long-term business	27,356	15,969	55,607	–	–	(2,430)	96,502
Asset management	1,817	1,640	498	311	–	(334)	3,932
Banking	35,575	–	4,475	–	–	(142)	39,908
General insurance	641	–	–	–	–	(52)	589
Other shareholders' assets	1,276	–	638	–	(257)	65	1,722
Investments in associated undertakings	87	–	–	(9)	3	–	81
<b>Consolidated total assets</b>	<b>66,752</b>	<b>17,609</b>	<b>61,218</b>	<b>302</b>	<b>(254)</b>	<b>(2,893)</b>	<b>142,734</b>
<b>Liabilities</b>							
Long-term business	27,086	14,754	51,598	–	–	(620)	92,818
Asset management	1,709	361	229	34	–	(1,129)	1,204
Banking	33,082	–	4,169	–	–	(512)	36,739
General insurance	394	–	–	–	–	(4)	390
Other shareholders' liabilities	246	–	791	–	1,577	(628)	1,986
<b>Consolidated total liabilities</b>	<b>62,517</b>	<b>15,115</b>	<b>56,787</b>	<b>34</b>	<b>1,577</b>	<b>(2,893)</b>	<b>133,137</b>
<b>Net assets</b>							
Long-term business	491	1,215	4,009	–	–	(1,810)	3,905
Asset management	108	1,279	326	277	–	795	2,785
Banking	2,493	–	306	–	–	370	3,169
General insurance	247	–	–	–	–	(48)	199
Other shareholders' net assets	1,030	–	(153)	–	(701)	693	869
Investments in associated undertakings	87	–	–	(9)	3	–	81
	4,456	2,494	4,488	268	(698)	–	11,008
Debt	(221)	–	(57)	–	(1,133)	–	(1,411)
<b>Consolidated net assets</b>	<b>4,235</b>	<b>2,494</b>	<b>4,431</b>	<b>268</b>	<b>(1,831)</b>	<b>–</b>	<b>9,597</b>

The net assets of South African businesses are stated after eliminating investments in Group equity and debt instruments of £493 million (2006: £560 million) held in policyholder funds. These include investments in the Company's ordinary shares and subordinated liabilities and preferred securities issued by the Group's banking subsidiary Nedbank Limited. All South Africa debt relates to long-term business. All other debt relates to other shareholders' net assets.

The general insurance operations are classified as discontinued.

# Notes to the consolidated financial statements

## For the year ended 31 December 2007 continued

### 3 Segment information continued

#### (v) Balance sheet information continued

							£m
At 31 December 2006	South Africa	United States	Europe	Other	Unallocated to segment	Inter-segment assets/ liabilities	Total
<b>Assets</b>							
Long-term business	24,983	15,370	49,653	–	–	(2,199)	87,807
Asset management	1,647	1,511	458	281	–	(433)	3,464
Banking	30,723	–	4,325	–	–	(14)	35,034
General insurance	616	–	–	–	–	(32)	584
Other shareholders' assets	991	–	611	263	571	(852)	1,584
Investments in associated undertakings	70	–	–	13	–	–	83
<b>Consolidated total assets</b>	<b>59,030</b>	<b>16,881</b>	<b>55,047</b>	<b>557</b>	<b>571</b>	<b>(3,530)</b>	<b>128,556</b>
<b>Liabilities</b>							
Long-term business	24,536	14,113	45,803	–	–	(324)	84,128
Asset management	1,407	424	445	23	–	(1,062)	1,237
Banking	28,680	–	4,046	–	–	(509)	32,217
General insurance	354	–	–	–	–	–	354
Other shareholders' liabilities	397	–	579	65	2,451	(1,635)	1,857
<b>Consolidated total liabilities</b>	<b>55,374</b>	<b>14,537</b>	<b>50,873</b>	<b>88</b>	<b>2,451</b>	<b>(3,530)</b>	<b>119,793</b>
<b>Net assets</b>							
Long-term business	685	1,257	3,850	–	–	(1,875)	3,917
Asset management	240	1,087	13	258	–	629	2,227
Banking	2,043	–	279	–	–	495	2,817
General insurance	262	–	–	–	–	(32)	230
Other shareholders' net assets	594	–	171	198	(938)	783	808
Investments in associated undertakings	70	–	–	13	–	–	83
	<b>3,894</b>	<b>2,344</b>	<b>4,313</b>	<b>469</b>	<b>(938)</b>	<b>–</b>	<b>10,082</b>
Debt	(238)	–	(139)	–	(942)	–	(1,319)
<b>Consolidated net assets</b>	<b>3,656</b>	<b>2,344</b>	<b>4,174</b>	<b>469</b>	<b>(1,880)</b>	<b>–</b>	<b>8,763</b>

#### 4 Operating profit adjusting items

##### (i) Summary of adjusting items

In determining the adjusted operating profit of the Group adjustments are made to profit before tax to reflect the directors' view of the underlying long-term performance of the Group. These items are summarised below:

						£m	
Year ended 31 December 2007		Notes	South Africa	United States	Europe	Other	Total
<b>Income/(expense)</b>							
Goodwill impairment and impact of acquisition accounting	4(ii)	–	(24)	(218)	–	(242)	
Profit on disposal of subsidiaries, associated undertakings and strategic investments	4(iii)	1	8	16	–	25	
Short-term fluctuations in investment return	4(iv)	195	(55)	55	–	195	
Investment return adjustment for Group equity and debt instruments held in life funds	4(v)	14	–	–	–	14	
Dividends declared to holders of perpetual preferred callable securities	4(vi)	–	–	–	40	40	
Closure of unclaimed shares trusts	4(vii)	13	–	–	(12)	1	
US Asset Management equity plans and minority holders	4(viii)	–	11	–	–	11	
Fair value gains on Group debt instruments	4(ix)	–	–	–	29	29	
<b>Total adjusting items</b>		<b>223</b>	<b>(60)</b>	<b>(147)</b>	<b>57</b>	<b>73</b>	
Tax on adjusting items	5(iii)	(101)	30	51	(9)	(29)	
Minority interest in adjusting items	6(iii)	23	(11)	–	–	12	
<b>Total adjusting items after tax and minority interests</b>		<b>145</b>	<b>(41)</b>	<b>(96)</b>	<b>48</b>	<b>56</b>	

						£m	
Year ended 31 December 2006		Notes	South Africa	United States	Europe	Other	Total
<b>Income/(expense)</b>							
Goodwill impairment and impact of acquisition accounting	4(ii)	(5)	(22)	(256)	–	(283)	
Profit on disposal of subsidiaries, associated undertakings and strategic investments	4(iii)	17	68	–	–	85	
Short-term fluctuations in investment return	4(iv)	285	(12)	–	–	273	
Investment return adjustment for Group equity and debt instruments held in life funds	4(v)	(148)	–	–	–	(148)	
Dividends declared to holders of perpetual preferred callable securities	4(vi)	–	–	–	39	39	
Closure of unclaimed shares trusts	4(vii)	(115)	–	–	115	–	
<b>Total adjusting items</b>		<b>34</b>	<b>34</b>	<b>(256)</b>	<b>154</b>	<b>(34)</b>	
Tax on adjusting items	5(iii)	(32)	18	46	(4)	28	
Minority interest in adjusting items	6(iii)	15	–	7	–	22	
<b>Total adjusting items after tax and minority interests</b>		<b>17</b>	<b>52</b>	<b>(203)</b>	<b>150</b>	<b>16</b>	

# Notes to the consolidated financial statements

## For the year ended 31 December 2007 continued

### 4 Operating profit adjusting items continued

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

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

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

					£m
<b>Year ended 31 December 2007</b>	South Africa	United States	Europe	Other	Total
Amortisation of acquired PVIF					
Long-term business	–	24	266	–	290
Amortisation of acquired deferred costs and revenue					
Long-term business	–	–	(112)	–	(112)
Asset management	–	–	6	–	6
Amortisation of other acquired intangible assets					
Long-term business	–	–	60	–	60
Asset management	–	–	5	–	5
Banking	–	–	5	–	5
Release of acquisition balance sheet provisions					
Long-term business	–	–	(7)	–	(7)
Asset management	–	–	(3)	–	(3)
Banking	–	–	(2)	–	(2)
	–	24	218	–	242

					£m
<b>Year ended 31 December 2006</b>	South Africa	United States	Europe	Other	Total
Amortisation of acquired PVIF					
Long-term business	–	22	293	–	315
Amortisation of acquired deferred costs and revenue					
Long-term business	–	–	(103)	–	(103)
Asset management	–	–	2	–	2
Amortisation of other acquired intangible assets					
Long-term business	–	–	56	–	56
Asset management	–	–	7	–	7
Banking	–	–	1	–	1
Goodwill impairment					
Banking	5	–	–	–	5
	5	22	256	–	283

#### 4 Operating profit adjusting items continued

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

During 2007 the Europe banking subsidiary sold its Danish operation. An accounting profit on sale of £16 million was recognised.

During the year, the US asset management business disposed of its interests in certain affiliate asset managers, resulting in a profit on disposal of £8 million. In 2006 profits on sale of £68 million were recognised in relation to unrelated affiliate disposals.

During 2006, the Group's South African banking subsidiary disposed of an IT finance solutions business resulting in a profit on disposal of £17 million.

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

					£m
<b>Year ended 31 December 2007</b>	South Africa	United States	Europe	Other	Total
Asset management	–	8	–	–	8
Banking	1	–	16	–	17

  

					£m
<b>Year ended 31 December 2006</b>	South Africa	United States	Europe	Other	Total
Asset management	–	68	–	–	68
Banking	17	–	–	–	17

##### (iv) Long-term investment return

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

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

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

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

<b>Long-term investment rates</b>	<b>Year ended 31 December 2007</b>	Year ended 31 December 2006
South Africa long-term business	<b>15.6%</b>	11.3%
United States long-term business	<b>5.7%</b>	5.9%
Europe long-term business	<b>4.9%</b>	4.6%

# Notes to the consolidated financial statements

## For the year ended 31 December 2007 continued

### 4 Operating profit adjusting items continued

#### (iv) Long-term investment return continued

Analysis of short-term fluctuations in investment return

	£m			
Year ended 31 December 2007	South Africa	United States	Europe	Total
<b>Long-term business</b>				
Actual investment return attributable to shareholders	416	527	61	1,004
Less: long-term investment return	(221)	(582)	(6)	(809)
<b>Total short-term fluctuations in investment return</b>	<b>195</b>	<b>(55)</b>	<b>55</b>	<b>195</b>

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

	£m			
Year ended 31 December 2006	South Africa	United States	Europe	Total
<b>Long-term business</b>				
Actual investment return attributable to shareholders	434	620	5	1,059
Less: long-term investment return	(149)	(632)	(5)	(786)
<b>Total short-term fluctuations in investment return</b>	<b>285</b>	<b>(12)</b>	<b>–</b>	<b>273</b>

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

Adjusted operating profit includes investment returns on policyholder investments in Group equity and debt instruments by the Group's life funds. These include investments in the Company's ordinary shares, and the subordinated liabilities and ordinary securities of the Group's South Africa banking subsidiary. These investment returns are eliminated within the consolidated income statement in arriving at profit before tax, but are included in adjusted operating profit. In 2007 the investment return adjustment decreased adjusted operating profit by £14 million (2006: increase of £148 million).

