NEWS **RELEASE**

1 March 2013

Old Mutual plc preliminary results for the year ended 31 December 2012

Financial Summary[1]		2012	2011	Movement
Operating metrics - constant currency basis				
Adjusted operating profit before tax (IFRS basis)[2]		**£1,614m**	£1,363m	18%
Adjusted operating earnings per share (IFRS basis)[2]		**17.5p**	16.1p	9%
Net client cash flow (NCCF)		**£5.0bn**	£(11.7bn)	£16.7bn
Funds under management (FUM)		**£262.2bn**	£255.6bn	3%
Financial metrics - as reported				
Group return on equity		**13.0%**	14.6%	(160bps)
Dividend	- Total	**7.00p**	5.00p	2.00p
	- Final	**5.25p**	3.50p	1.75p
	- Interim	**1.75p**	1.50p	0.25p
Total profit after tax attributable to equity holders of the parent		**£1,173m**	£667m	76%
Adjusted Group MCEV per share		**220.3p**	194.1p	26.2p
Surplus generated[3]		**£814m**	£803m	+£11m

Notes to the Financial Summary are presented on page 2 of this announcement.

Strong financial performance

- IFRS AOP up 18% to £1,614 million, driven by strong performance in Emerging Markets and Nedbank
- Positive Group NCCF at £5.0 billion, FUM at £262.2 billion
- Proposed final dividend of 5.25p; total dividend of 7.00p; up 2.00p or 23% in cash terms
- Targeting dividend cover of 2.25x IFRS AOP earnings in future

A reshaped business

- 2010 targets achieved: £1.52 billion of debt repaid; £133 million of cost reductions; LTS ROE of 20%
- Strong capital position; a significantly de-risked business

Focused on growth

- Broad exposure to fast growing South African emerging middle-class
- Good progress on growing our African footprint; R5 billion set aside to support this growth
- Targeting £300 million AOP from Old Mutual Wealth by 2015 (2012 AOP: £195 million)

Julian Roberts, Group Chief Executive, commented:

"This has been a very good year for Old Mutual. We have produced strong results, with our Emerging Markets business and Nedbank performing particularly well.

"Over the past three years, we have significantly de-risked the business, more than met our operational targets and made substantial returns of capital to both equity and debt holders. We can now move forward from a position of strength.

"Old Mutual has four strategic priorities: expanding in Africa; developing our business in the fast growing South African markets; building our Wealth business; and growing US Asset Management. We will achieve these priorities while maintaining a strong balance sheet; putting customers at the centre of everything we do; and promoting a responsible corporate culture.

"While the economic environment remains uncertain, we are focused on the markets which fit our criteria and where we see long-term, structural growth. We are clear on our priorities and confident that we will continue to deliver sustainable value to our shareholders and customers."

Old Mutual plc results for the year ended 31 December 2012

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Notes to the Financial Summary on the front page of this announcement

1. Except for total profit after tax and adjusted Group MCEV per share, all figures in the table are in respect of core continuing businesses only and the 2011 comparatives have been restated accordingly. The sale of Nordic was the most material disposal in the period. Figures have also been adjusted for the impact of the share consolidation where applicable.
2. Adjusted operating profit before tax and adjusted operating earnings per share are defined in the basis of preparation for the reconciliation of adjusted operating profit to profit after tax in Part 4 – Financial Information.
3. Surplus generated is the adjusted net worth of the operating business units not required to support capital requirements. The total surplus generated is presented for core continuing businesses only, with Nedbank's contribution equal to Old Mutual's share of its dividend. The comparative has been restated accordingly.

Cautionary statement

This announcement contains forward