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

Dividends declared to the holders of the Group's perpetual preferred callable securities were £40 million in the year ended 31 December 2007 (2006: £39 million). These are recognised in finance costs on an accruals basis for the purpose of determining adjusted operating profit. In the IFRS financial statements this cost is recognised in equity.

#### (vii) Closure of unclaimed shares trusts

During 2006 Old Mutual announced that the Old Mutual South Africa Unclaimed Shares Trust (UST) together with similar trusts set up in Namibia, Zimbabwe, Malawi and Bermuda, would be closed and that the gross proceeds from the sale of unclaimed shares by these trusts should be paid to Old Mutual plc. Under the terms of the deeds establishing the USTs, the trustees of the USTs were required, following their termination, to liquidate the residual assets of the USTs and to distribute them in accordance with the directions given by Old Mutual plc. Following discussions with the South African National Treasury, the Company announced on 30 January 2007 that it intended, subject to shareholders approval (subsequently granted) at the Company's Annual General Meeting in May 2007, to use substantially all of the proceeds realised to discharge late claims in cash for a further period of three years (to 31 August 2009), to fund good causes in the jurisdictions of the trust concerned or to enhance benefits for certain specific small policyholders of the Group's South African and Namibian life businesses.

The principal impact of the closure of these trusts was reflected in the 2006 Group Financial Statements. Income of £115 million was recognised by Old Mutual plc and expenses of £115 million were recognised by the Group's South Africa long-term business. The income related to the anticipated receipt of sales proceeds from the trusts. The expenses related to anticipated cost of the proposals to discharge the Group's obligations following the closure of the trusts. This item had no impact on the profit before tax or adjusted operating profit of the Group, and was excluded from the adjusted operating profit of Old Mutual plc and the Group's South Africa long-term business.

During 2007 payments of the proceeds have been made by the trusts to Old Mutual plc. These payments resulted in the realisation of foreign exchange losses of £14 million. Furthermore, as a result of remeasurement of certain provisions for obligations established during 2006, an amount of £13 million has been released. Consistent with the treatment of the original sales proceeds and costs in 2006, these amounts have been excluded from adjusted operating profit.



#### **4 Operating profit adjusting items** continued

##### **(viii) US Asset Management equity plans and minority interests**

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

In accordance with IFRS requirements the cost of these schemes is disclosed as being attributable to minority interests. However, this is treated as a compensation expense in determining adjusted operating profit. The amount recognised in relation to this in 2007 was £11 million (2006: £nil).

During 2007 the Group has issued put options to employees as part of some of its US affiliate incentive schemes. The impact of revaluing these instruments is recognised in accordance with IFRS, but excluded from adjusted operating profit. As at 31 December 2007 these instruments were revalued, the impact of which was less than £1 million. At 31 December 2006 no such instruments existed.

##### **(ix) Fair value gains on Group debt instruments**

The significant widening of credit spreads in the second half of 2007 has led to a reduction in the market price of the Group's debt instruments. This decline in market price has resulted in a gain of £29 million being recorded in the Group's income statement for those instruments that are recorded at fair value.

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

# Notes to the consolidated financial statements

## For the year ended 31 December 2007 continued

### 5 Income tax expense

#### (i) Analysis of total income tax expense

	£m	
	Year ended 31 December 2007	Year ended 31 December 2006 Restated
<b>Current tax</b>		
United Kingdom tax		
Corporation tax	436	61
Double tax relief	(399)	(26)
Overseas tax		
South Africa	379	239
United States	26	16
Europe	73	54
Secondary Tax on Companies (STC)	65	11
Prior year adjustments	(25)	(3)
<b>Total current tax</b>	<b>555</b>	<b>352</b>
<b>Deferred tax</b>		
Origination of temporary differences	(58)	213
Changes in tax rates/bases	(13)	–
Recognition of deferred tax assets	(5)	(2)
<b>Total deferred tax</b>	<b>(76)</b>	<b>211</b>
<b>Total income tax expense</b>	<b>479</b>	<b>563</b>

#### (ii) Reconciliation of total income tax expense

	£m	
	Year ended 31 December 2007	Year ended 31 December 2006 Restated
<b>Profit before tax</b>	<b>1,668</b>	<b>1,582</b>
Tax at standard rate of 30% (2006: 30%)	500	474
Different tax rate or basis on overseas operations	(20)	(19)
Untaxed and low taxed income	(154)	(133)
Disallowable expenses	88	59
Net movement on deferred tax assets not recognised	(52)	19
STC	47	11
Income tax attributable to policyholder returns	51	173
Other	19	(21)
<b>Total income tax expense</b>	<b>479</b>	<b>563</b>

## 5 Income tax expense continued

### (iii) Income tax on adjusted operating profit

	£m	
	Year ended 31 December 2007	Year ended 31 December 2006 Restated
<b>Income tax expense</b>	<b>479</b>	<b>563</b>
<b>Tax on adjusting items</b>		
Impact of acquisition accounting	65	52
Profit on disposal of subsidiaries, associated undertakings and strategic investments	(10)	8
Short-term fluctuations in investment return	(40)	(28)
Income tax attributable to policyholders returns	(60)	(239)
Secondary Tax on Companies (STC) on dividends paid	(35)	–
Tax on dividends declared to holders of perpetual preferred callable securities recognised in equity	(9)	(4)
<b>Income tax on adjusted operating profit</b>	<b>390</b>	<b>352</b>

## 6 Minority interests – Income statement

### (i) Minority interests – ordinary shares

The minority interest allocation of profit for the financial year has been calculated on the basis of the Group's effective ownership of the subsidiaries in which it does not own 100 per cent of the ordinary equity. The principal subsidiaries where a minority exists are the Group's banking and general insurance businesses in South Africa. For the year ended 31 December 2007 the minority interest attributable to ordinary shares was £224 million (2006: £207 million).

### (ii) Minority interests – preferred securities

	£m	
	At 31 December 2007	At 31 December 2006
R2,000 million non-cumulative preference shares	13	13
R792 million non-cumulative preference shares	5	5
R300 million non-cumulative preference shares	1	–
R364 million non-cumulative preferred securities	1	–
US\$750 million cumulative preferred securities	30	32
<b>Minority interest – preferred securities</b>	<b>50</b>	<b>50</b>

### (iii) Minority interests – adjusted operating profit

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

	£m	
	Year ended 31 December 2007	Year ended 31 December 2006
<b>Reconciliation of minority interests share of profit for the financial year</b>		
The minority interest charge is analysed as follows:		
Minority interest – ordinary shares	224	207
Goodwill impairment and impact of acquisition accounting	–	11
Profit on disposal of subsidiaries, associated undertakings and strategic investments	–	(7)
Short-term fluctuations in investment return	–	(9)
Income attributable to Black Economic Empowerment trusts of listed subsidiaries	29	22
Income attributable to US Asset Management minority holdings	(11)	–
<b>Minority interest share of adjusted operating profit</b>	<b>242</b>	<b>224</b>

The Group uses revised weighted average effective ownership interests when calculating the minority interest applicable to the adjusted operating profit of its South Africa banking and general insurance businesses. This reflects the legal ownership of these businesses following the implementation for Black Economic Empowerment (BEE) schemes in 2005. In accordance with IFRS accounting rules the shares issued for BEE purposes are deemed to be, in substance, options. Therefore the effective ownership interest 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 2007 the increase in adjusted operating profit attributable to minority interests as a result of this was £29 million (2006: £22 million).

# Notes to the consolidated financial statements

## For the year ended 31 December 2007 continued

### 7 Earnings and earnings per share

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

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

	<b>£m</b>	
	Year ended 31 December 2007	Year ended 31 December 2006
Profit for the financial year attributable to equity holders of the parent from continuing operations	929	781
Profit for the financial year attributable to equity holders of the parent from discontinued operations	43	55
Profit for the financial year attributable to equity holders of the parent	972	836
Dividends declared to holders of perpetual preferred callable securities	(31)	(35)
<b>Profit attributable to ordinary equity holders</b>	<b>941</b>	<b>801</b>

Total dividends declared to holders of perpetual preferred callable securities of £40 million in 2007 are stated net of tax credits of £9 million.

	<b>Millions</b>	
	Year ended 31 December 2007	Year ended 31 December 2006
<b>Weighted average number of ordinary shares in issue</b>	<b>5,492</b>	<b>5,339</b>
Shares held in charitable foundations	(20)	(19)
Shares held in ESOP trusts	(61)	(98)
<b>Adjusted weighted average number of ordinary shares</b>	<b>5,411</b>	<b>5,222</b>
Shares held in life funds	(282)	(292)
Shares held in Black Economic Empowerment trusts	(235)	(225)
<b>Weighted average number of ordinary shares</b>	<b>4,894</b>	<b>4,705</b>
Basic earnings per ordinary share from continuing operations (pence)	18.3	15.8
Basic earnings per ordinary share from discontinued operations (pence)	0.9	1.2
<b>Basic earnings per ordinary share (pence)</b>	<b>19.2</b>	<b>17.0</b>

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>	
	Year ended 31 December 2007	Year ended 31 December 2006
Weighted average number of ordinary shares	4,894	4,705
Adjustments for share options held by ESOP trusts	63	62
Adjustments for shares held in Black Economic Empowerment trusts	235	225
	<b>5,192</b>	<b>4,992</b>
Diluted earnings per ordinary share from continuing operations (pence)	17.3	15.0
Diluted earnings per ordinary share from discontinued operations (pence)	0.8	1.1
<b>Diluted earnings per ordinary share (pence)</b>	<b>18.1</b>	<b>16.1</b>

## 7 Earnings and earnings per share continued

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

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

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

			£m
	Continuing operations	Discontinued operations	Total
<b>Year ended 31 December 2007</b>			
<b>Profit for the financial year attributable to equity holders of the parent</b>	<b>929</b>	<b>43</b>	<b>972</b>
Adjusting items	(73)	7	(66)
Tax on adjusting items	29	(3)	26
Minority interest on adjusting items	(12)	(6)	(18)
<b>Adjusted operating profit after tax attributable to ordinary equity holders</b>	<b>873</b>	<b>41</b>	<b>914</b>
Adjusted weighted average number of ordinary shares – (millions)			<b>5,411</b>
<b>Adjusted operating earnings per ordinary share – (pence)</b>	<b>16.1</b>	<b>0.8</b>	<b>16.9</b>

			£m
	Continuing operations	Discontinued operations	Total
<b>Year ended 31 December 2006</b>			
<b>Profit for the financial year attributable to equity holders of the parent</b>	<b>781</b>	<b>55</b>	<b>836</b>
Adjusting items	34	(50)	(16)
Tax on adjusting items	(28)	15	(13)
Minority interest on adjusting items	(22)	5	(17)
<b>Adjusted operating profit after tax attributable to ordinary equity holders</b>	<b>765</b>	<b>25</b>	<b>790</b>
Adjusted weighted average number of ordinary shares – (millions)			<b>5,222</b>
<b>Adjusted operating earnings per ordinary share – (pence)</b>	<b>14.6</b>	<b>0.5</b>	<b>15.1</b>

# Notes to the consolidated financial statements

## For the year ended 31 December 2007 continued

### 8 Provisions

	£m	
	At 31 December 2007	At 31 December 2006
Surplus property	29	41
Client compensation	19	8
Warranties on sale of business	87	113
Liability for long service leave	34	30
Other provisions	329	337
	<b>498</b>	<b>529</b>
Post employment benefits	1	13
<b>Total</b>	<b>499</b>	<b>542</b>

	£m					
Year ended 31 December 2007	Surplus property	Client compensation	Warranties on sale of business	Liability for long service leave	Other	Total
<b>Balance at beginning of the year</b>	41	8	113	30	337	529
Unused amounts reversed	(3)	(1)	(11)	–	(6)	(21)
Unwind of discount	2	–	–	–	–	2
Charge to income statement	–	20	–	4	23	47
Utilised during the year	(8)	(8)	(15)	(2)	(33)	(66)
Foreign exchange and other movements	(3)	–	–	2	8	7
<b>Balance at end of the year</b>	<b>29</b>	<b>19</b>	<b>87</b>	<b>34</b>	<b>329</b>	<b>498</b>

At 31 December 2007 provisions in relation to sale of business were £87 million (2006: £113 million). These principally relate to warranties in respect of the sale of American Skandia to Prudential Financial, recognised by the Group upon acquisition of Skandia.

At 31 December 2007 Other provisions include £71 million (2006: £115 million) in respect of the distribution of proceeds arising upon the closure of the unclaimed shares trusts. Further information is included in note 4 (vii). Also included in this amount are provisions for ongoing litigation across the Group totalling £64 million (2006: £71 million).

	£m					
Year ended 31 December 2006	Surplus property	Client compensation	Warranties on sale of business	Liability for long service leave	Other	Total
<b>Balance at beginning of the year</b>	54	10	20	35	123	242
Additions from business combinations	3	–	102	–	146	251
Unused amounts reversed	(5)	(2)	(6)	–	(15)	(28)
Unwind of discount	2	–	–	–	–	2
Charge to income statement	1	1	–	3	136	141
Utilised during the year	(14)	(1)	(3)	(1)	(39)	(58)
Foreign exchange and other movements	–	–	–	(7)	(14)	(21)
<b>Balance at end of the year</b>	<b>41</b>	<b>8</b>	<b>113</b>	<b>30</b>	<b>337</b>	<b>529</b>

Included in the above are amounts of £78 million (2006: £116 million) that are expected to be settled in less than one year.

## 9 Dividends

Dividends paid were as follows:

	Year ended 31 December 2007	Year ended 31 December 2006	£m
2005 Final dividend paid – 3.65p per 10p share	–	174	
2006 Interim dividend paid – 2.1p per 10p share	–	108	
2006 Final dividend paid – 4.15p per 10p share	218	–	
2007 Interim dividend paid – 2.3p per 10p share	115	–	
<b>Dividends to ordinary equity holders</b>	<b>333</b>	<b>282</b>	
Dividends declared to holders of perpetual preferred callable securities	40	39	
<b>Dividend payments for the year</b>	<b>373</b>	<b>321</b>	

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.

The directors have declared a 2007 final dividend of 4.55p per share, which will be paid on 30 May 2008 to all ordinary equity holders on the register at the close of business on 9 May 2008, being the record date for the dividend. In accordance with IFRS requirements, no provision has been recognised in respect of this dividend.

In March and November 2007, £22 million and £18 million respectively were declared and paid to holders of perpetual preferred callable securities (March 2006: £22 million and November 2006: £17 million).

# Notes to the consolidated financial statements

## For the year ended 31 December 2007 continued

### 10 Contingent liabilities

	At 31 December 2007	At 31 December 2006
Guarantees and assets pledged as collateral security	1,489	1,115
Irrevocable letters of credit	426	334
Secured lending	1,052	1,440
Other contingent liabilities	136	213

#### Nedbank structured financing

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

#### Skandia Liv

Skandia Liv has submitted claims to Skandia relating to compensation for alleged prohibited profit distributions. These distributions relate to the sale of Skandia Liv's asset management business by Skandia to Den Norske Bank in 2002. The dispute is in arbitration, a ruling is expected in 2008.

#### American Skandia

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

Skandia Liv and American Skandia have been provided for in the acquisition accounting.



## European Embedded Value basis supplementary information

### Consolidated income statement on a European Embedded Value basis

	£m	
	Year ended 31 December 2007	Year ended 31 December 2006
<b>South Africa</b>		
Covered business	345	480
Asset management	98	96
Banking	622	534
	<b>1,065</b>	<b>1,110</b>
<b>United States</b>		
Covered business	63	98
Asset management	162	140
	<b>225</b>	<b>238</b>
<b>Europe</b>		
Covered business	350	403
Asset management	26	(1)
Banking	14	11
	<b>390</b>	<b>413</b>
<b>Other</b>	<b>2</b>	<b>1</b>
	<b>1682</b>	<b>1762</b>
Finance costs	(119)	(130)
Other shareholders' income/(expenses)	(31)	(27)
<b>Adjusted operating profit before tax*</b>	<b>1,532</b>	<b>1,605</b>
Adjusting items	315	652
<b>EEV profit before tax (net of income tax attributable to policyholder returns)</b>	<b>1,847</b>	<b>2,257</b>
Income tax attributable to shareholders	(472)	(514)
<b>EEV profit for the financial year after tax from continuing operations</b>	<b>1,375</b>	<b>1,743</b>
EEV profit for the financial year after tax from discontinued operations	57	74
<b>EEV profit for the financial year after tax</b>	<b>1,432</b>	<b>1,817</b>
<b>Profit for the financial year attributable to:</b>		
Equity holders of the parent	1,155	1,531
Minority interests		
Continuing ordinary shares	213	236
Discontinued ordinary shares	14	–
Preferred securities	50	50
<b>EEV profit for the financial year after tax</b>	<b>1,432</b>	<b>1,817</b>

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

## European Embedded Value basis supplementary information

### Consolidated income statement on a European Embedded Value basis continued

	£m	
	Year ended 31 December 2007	Year ended 31 December 2006
<b>Adjusted operating profit after tax attributable to ordinary equity holders</b>		
<b>Adjusted operating profit before tax</b>	<b>1,532</b>	1,605
Tax on adjusted operating profit	<b>(366)</b>	(426)
<b>Adjusted operating profit after tax from continuing operations</b>	<b>1,166</b>	1,179
Adjusted operating profit after tax from discontinued operations	<b>61</b>	39
<b>Adjusted operating profit after tax</b>	<b>1,227</b>	1,218
Minority interests		
Continuing ordinary shares	<b>(225)</b>	(239)
Discontinued ordinary shares	<b>(20)</b>	–
Preferred securities	<b>(50)</b>	(50)
<b>Adjusted operating profit after tax attributable to ordinary equity holders</b>	<b>932</b>	929

#### Adjusted operating profit of the covered business

<b>Adjusted operating profit for the covered business</b>	<b>758</b>	981
South Africa	<b>345</b>	480
United States	<b>63</b>	98
Europe	<b>350</b>	403
<b>Tax on adjusted operating profit for the covered business</b>	<b>154</b>	253
South Africa	<b>75</b>	125
United States	<b>21</b>	32
Europe	<b>58</b>	96
<b>Adjusted operating profit after tax for the covered business</b>	<b>604</b>	728
South Africa	<b>270</b>	355
United States	<b>42</b>	66
Europe	<b>292</b>	307
<b>Tax on adjusted operating profit comprises</b>		
Covered business	<b>154</b>	253
Other business	<b>212</b>	173
<b>Tax on adjusted operating profit</b>	<b>366</b>	426

#### Adjusted operating earnings per share \*

Based on adjusted operating profit from continuing operations (pence)	<b>16.5p</b>	17.3p
Based on adjusted operating profit from discontinued operations (pence)	<b>0.7p</b>	0.5p
<b>Adjusted operating earnings per share</b>	<b>17.2p</b>	17.8p

#### EEV earnings per share

Based on EEV profit from continuing operations (pence)	<b>21.5p</b>	29.4p
Based on EEV profit from discontinued operations (pence)	<b>0.8p</b>	1.2p
<b>Basic EEV earnings per ordinary share (pence)</b>	<b>22.3p</b>	30.6p

<b>Adjusted weighted average number of shares – millions</b>	<b>5,411</b>	5,222
<b>Weighted average number of shares – millions</b>	<b>5,176</b>	4,997

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

# Notes to the European Embedded Value basis supplementary information

## For the year ended 31 December 2007

### 1 Basis of preparation

This supplementary information has been prepared in accordance with the European Embedded Value (EEV) Principles issued in May 2004 by the European CFO Forum and the additional EEV guidance issued in October 2005. The directors acknowledge their responsibility for the preparation of this supplementary information.

The results for the year ended 31 December 2007 and the position at that date other than where stated have been prepared on the same basis as that used in the 31 December 2006 EEV supplementary statements.

Covered business is defined as long-term business in the primary Financial Statements. Covered business is traditional life insurance, long-term healthcare and accident insurance, savings, pensions and annuity business written by the life insurance subsidiaries. The results of Group companies providing administration and distribution services have been included to the extent that they relate to covered business. Following the acquisition of Skandia, covered business now includes the traditional life and unit-linked assurance business of Skandia. Institutional investment platform pension business written in the United Kingdom has been excluded as it is more appropriately classified as mutual fund business. Covered business results do not include services provided by Group investment management companies. Unallocated Group holding expenses have been included to the extent that they relate to the covered business.

For South Africa the covered business excludes individual unit trusts and some group market-linked business written by the asset management company 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 the primary financial statements.

Under the EEV methodology, profit is recognised as it is earned over the life of the products defined within the covered business.

The embedded value of the covered business is the sum of the shareholders' adjusted net worth in respect of the covered business and the value of the in-force covered business. The Group embedded value includes the value of all other business at the book value detailed in the primary financial statements. Adjusted Group embedded value is a measure used by the directors to assess the shareholders' interest in the value of the Group, includes the Group's listed banking and general insurance subsidiaries at market value. The value of deferred consideration due in respect of Black Economic Empowerment partners and the value of own shares held in the employee share trust scheme are also included.

The adjusted net worth of the covered business is the market value of shareholders' assets held in respect of the covered business, and consists of the required capital and free surplus. The level of required capital of the covered business reflects the level of capital considered by the directors to be appropriate to manage the business allowing for minimum local statutory requirements (or equivalent where there is no local requirement), their internal assessment of the market, insurance and operational risk inherent in the underlying products and the level of capital required by rating agencies in respect of our United States business in order to maintain the desired credit rating. The level of required capital is 134, 278 and on average 137 per cent of the minimum local statutory requirements in South Africa, United States and Europe respectively as at 31 December 2007. The free surplus comprises the market value of assets allocated to the covered business in excess of the required capital. The required capital in respect of the South Africa covered business is partially covered by the market value of the Group's investments in banking and general insurance in South Africa. On consolidation these investments are shown separately.

The value of in-force covered business is the present value at the appropriate risk discount rate (which incorporates a risk margin) of the statutory distributable profits to shareholders projected to arise from the in-force covered business on a best estimate basis, less a deduction for the cost of holding the required level of capital.

Statutory distributable profit arises from the difference between amounts charged to policyholders for guarantees, expenses and insurance and the actual experience of these items, together with the investment return earned on shareholders' assets.

Allowance has been made for the cost (intrinsic value) of financial options and guarantees to policyholders in the local statutory reserves according to local requirements. In South Africa and Europe an investment guarantee reserve on a stochastic basis is included in the local statutory reserves. A deduction from the value of in-force has been made to allow for the impact of future variability of investment returns on the cost of policyholder financial options and guarantees (time-value) to the extent that it is not already included in the statutory reserves. This time-value has been determined using stochastic modelling techniques and 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. In the generated economic scenarios allowance is made, where appropriate, for the effect of management and or policyholder actions in different circumstances.

The directors believe that the embedded value of the covered business is calculated in accordance with the CFO Forum EEV Principles. The methodology and assumptions adopted within this supplementary information, including the recalibration of risk margins as referred to on page 82, follow the same approach as adopted in prior years. The CFO Forum is in the process of developing a new set of principles and guidance in order to formalise an approach to market consistent embedded values (MCEVs). It is expected that these new principles and guidance will be published later this year. Old Mutual's intention is to review its embedded value approach in the light of the new MCEV principles and guidance following their publication, and to carry out and publish a restatement onto the new MCEV basis in due course.

## Notes to the European Embedded Value basis supplementary information

### For the year ended 31 December 2007 continued

#### 2 Adjustments applied in determining adjusted operating profit

	£m	
Analysis of adjusting items	Year ended 31 December 2007	Year ended 31 December 2006
<b>Income/(expense)</b>		
Goodwill impairment and amortisation of non-covered business acquired intangible assets	(11)	(12)
Profit on disposal of subsidiaries, associated undertakings and strategic investments	25	84
Short-term fluctuations in investment returns (including economic assumption changes) for the covered business	206	543
Cost of capital methodology and modelling changes	14	55
Material revision to actuarial models	–	(57)
Dividends declared to holders of perpetual preferred callable securities	40	39
Closure of unclaimed share trusts	1	–
US Asset Management equity plans and minority holders	11	–
Fair value gains on Group debt instruments	29	–
<b>Adjusting items</b>	<b>315</b>	<b>652</b>

#### 3 Reconciliation of movements in Group embedded value

	£m	
	Year ended 31 December 2007	Year ended 31 December 2006
<b>Group embedded value at beginning of the year</b>	<b>7,117</b>	<b>5,808</b>
Opening adjustments	(67)	–
<b>Restated Group embedded value at beginning of the year</b>	<b>7,050</b>	<b>5,808</b>
<b>Change in equity arising in the year</b>		
Fair value gains/(losses)	21	(4)
Net investment hedge	(13)	75
Currency translation differences/exchange differences on translating foreign operations	116	(1,285)
Aggregate tax effects of items taken directly to or transferred from equity	13	3
Other movements	29	99
<b>Net income recognised directly into equity</b>	<b>166</b>	<b>(1,112)</b>
Profit for the year	1,155	1,531
<b>Total recognised income and expense for the year</b>	<b>1,321</b>	<b>419</b>
Dividend for the year	(373)	(321)
Share buy back	(177)	–
Net issue of ordinary share capital by the Company	3	2,676
Exercise of share options	9	9
Fair value equity settled share options	36	28
Adjustment to include Skandia long-term business on a statutory solvency basis as at the date of acquisition	–	(3,575)
Acquired value of in-force business of Skandia after fair value opening adjustments	–	2,073
<b>Group embedded value at end of the year</b>	<b>7,869</b>	<b>7,117</b>

#### 4 Components of Group embedded value

	£m	
	At 31 December 2007	At 31 December 2006
<b>Adjusted net worth attributable to ordinary equity holders of the parent</b>	<b>3,431</b>	<b>2,945</b>
Equity	7,961	7,237
Adjustment to include long-term business on a statutory solvency basis:		
South Africa	147	129
United States	(621)	(742)
Europe	(2,581)	(2,477)
Adjustment for market value of life funds' investments in Group equity and debt instruments held in life funds	428	502
Adjustment to remove perpetual preferred callable securities and accrued dividends	(688)	(668)
Adjustment to exclude acquisition goodwill and intangibles from the covered business:		
United States	(60)	(58)
Europe	(1,155)	(978)
<b>Value of in-force business</b>	<b>4,438</b>	<b>4,172</b>
Value of in-force business before items listed below	4,872	4,648
Additional time-value of financial options and guarantees	(50)	(51)
Cost of required capital	(378)	(398)
Minority interest in value of in-force	(6)	(27)
<b>Group embedded value</b>	<b>7,869</b>	<b>7,117</b>
<b>Group embedded value per share – pence</b>	<b>145.6</b>	<b>129.4</b>
<b>Return on Group embedded value (ROEV) per annum</b>	<b>13.2%</b>	<b>13.8%</b>
<b>Number of shares in issue – millions</b>	<b>5,405</b>	<b>5,501</b>

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

The ROEV is calculated as the adjusted operating profit after tax and minority interests of £932 million divided by the opening group embedded value.

The impact of marking all debt to market value is an increase of £120 million at 31 December 2007 (2006: £61 million).

#### 5 Components of adjusted Group embedded value

	£m	
	At 31 December 2007	At 31 December 2006
<b>Pro forma adjustments to bring Group investments to market value</b>		
<b>Group embedded value</b>	<b>7,869</b>	<b>7,117</b>
Adjustment to bring listed subsidiaries to market value	1,163	1,341
South Africa banking business	957	1,094
South Africa general insurance business	206	247
Adjustment for present value of Black Economic Empowerment scheme deferred consideration	179	188
Adjustment for value of own shares in ESOP schemes*	158	218
<b>Adjusted Group embedded value</b>	<b>9,369</b>	<b>8,864</b>
<b>Adjusted Group embedded value per share – pence</b>	<b>173.3</b>	<b>161.1</b>
<b>Number of shares in issue – millions</b>	<b>5,405</b>	<b>5,501</b>

\* Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2006 and 31 December 2007 is due to the realisation of shares and is offset by a corresponding increase in equity in the Group embedded value.

## Notes to the European Embedded Value basis supplementary information

### For the year ended 31 December 2007 continued

#### 6 Reconciliation of Group embedded value of the covered business to the adjusted Group embedded value

	£m	
	At 31 December 2007	At 31 December 2006
<b>Embedded value of the covered business</b>	<b>6,861</b>	<b>6,453</b>
Adjusted net worth*	2,423	2,281
Value of in-force business**	4,438	4,172
<b>Adjusted net worth of the asset management business</b>	<b>1,637</b>	<b>1,527</b>
South Africa	232	169
United States	1,245	1,174
Europe	160	184
<b>Value of the banking business</b>	<b>2,716</b>	<b>2,482</b>
South Africa (market value)	2,411	2,231
Europe (adjusted net worth)	305	251
<b>Market value of the general insurance business</b>		
South Africa	405	458
<b>Net other business</b>	<b>(35)</b>	<b>(19)</b>
<b>Adjustment for present value of Black Economic Empowerment scheme deferred consideration</b>	<b>179</b>	<b>188</b>
<b>Adjustment for value of own shares in ESOP schemes</b>	<b>158</b>	<b>218</b>
<b>Perpetual preferred securities (US\$ denominated)</b>	<b>(458)</b>	<b>(458)</b>
<b>Perpetual preferred callable securities</b>	<b>(688)</b>	<b>(688)</b>
GBP denominated	(350)	(350)
Euro denominated	(338)	(338)
<b>Debt</b>	<b>(1,406)</b>	<b>(1,317)</b>
Rand denominated	(221)	(219)
USD denominated	(408)	(438)
GBP denominated	(272)	(54)
SEK denominated	(505)	(594)
Euro denominated	–	(12)
<b>Accrued dividends to holders of perpetual preferred callable securities</b>	<b>–</b>	<b>20</b>
<b>Adjusted Group embedded value</b>	<b>9,369</b>	<b>8,864</b>

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

\*\* Net of minority interests.

## 7 Components of embedded value of the covered business

	£m	
	At 31 December 2007	At 31 December 2006
<b>Embedded value of the covered business</b>	<b>6,861</b>	6,453
Adjusted net worth	2,423	2,281
Value of in-force business	4,438	4,172
<b>South Africa</b>		
<b>Adjusted net worth</b>	<b>1,470</b>	1,408
Required capital	1,159	1,249
Free surplus	311	159
<b>Value of in-force business</b>	<b>1,207</b>	1,160
Value of in-force business before items listed below	1,392	1,347
Additional time-value of financial options and guarantees	–	–
Cost of required capital	(179)	(183)
Minority interest in value of in-force	(6)	(4)
<b>United States</b>		
<b>Adjusted net worth</b>	<b>505</b>	454
Required capital	424	390
Free surplus	81	64
<b>Value of in-force business</b>	<b>564</b>	690
Value of in-force business before items listed below	703	806
Additional time-value of financial options and guarantees	(48)	(47)
Cost of required capital	(91)	(69)
<b>Europe</b>		
<b>Adjusted net worth</b>	<b>448</b>	419
Required capital	324	270
Free surplus	124	149
<b>Value of in-force business</b>	<b>2,667</b>	2,322
Value of in-force business before items listed below	2,777	2,495
Additional time-value of financial options and guarantees	(2)	(4)
Cost of required capital	(108)	(146)
Minority interest in value of in-force	–	(23)

Adjusted net worth of the covered business excludes acquired intangibles and goodwill.

## Notes to the European Embedded Value basis supplementary information

For the year ended 31 December 2007 continued

### 8 Analysis of covered business embedded value results (after tax)

					Year ended 31 December 2007		Year ended 31 December 2006		£m
	Required capital	Free surplus	Adjusted net worth	Value of in-force	Total	Adjusted net worth	Value of in-force	Total	
<b>Total covered business</b>									
<b>Embedded value of the covered business at beginning of the year</b>			2,281	4,172	6,453	2,242	1,979	4,221	
Acquired embedded value of Skandia						391	2,085	2,476	
Opening fair value adjustments for Skandia			(181)	114	(67)	(47)	(12)	(59)	
	1,903	197	2,100	4,286	6,386	2,586	4,052	6,638	
New business contribution	193	(601)	(408)	674	266	(420)	664	244	
Expected return on existing business – return on value of in-force	–	–	–	351	351	–	317	317	
Expected return on existing business – transfer to net worth	–	685	685	(685)	–	625	(625)	–	
Expected release of required capital – transfer to free surplus	(226)	226	–	–	–	–	–	–	
Experience variances	36	60	96	(111)	(15)	12	16	28	
Operating assumption changes	4	(20)	(16)	(102)	(118)	(1)	(98)	(99)	
Recalibration of risk-margins	–	–	–	(15)	(15)	–	89	89	
Expected return on adjusted net worth	116	19	135	–	135	149	–	149	
<b>Adjusted operating profit after tax</b>	123	369	492	112	604	365	363	728	
Investment return variances on in-force business	2	25	27	(1)	26	16	177	193	
Investment return variances on adjusted net worth	(27)	229	202	–	202	298	–	298	
Effect of economic assumption changes	15	(17)	(2)	(80)	(82)	(2)	(42)	(44)	
Material revision to actuarial models	–	–	–	–	–	–	(38)	(38)	
Methodology changes impacting cost of required capital	(117)	117	–	13	13	–	46	46	
<b>Profit after tax</b>	(4)	723	719	44	763	677	506	1,183	
Exchange rate movements	10	5	15	85	100	(419)	(362)	(781)	
Change in minority interest	(2)	3	1	23	24	(10)	(24)	(34)	
Net transfers from covered business	–	(412)	(412)	–	(412)	(553)	–	(553)	
<b>Embedded value of the covered business at end of the year</b>	1,907	516	2,423	4,438	6,861	2,281	4,172	6,453	



## 8 Analysis of covered business embedded value results (after tax) continued

### South Africa covered business

					Year ended 31 December 2007		Year ended 31 December 2006		£m
	Required capital	Free surplus	Adjusted net worth	Value of in-force	Total	Adjusted net worth	Value of in-force	Total	
<b>Embedded value of the covered business at beginning of the year</b>	<b>1,249</b>	<b>159</b>	<b>1,408</b>	<b>1,160</b>	<b>2,568</b>	<b>1,725</b>	<b>1,266</b>	<b>2,991</b>	
New business contribution	67	(78)	(11)	72	61	(14)	83	69	
Expected return on existing business – return on value of in-force	–	–	–	133	133	–	136	136	
Expected return on existing business – transfer to net worth	–	172	172	(172)	–	178	(178)	–	
Expected release of required capital – transfer to free surplus	(93)	93	–	–	–	–	–	–	
Experience variances	(33)	33	–	(15)	(15)	1	(16)	(15)	
Operating assumption changes	–	(22)	(22)	1	(21)	12	(27)	(15)	
Recalibration of risk-margins	–	–	–	–	–	–	59	59	
Expected return on adjusted net worth	99	13	112	–	112	121	–	121	
<b>Adjusted operating profit after tax</b>	<b>40</b>	<b>211</b>	<b>251</b>	<b>19</b>	<b>270</b>	<b>298</b>	<b>57</b>	<b>355</b>	
Investment return variances on in-force business	(3)	22	19	41	60	8	115	123	
Investment return variances on adjusted net worth	–	225	225	–	225	293	–	293	
Effect of economic assumption changes	(13)	11	(2)	(39)	(41)	–	(24)	(24)	
Methodology changes impacting cost of required capital	(117)	117	–	19	19	–	19	19	
<b>Profit after tax</b>	<b>(93)</b>	<b>586</b>	<b>493</b>	<b>40</b>	<b>533</b>	<b>599</b>	<b>167</b>	<b>766</b>	
Exchange rate movements	3	6	9	8	17	(354)	(272)	(626)	
Change in minority interest	–	(3)	(3)	(1)	(4)	(6)	(1)	(7)	
Net transfers from covered business	–	(437)	(437)	–	(437)	(556)	–	(556)	
<b>Embedded value of the covered business at end of the year</b>	<b>1,159</b>	<b>311</b>	<b>1,470</b>	<b>1,207</b>	<b>2,677</b>	<b>1,408</b>	<b>1,160</b>	<b>2,568</b>	
<b>Annual return on embedded value (ROEV)%</b>					<b>10.8%</b>			<b>13.6%</b>	

Experience variances were positively impacted by higher risk profits and one-off profits arising from the BOE private client joint venture and the value of business acquired from Medshield offset by negative expense variance partly due to special project expenditure and persistency in the Retail business.

The main operating assumption changes are a reduction in the secondary tax rate levied on dividends from 12.5 per cent to 10 per cent, a change in the way the interest rate is determined for unrecovered expenses for the Flexi product to more closely align movements in surrender value to underlying client values, an increase in the reserves held in respect of policyholder investment guarantees, and strengthening of the persistency assumptions in the Retail Affluent market.

This year, the risk-margin recalibration exercise did not result in any movement due to non-economic factors. Last year the impact was significant partly to reflect the business sold since the previous exercise.

The methodology changes impacting cost of required capital reflect modelling improvements and methodology changes to the required capital which reduced the cost of required capital. In aggregate, required capital is subject to a minimum of 130 per cent of the minimum statutory capital requirements. A minimum level equal to the minimum statutory capital requirements is no longer imposed at a product level.

The net transfers from covered business in 2007 mainly include dividend payments (net of dividends received from Nedbank and Mutual & Federal), tax on the special dividend, the purchase of additional shares in Nedbank, as well as head office expenses.

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

Return on embedded value is the adjusted operating profit after tax divided by opening embedded value in local currency.

# Notes to the European Embedded Value basis supplementary information

## For the year ended 31 December 2007 continued

### 8 Analysis of covered business embedded value results (after tax) continued

#### United States covered business

					Year ended 31 December 2007		Year ended 31 December 2006		£m
	Required capital	Free surplus	Adjusted net worth	Value of in-force	Total	Adjusted net worth	Value of in-force	Total	
<b>Embedded value of the covered business at beginning of the year</b>	<b>390</b>	<b>64</b>	<b>454</b>	<b>690</b>	<b>1,144</b>	<b>487</b>	<b>678</b>	<b>1,165</b>	
New business contribution	108	(193)	(85)	157	72	(128)	173	45	
Expected return on existing business – return on value of in-force	–	–	–	61	61	–	62	62	
Expected return on existing business – transfer to net worth	–	98	98	(98)	–	76	(76)	–	
Expected release of required capital – transfer to free surplus	(120)	120	–	–	–	–	–	–	
Experience variances	46	10	56	(81)	(25)	(11)	1	(10)	
Operating assumption changes	23	4	27	(104)	(77)	(12)	(44)	(56)	
Recalibration of risk-margins	–	–	–	–	–	–	10	10	
Expected return on adjusted net worth	9	2	11	–	11	15	–	15	
<b>Adjusted operating profit after tax</b>	<b>66</b>	<b>41</b>	<b>107</b>	<b>(65)</b>	<b>42</b>	<b>(60)</b>	<b>126</b>	<b>66</b>	
Investment return variances on in-force business	–	–	–	(36)	(36)	–	18	18	
Investment return variances on adjusted net worth	(27)	(6)	(33)	–	(33)	(3)	–	(3)	
Effect of economic assumption changes	–	–	–	(11)	(11)	–	(15)	(15)	
Material revision to actuarial models	–	–	–	–	–	–	(38)	(38)	
Methodology changes impacting cost of required capital	–	–	–	(4)	(4)	–	9	9	
<b>Profit after tax</b>	<b>39</b>	<b>35</b>	<b>74</b>	<b>(116)</b>	<b>(42)</b>	<b>(63)</b>	<b>100</b>	<b>37</b>	
Exchange rate movements	(5)	–	(5)	(10)	(15)	(61)	(88)	(149)	
Net transfers to covered business	–	(18)	(18)	–	(18)	91	–	91	
<b>Embedded value of the covered business at end of the year</b>	<b>424</b>	<b>81</b>	<b>505</b>	<b>564</b>	<b>1,069</b>	<b>454</b>	<b>690</b>	<b>1,144</b>	
<b>Annual return on embedded value (ROEV)%</b>					<b>3.8%</b>			<b>6.1%</b>	

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

The negative experience variances mainly arose from mortality losses on single premium immediate annuities and revised modelling of caps on the Fixed Indexed Annuity block.

The main operating assumption changes include a strengthening of mortality assumptions on single premium immediate annuities and certain modelling changes made as a result of the actuarial review of the underlying models. The economic assumption changes include revisions to the assumptions used in modelling spreads under Fixed Indexed annuity products. In 2006, the actuarial model used to calculate the embedded value was replaced and upgraded. This resulted in a reduction in the embedded value in 2006.

The methodology changes impacting cost of required capital reflects a change in the required capital in OMRe to accommodate the new Irish Capital Requirements.

The transfer to covered business is in respect of the release of capital and head office expenses.

Return on embedded value is the adjusted operating profit after tax divided by opening embedded value in local currency.

## 8 Analysis of covered business embedded value results (after tax) continued

### Europe covered business

	Year ended 31 December 2007				Year ended 31 December 2006			
	Required capital	Free surplus	Adjusted net worth	Value of in-force	Total	Adjusted net worth	Value of in-force	Total
<b>Embedded value of the covered business at beginning of the year</b>			419	2,321	2,740	30	35	65
Acquired embedded value of Skandia			–	–	–	391	2,085	2,476
Opening fair value adjustments for Skandia			(181)	114	(67)	(47)	(12)	(59)
	264	(26)	238	2,435	2,673	374	2,108	2,482
New business contribution	18	(330)	(312)	445	133	(278)	408	130
Expected return on existing business – return on value of in-force	–	–	–	157	157	–	119	119
Expected return on existing business – transfer to net worth	–	415	415	(415)	–	371	(371)	–
Expected release of required capital – transfer to free surplus	(13)	13	–	–	–	–	–	–
Experience variances	23	17	40	(15)	25	22	30	52
Operating assumption changes	(19)	(2)	(21)	1	(20)	(1)	(27)	(28)
Recalibration of risk-margins	–	–	–	(15)	(15)	–	20	20
Expected return on adjusted net worth	8	4	12	–	12	13	–	13
<b>Adjusted operating profit after tax</b>	17	117	134	158	292	127	179	306
Investment return variances on in-force business	5	3	8	(6)	2	8	44	52
Investment return variances on adjusted net worth	–	10	10	–	10	8	–	8
Effect of economic assumption changes	29	(29)	–	(30)	(30)	(2)	(3)	(5)
Methodology changes impacting cost of required capital	–	–	–	(1)	(1)	–	18	18
<b>Profit after tax</b>	51	101	152	121	273	141	238	379
Exchange rate movements	12	(1)	11	87	98	(4)	(2)	(6)
Minority interest	(3)	7	4	24	28	(4)	(23)	(27)
Net transfers to covered business	–	43	43	–	43	(88)	–	(88)
<b>Embedded value of the covered business at end of the year</b>	324	124	448	2,667	3,115	419	2,321	2,740
<b>Annual return on embedded value (ROEV)%</b>					10.9%			13.4%

The segmental results of Europe include the Skandia Life companies in the United Kingdom, Nordic region, Europe and Latin America.

The positive experience variances mainly arose from a higher level of fee income than that assumed, and a contribution from profits not valued, which was partially offset by negative expense variances.

The main operating assumption changes are the reduction in the future corporation tax assumption in the UK region from 30 per cent to 28 per cent and in Germany from 39 per cent to 30 per cent. Lower asset based charges for the tick-the-box collective agreements and some corporate business have been assumed in the Nordic region. The Nordic region has also introduced annuitisation of the corporate business and valued the Waiver of Premium business. Persistency assumptions have been strengthened in Nordic, Italy and Germany.

The risk-margin recalibration impact arose in the Nordic region partly due to the introduction of annuitisation, where there is now the possibility to invest further during the retirement phase, which extended the duration of contracts.

The transfers from covered business include internal financing arrangements, allocation of head office expenses and the sale of VIDA Spain.

Return on embedded value is the adjusted operating profit after tax divided by opening embedded value in local currency.

## Notes to the European Embedded Value basis supplementary information

### For the year ended 31 December 2007 continued

#### 9 Value of new business (after tax)

The tables below set out the geographic analysis of the value of new business (VNB) after tax. Annual premium equivalent (APE) is calculated as recurring premiums plus 10 per cent of single premiums. New business profitability is measured by both the ratio of the VNB to the APE as well as to the present value of new business premiums (PVNBP), and shown under APE margin and PVNBP margin below. PVNBP is defined as the present value of regular premiums plus single premiums for any given period and is calculated on the same assumptions as for the value of new business contribution.

	£m	
	Year ended 31 December 2007	Year ended 31 December 2006
<b>Recurring premiums</b>		
South Africa	237	234
United States	39	49
Europe	415	357
	<b>691</b>	<b>640</b>
<b>Single premiums</b>		
South Africa	1,115	1,344
United States	2,962	1,977
Europe	6,607	5,476
	<b>10,684</b>	<b>8,797</b>
<b>APE</b>		
South Africa	348	368
United States	335	247
Europe	1,077	905
	<b>1,760</b>	<b>1,520</b>
<b>PVNBP</b>		
South Africa	2,323	2,497
United States	3,150	2,221
Europe	8,405	7,111
	<b>13,878</b>	<b>11,829</b>
<b>VNB</b>		
South Africa	61	69
United States	72	45
Europe	133	130
	<b>266</b>	<b>244</b>
<b>APE margin</b>		
South Africa	18%	19%
United States	21%	18%
Europe	12%	14%
	<b>15%</b>	<b>16%</b>
<b>PVNBP margin</b>		
South Africa	2.7%	2.8%
United States	2.3%	2.0%
Europe	1.6%	1.8%
	<b>1.9%</b>	<b>2.1%</b>

## 9 Value of new business (after tax) continued

The value of new individual unit trust linked retirement annuities and pension fund asset management business written by the South Africa long-term business, which amounted to £435 million in the year ended 31 December 2007, is excluded as the profits on this business arise in the asset management business. The South African healthcare business secured the administration of a large new scheme (Medshield) with recurring premium flow of £92 million per year in April 2007. This premium income has been excluded from the value of new business due to its one-off nature. The value of new business also excludes premium increases arising from indexation arrangements in respect of existing business, as these are already included in the value of in-force business.

The value of new institutional investment platform pensions business written in the United Kingdom, which amounted to £16 million in the year ended 31 December 2007, is excluded as this is more appropriately classified as mutual fund business.

## 10 Product analysis of new covered business premiums

	Year ended 31 December 2007		Year ended 31 December 2006	
	Recurring	Single	Recurring	Single
<b>£m</b>				
<b>South Africa product analysis</b>				
<b>Total business</b>	<b>237</b>	<b>1,115</b>	234	1,344
<b>Individual business</b>	<b>208</b>	<b>641</b>	203	694
Savings	50	494	55	530
Protection	77	5	74	5
Annuity	–	141	–	157
Retail mass market	81	1	74	2
<b>Group business</b>	<b>29</b>	<b>474</b>	31	650
Savings	5	394	3	494
Protection	11	1	9	1
Annuity	–	79	–	155
Healthcare	13	–	19	–
<b>South Africa contract analysis</b>				
<b>Total business *</b>	<b>237</b>	<b>1,115</b>	234	1,344
<b>Individual business</b>	<b>208</b>	<b>641</b>	203	694
Insurance contracts	123	132	118	151
Investment contracts with discretionary participating features	44	35	42	23
Other investment contracts	41	474	43	520
<b>Group business</b>	<b>29</b>	<b>474</b>	31	650
Insurance contracts	24	80	28	156
Investment contracts with discretionary participating features	5	160	3	110
Other investment contracts	–	234	–	384
<b>United States product analysis</b>				
<b>Total business</b>	<b>39</b>	<b>2,962</b>	49	1,977
Fixed deferred annuity	–	97	–	81
Fixed indexed annuity	–	960	–	1,161
Variable annuity	–	1,757	–	574
Life	39	18	49	–
Immediate annuity	–	130	–	161
<b>United States contract analysis</b>				
<b>Total business *</b>	<b>39</b>	<b>2,962</b>	49	1,977
Insurance contracts	39	2,790	49	1,761
Other investment contracts	–	172	–	216

# Notes to the European Embedded Value basis supplementary information

## For the year ended 31 December 2007 continued

### 10 Product analysis of new covered business premiums continued

Europe product analysis	£m			
	Year ended 31 December 2007		Year ended 31 December 2006	
	Recurring	Single	Recurring	Single
<b>Total business</b>	<b>415</b>	<b>6,607</b>	357	5,476
Unit-linked assurance	413	6,601	348	5,455
Life	2	6	9	21

\* Within the preceding contract analysis the classification of insurance contracts, investment contracts with discretionary participating features and other investment contracts is in accordance with the primary financial statements definitions. All categories of business are subject to EEV accounting.

### 11 Drivers of new business value

	£m	
	Year ended 31 December 2006	Year ended 31 December 2007
<b>Total covered business</b>	<b>APE Margin %</b>	<b>PVNBP Margin %</b>
<b>Year ended 31 December 2006</b>	<b>16.2</b>	<b>2.1</b>
Change in volume	(0.7)	(0.1)
Change in product mix	(0.4)	(0.1)
Change in country mix	+0.6	+0.1
Change in operating assumptions	(0.4)	–
Change in economic assumptions	+0.2	–
Exchange rate movements	(0.3)	(0.1)
<b>Year ended 31 December 2007</b>	<b>15.2</b>	<b>1.9</b>

#### South Africa covered business

	APE Margin %	PVNBP Margin %
<b>Year ended 31 December 2006</b>	<b>18.7</b>	<b>2.8</b>
Change in volume	+0.6	+0.2
Change in product mix	+0.4	–
Change in operating assumptions	(2.1)	(0.3)
<b>Year ended 31 December 2007</b>	<b>17.6</b>	<b>2.7</b>

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

#### United States covered business

	APE Margin %	PVNBP Margin %
<b>Year ended 31 December 2006</b>	<b>18.3</b>	<b>2.0</b>
Change in volume	–	(0.2)
Change in product mix	+3.1	+0.5
<b>Year ended 31 December 2007</b>	<b>21.4</b>	<b>2.3</b>

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

## 11 Drivers of new business value continued

	£m	
	Year ended 31 December 2007	
	APE Margin %	PVNBP Margin %
<b>Europe covered business</b>		
<b>Year ended 31 December 2006</b>	<b>15.5</b>	<b>1.8</b>
Opening adjustment	(0.6)	(0.1)
<b>Adjusted prior year</b>	<b>14.9</b>	<b>1.7</b>
Change in volume	(2.5)	(0.2)
Change in product mix	(1.7)	(0.2)
Change in country mix	+0.9	+0.1
Change in operating assumptions	+0.1	+0.1
Change in economic assumptions	+0.3	–
Exchange rate movements	+0.3	+0.1
<b>Year ended 31 December 2007</b>	<b>12.3</b>	<b>1.6</b>

The prior year new business margins in Nordic have been restated to incorporate the impact of the Liv-Link agreement negotiated in 2007.

The margins for the 2006 year incorporate the full year's new business.

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

## 12 Assumptions

### Introduction

The principal assumptions used in the calculation of the value of in-force business and VNB are set out below. The assumptions are best estimate and actively reviewed.

- > Adjusted operating profit is calculated on closing operating assumptions and opening economic assumptions.
- > The effect of increases in premiums over the period for policies in-force has been included in the value of in-force business only where such increases are associated with indexation arrangements. Other increases in premiums of existing policies are included in the value of new business.
- > New schemes written on which recurring single premiums are expected to be received on a regular basis are treated as new business. The annualised premium is recognised as recurring premium new business at inception of the scheme and is determined by annualising the actual premiums received during the year in question. Subsequent recurring single premiums received in future years are not treated as new business, as these have already been provided for in calculating the value of in-force business.
- > The value of new business has been based on opening economic assumptions and closing operating assumptions accumulated to the period end. This is a change from the 2006 year-end where closing economic assumptions were used.
- > The sensitivity of the embedded value, the value of in-force and value of new business to key assumptions are set out in note 13.

### Economic assumptions

The pre-tax investment and economic assumptions are updated every six months to reflect the economic conditions prevailing on the valuation date. Risk-free rates have a duration similar to that of the underlying liabilities. Equity and property risk premiums incorporate both historical relationships and the directors' view of future projected returns in each geography.

- > The risk-margins have been calculated using an approach consistent to that adopted as at 31 December 2006, and reflect the distinctive risks of the products in the respective business units. These risk-margins do not include the risk associated with financial options and guarantees.
- > Where applicable, rates of future bonuses or crediting rates have been set at levels consistent with the investment return assumptions. Projected company taxation is based on the current tax basis that applies in each country.
- > For the South Africa business projected taxation is based on the current tax basis that applies in each country. Full allowance has been made for secondary tax on companies (STC) at a rate of 10% that may be payable in South Africa. Full account has been taken of the impact of capital gains tax. It has been assumed that 10 per cent of the equity portfolio (excluding Group subsidiaries) will be traded each year. The effective tax rate was 33.5 per cent for South Africa and 0% for Namibia, except for the investment return on capital for which the attributed tax was derived from the primary accounts.

## Notes to the European Embedded Value basis supplementary information

### For the year ended 31 December 2007 continued

#### 12 Assumptions continued

- > For the United States full allowance has been made for existing tax attributes of the companies, including the use of existing carry-forwards and preferred tax credit investments. The effective rate was 33 per cent.
- > For the Europe businesses, projected tax is based on the current tax rate that applies in each country. In Sweden, no allowance has been made for additional tax on dividends remitted to the UK. Tax has however been allowed for on dividends to be remitted to the UK from the Isle of Man. The effective tax rates for Nordic, United Kingdom and the balance of Europe were a range of 2 to 28 per cent, 23 per cent and a range of 13 to 45 per cent.

	At 31 December 2007	At 31 December 2006
<b>South Africa</b>		
Risk-free rate (10 year Government bond)	<b>8.5%</b>	7.9%
Cash return	<b>6.5%</b>	5.9%
Equity return	<b>12.0%</b>	11.4%
Property return	<b>10.0%</b>	9.4%
Expense inflation	<b>5.5%</b>	4.9%
Traditional embedded value risk discount rate <sup>1</sup>	<b>11.2%</b>	10.8%
Risk-free rate	<b>8.5%</b>	7.9%
Risk-margin <sup>2</sup>	<b>2.1%</b>	2.0%
Cost of financial options and guarantees <sup>3</sup>	<b>0.0%</b>	0.0%
Cost of required capital in excess of statutory minimum <sup>4</sup>	<b>0.6%</b>	0.9%

#### United States

Risk-free rate (10 year Treasury yield)	<b>4.0%</b>	4.7%
Expense inflation	<b>3.0%</b>	3.0%
New money yield assumed*	<b>5.8%</b>	6.6%
Net portfolio earned rate	<b>6.0%</b>	5.8%
Traditional embedded value risk discount rate <sup>1</sup>	<b>9.3%</b>	9.8%
Risk-free rate	<b>4.0%</b>	4.7%
Risk-margin <sup>2</sup>	<b>3.4%</b>	3.0%
Cost of financial options and guarantees <sup>3</sup>	<b>0.9%</b>	1.0%
Cost of required capital in excess of statutory minimum <sup>4</sup>	<b>1.0%</b>	1.1%

\* The new money yield assumed increases by 0.05% after 48 months.

<sup>1</sup> This is the risk discount rate that would be applicable on a traditional embedded value basis if the calculations did not allow for the time-value of options and guarantees and required capital in excess of the statutory minimum.

<sup>2</sup> Risk-margin is net of the risk allowance for the time-value of financial options and guarantees and for the required capital in excess of statutory minimum.

<sup>3</sup> This is the time-value of financial options and guarantees not allowed for in statutory reserves.

<sup>4</sup> This is the margin for the cost of holding required capital in excess of the statutory minimum.



## 12 Assumptions continued

	At 31 December 2007	At 31 December 2006
<b>Europe</b>		
<b>United Kingdom</b>		
Risk-free rate (10 year Government bond)	4.6%	4.6%
Cash return	3.6%	3.6%
Equity return	7.5%	7.5%
Property return	6.6%	6.1%
Expense inflation	4.6%	4.3%
Traditional embedded value risk discount rate <sup>1</sup>	7.6%	7.1%
Risk-free rate	4.6%	4.6%
Risk-margin <sup>2</sup>	2.2%	2.1%
Cost of financial options and guarantees <sup>3</sup>	—	—
Cost of required capital in excess of statutory minimum <sup>4</sup>	0.8%	0.4%
<b>Sweden</b>		
Risk-free rate (10 year Government bond)	4.4%	3.8%
Cash return	3.4%	2.8%
Equity return	7.4%	6.8%
Property return	5.9%	5.3%
Expense inflation	3.6%	3.1%
Traditional embedded value risk discount rate <sup>1</sup>	7.7%	6.9%
Risk-free rate	4.4%	3.8%
Risk-margin <sup>2</sup>	3.4%	3.1%
Cost of financial options and guarantees <sup>3</sup>	—	—
Cost of required capital in excess of statutory minimum <sup>4</sup>	—	—
<b>Rest of Europe</b>		
Risk-free rate (10 year Government bond)	3.1%-5.7%	2.5%-5.5%
Cash return	2.1%-4.7%	1.5%-4.5%
Equity return	6.1%-8.7%	5.5%-8.5%
Property return	4.6%-7.2%	4.0%-7.0%
Expense inflation	2.5%-5.0%	1.8%-3.0%
Traditional embedded value risk discount rate <sup>1</sup>	4.0%-7.7%	4.0%-7.5%
Risk-free rate	3.1%-5.7%	2.5%-5.5%
Risk-margin <sup>2</sup>	0.9%-2.9%	1.4%-3.1%
Cost of financial options and guarantees <sup>3</sup>	—	—
Cost of required capital in excess of statutory minimum <sup>4</sup>	0.0%-3.0%	0.0%-3.0%

<sup>1</sup> This is the risk discount rate that would be applicable on a traditional embedded value basis if the calculations did not allow for the time-value of options and guarantees and required capital in excess of the statutory minimum.

<sup>2</sup> Risk-margin is net of the risk allowance for the time-value of financial options and guarantees and for the required capital in excess of statutory minimum.

<sup>3</sup> This is the time-value of financial options and guarantees not allowed for in statutory reserves.

<sup>4</sup> This is the margin for the cost of holding required capital in excess of the statutory minimum.

# Notes to the European Embedded Value basis supplementary information

## For the year ended 31 December 2007 continued

### 12 Assumptions continued

#### Risk-margins

- > The risk-margins above the risk-free rate were recalibrated as at 31 December 2007. The South African risk-margin increased by 10 basis points as a result of changes in the level and direction of swap curves. The United States risk-margin increased by 40 basis points reflecting the widening of corporate bond spreads over treasuries. The changes in risk margins for the Europe covered businesses range from an increase of 40 basis points to a reduction of 50 basis points driven mainly by changes in the level and direction of swap curves. To the extent that they relate to economic items, the effect of these changes is included in the economic assumption changes.
- > Risk margin movement due to non-economic factors are included as a separate item within the adjusted operating profits.
- > The risk-margins for the risk associated with the time-value of financial options and guarantees and the allowance for required capital in excess of the statutory minimum have been presented separately.

#### Non-economic assumptions

- > The assumed future mortality, morbidity and voluntary discontinuance rates have been based as far as possible on analyses of recent operating experience. Allowance has been made where appropriate for the effect of expected AIDS-related claims.
- > The management expenses attributable to life assurance business have been analysed between expenses relating to the acquisition of new business and the maintenance of business in-force. The future expenses attributable to life assurance business include 37 per cent of the Group holding company expenses, with 15 per cent allocated to South Africa, 5 per cent allocated to United States and 17 per cent allocated to Europe.
- > The allocation of these expenses aligns to the proportion that the management expenses incurred by the business bears to the total management expenses incurred in the Group.
- > No allowance has been made for future productivity improvements in the expense assumptions.
- > Future investment expenses are based on the current scales of fees payable by the life assurance companies to the asset management subsidiaries. To the extent that these fees include profit margins for the asset management subsidiaries, these margins have not been included in the value of in-force business or the value of new business.
- > The embedded value makes no provision for future development costs. However, provision is included within certain business units for project costs where these are known with sufficient certainty.

#### Required capital

- > For the South Africa business, the required capital is calculated for each of the major business units. The non-investment items are based on a multiple of the non-investment components of the local Statutory Capital Adequacy Requirements set out in PGN104 issued by the Actuarial Society of South Africa (ASSA). The investment item is based on internal models developed for capital allocation and pricing purposes. The models project assets and liabilities for the business forward for 10 years using stochastically determined investment returns on a realistic basis. Bonus rates and adjustments to non-vested bonuses are determined using a consistent formula based on a weighted average of past returns and the level of the Bonus Smoothing Account (BSA) at the time. To the extent that the BSA falls to lower than normally allowable minimum levels, the shareholder is considered to be required to provide support to the business. The capital requirement, based on the discounted value of the maximum shareholder support required, is determined using a conditional tail expectation at the 97.5 percentile level. The required capital is invested in local equities, local cash and international cash. The asset allocation as at 31 December 2007 is 60, 33 and 7 per cent respectively. In aggregate required capital is subject to a minimum of 130 per cent of the statutory capital requirement. The level of required capital was 134% of the minimum statutory requirements as at 31 December 2007 (146% as at 31 December 2006). The ratio declined over the year mainly as a result of modelling changes, which reduced the level of required capital.
- > For the United States business, the required capital is based on the multiple of the local Risk Based Capital (RBC) requirement that management deems necessary to maintain the desired credit rating for the company in question. The multiples vary by company from 200 to 300 per cent and average 296 per cent as at 31 December 2007. The required capital for Old Mutual (Bermuda) Limited is based on the level of capital considered by management appropriate to manage the business, which is calculated as 125 per cent of United States RBC calculated on local reserves, subject to a minimum of local statutory requirements. The required capital for Old Mutual Reassurance (Ireland) Limited is based on the level of capital considered by management appropriate to manage the business which is based on 125 per cent of the new Irish Capital Requirements. The required capital for the United States business is invested in fixed interest assets.

## 12 Assumptions continued

### Required capital continued

- > For the Europe businesses the required capital reflects the level of capital considered by management appropriate to manage the business, allowing for local minimum statutory requirements. In certain regions, for example Nordic, statutory capital is partially covered by the deferred acquisition costs which are implicitly included in the value of in-force business rather than the adjusted net worth. The required capital is invested in short and medium-term fixed interest assets. The required capital as a percentage of minimum statutory capital in the United Kingdom (excluding the Isle of Man) reduced from 200% to 180%. For other Skandia territories, the percentages have remained broadly the same and are: 73% for Nordic, 200% for the Isle of Man and ranging from 63% to 240% for the balance of Europe.

### Financial options and guarantees

#### South Africa

- > As required by the applicable Actuarial Society of South Africa guidance note, the time-value of the financial options and guarantees included in the statutory reserves in the South Africa businesses as at 31 December 2007 has been valued using a proprietary risk-neutral market consistent asset model. The asset model and calibration input is supplied by a proprietary economic scenario generator. This represents a change from the random walk, log-normal "real world" stochastic asset model used to quantify the time-value reserve as at 31 December 2006. The time value reserves relate mainly to the guarantees detailed below:

#### Individual business:

- > A closed block of unit-linked and with-profit business has an underlying minimum growth rate guarantee (4.28 per cent per annum for life and endowment business and 4.78 per cent per annum for retirement annuity business) applicable when calculating death, disability and maturity claims.
- > A small block of with-profits business guarantees minimum values to the policyholder at a point in time, generally five years from inception. If the guarantee is not exercised, another guarantee may be set.
- > A small block of Retail Mass market with-profits savings business that has death guarantees of premiums (net of fees) plus 4.25 per cent per annum investment return.
- > Retirement annuities sold prior to June 1997 contain guaranteed annuity options, whereby the policyholder has an option to exchange full retirement proceeds for a minimum level of annuity income at maturity.
- > In addition, with-profits business has vested bonus guarantees at certain future dates, which operate in conjunction with the options and guarantees set out above.

#### Group business:

- > There is a significant pre-retirement savings with-profits portfolio. Vested bonuses affect the calculation of benefit payments when a member exits from the scheme as the face value is paid out. If a scheme terminates, the lower of face and market value is paid out and the vested bonuses are not guaranteed.
- > A significant with-profits annuity in payment portfolio guarantees annuity payments once declared for the life-time of the annuitant.

#### Key assumptions:

- > The mean returns and volatilities of the asset classes incorporated in the stochastic asset model for 31 December 2006 are detailed below. Correlations between asset classes have been based on an internal assessment of historical relationships.

	Mean*	Standard deviation**
	31 December 2006	31 December 2006
Equity	11.4%	22%
Property	9.8%	15%
Fixed interest (20 year)	7.9%	13%
Cash	6.0%	3%

\* Means have been calculated using the weighted arithmetic average across all scenarios.

\*\* Standard deviations have been calculated by accumulating returns for the required period in each scenario, taking the natural log of the result, calculating the variance of this statistic, dividing by the projection period (n years) and taking the square root. This makes the result comparable to implied volatilities quoted in investment markets.

# Notes to the European Embedded Value basis supplementary information

## For the year ended 31 December 2007 continued

### 12 Assumptions continued

#### Financial options and guarantees

##### South Africa

- > The risk-free curve used to calibrate the 31 December 2007 market-consistent asset model is shown in the table below. The yield curve has been derived from mid swap rates at the calibration date.

	Annualised zero-coupon bond yield
	31 December 2007
1 year	11.5%
2 years	11.1%
3 years	10.7%
4 years	10.4%
5 years	10.1%
10 years	9.1%
15 years	8.5%
20 years	8.1%
25 years	7.8%
30 years	7.6%

- > The market consistent asset model has been calibrated to South African (ZAR) option prices at 31 December 2007. Annualised implied volatilities estimated using asset model output are shown in the table below. The option contracts are specified as at-the-money with maturities of 10 years.

	Annualised implied volatility
	31 December 2007
FTSE/JSE TOP40 index <sup>1</sup>	25.4%
20-year ZAR interest-rate swap contract	12.1%

<sup>1</sup> Due to liquidity problems in the ZAR equity option market, the market consistent asset model has been calibrated by extrapolating option implied volatility data beyond a term of 3 years.

- > As at 31 December 2007 the investment guarantee reserves held as part of the value of liabilities, which included allowance for reasonable management actions and a dynamic take-up rate on guaranteed annuity options, were sufficient to cover the time-value of options and guarantees. There is therefore no separate cost deduction from the value of in-force business. The investment guarantee reserve also includes a discretionary margin to allow for the sensitivity of the reserves to interest rate movements. The discretionary margin is released in the value of in-force.

##### United States

- > The time-value of financial options and guarantees in the United States businesses are valued using a proprietary economic scenario generator. A "real world" stochastic model has been used with the initial position of the yield curve calibrated to 23 US\$ denominated index linked government bond prices as at 30 September 2007. Interest rate scenarios are floored at zero per cent and capped at 30 per cent.
- > Crediting rates declared for the fixed deferred annuity block of business vest fully. They are subject to a minimum crediting rate which is specified in the contract. Minimum surrender values are determined by this rate.
- > Fixed indexed annuities offer minimum crediting rates on the fixed portion of the product, minimum surrender values based on this and credit equity participation annually as a percentage of equity growth subject to a maximum. This equity participation, which is subject to a minimum of zero per cent therefore vests annually.
- > The variable annuities offered to off-shore customers through Old Mutual Bermuda can offer various secondary guarantees, including a minimum death benefit. Death benefits are subject to a minimum of the sum invested or value at any anniversary date if greater.
- > Notwithstanding the comments above regarding the vesting of credited interest, deferred annuities are subject to surrender charges as specified in the contracts.
- > The universal life policies specify a minimum crediting rate to accumulate account balances.

## 12 Assumptions continued

### Financial options and guarantees

#### United States (continued)

- > All deferred annuities offer a guaranteed annuitisation option on maturity. The rates are set conservatively and typically have very low utilisation as customers in the United States value the choice inherent in a lump-sum payment. The reserves for financial options and guarantees assume that the low historical take-up rates of around 1 per cent per annum will continue into the future, and are therefore insignificant.
- > Certain of the universal life contracts contain a feature that guarantees that the contract will continue, even if values would otherwise be insufficient, provided the customer has paid at least a stated amount of premium.
- > The mean returns and volatilities of treasuries along the yield curve are detailed below. The mean-reversion to higher future interest rates inherent in the model is consistent with long-term historical patterns. The interest rate scenarios generated by the model range from zero to 30 per cent.

	Mean interest rate*		Standard deviation**	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
<b>Treasuries</b>				
6 months	4.4%	4.7%	4.2%	4.3%
1 year	4.5%	4.7%	4.3%	4.3%
5 year	4.9%	4.9%	4.2%	4.1%
10 year	5.1%	5.1%	3.9%	3.9%
20 year	5.2%	5.3%	3.0%	3.0%

\* The means are calculated by accumulating a unit investment over the projection period (in years) for each simulation, averaging the accumulation across all simulations, and converting the result to an equivalent annual rate (by taking the nth root of the average accumulation, minus 1).

\*\* Standard deviations can be calculated by accumulating returns for the required period in each scenario, taking the natural log of the result, calculating the variance of this statistic, dividing by the projection period (n years) and taking the square root. This makes the result comparable to implied volatilities quoted in investment markets.

#### Europe

- > While certain products within the Europe businesses provide financial options and guarantees, these are immaterial due to the predominantly unit-linked nature of the business except in the Nordic region where the value of certain financial options and guarantees has been taken in the opening fair value adjustments.

## Notes to the European Embedded Value basis supplementary information

### For the year ended 31 December 2007 continued

#### 13 Sensitivity tests

The tables below for South Africa, United States and Europe show the sensitivity of the embedded value and value of in-force at 31 December 2007 and the value of new business for the year ended 31 December 2007 to changes in key assumptions. For each sensitivity illustrated, all other assumptions have been left unchanged. The sensitivity showing the impact of one per cent increase in the yield on equities/property (as a change in the equity/property risk premium) is not given below as a bottom-up market consistent approach has been adopted for calibrating discount rates.

	31 December 2007		£m
	Embedded value	Value of in-force business	
<b>South Africa</b>			
<b>Central assumptions</b>	<b>2,677</b>	<b>1,207</b>	<b>61</b>
Effect of:			
Central discount rate increasing by 1 per cent	2,528	1,057	51
Required capital equal to the minimum statutory requirement	2,720	1,249	65
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately *	2,654	1,184	57
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately *	2,690	1,220	65
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged * **	2,828	1,263	–
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged * **	2,526	1,150	–
Voluntary discontinuance rates decreasing by 10 per cent	2,712	1,242	70
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	2,761	1,291	68
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	2,730	1,260	68
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges***	2,666	1,196	61
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	–	–	56

\* Calculations include the impact on the investment guarantee reserves held as liabilities under the adjusted net worth.

\*\* Portfolios are assumed to be rebalanced after the increase or decrease in equity and property market values at 31 December 2007.

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

### 13 Sensitivity tests continued

	31 December 2007		£m
	Embedded value	Value of in-force business	Value of new business
<b>United States</b>			
<b>Central assumptions</b>	1,069	564	72
Effect of:			
Central discount rate increasing by 1 per cent	1,015	510	62
Required capital equal to the minimum statutory requirement	1,123	619	85
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	1,031	526	65
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	1,107	602	89
Contraction of corporate bond spreads of 10 basis points	1,065	561	–
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	1,081	576	–
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	1,057	552	–
Voluntary discontinuance rates decreasing by 10 per cent	1,133	628	90
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1,085	581	82
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1,081	576	77
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges	1,061	557	77
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	–	–	71

\* Portfolios are assumed to be rebalanced after the increase or decrease in equity and property market values at 31 December 2007.

## Notes to the European Embedded Value basis supplementary information

### For the year ended 31 December 2007 continued

#### 13 Sensitivity tests continued

Europe	31 December 2007		£m
	Embedded value	Value of in-force business	
<b>Central assumptions</b>	<b>3,115</b>	<b>2,667</b>	<b>133</b>
Effect of:			
Central discount rate increasing by 1 per cent	2,938	2,490	111
Required capital equal to the minimum statutory requirement	3,118	2,670	132
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	3,029	2,587	120
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	3,207	2,755	144
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	3,261	2,812	–
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	2,997	2,550	–
Exchange rates – impact of a 10 per cent depreciation of the Euro against Pounds Sterling	3,070	2,625	–
Exchange rates – impact of a 10 per cent depreciation of the Swedish Krona against Pounds Sterling	3,019	2,579	–
Voluntary discontinuance rates decreasing by 10 per cent	3,213	2,765	151
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	3,178	2,730	140
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	3,137	2,689	134
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges	3,115	2,667	133
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	–	–	121

\* Portfolios are assumed to be rebalanced after the increase or decrease in equity and property market values at 31 December 2007.



## Shareholders' Information

### Listings and share analysis

The Company's shares are listed on the London, Malawi, Namibian and Zimbabwe Stock Exchanges and on the JSE Limited. The primary listing is on the London Stock Exchange and the other listings are all secondary listings. The listing on the Stockholm Stock Exchange ended on 7 September 2007, after which local dealings in the Company's shares in Sweden take place through the Xternal List. The ISIN number of the Company's shares is GB0007389926.

At 31 December 2007, the Company had 5,510,272,537 ordinary shares of 10p each in issue (31 December 2006: 5,500,895,508). 97,074,907 shares were held by the Company in treasury, at 31 December 2007 (31 December 2006: nil). All of these shares were bought by the Company during the twelve months then ended (2006: nil).

### Dividend

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

[www.oldmutual.com](http://www.oldmutual.com)

[www.oldmutual.co.za](http://www.oldmutual.co.za)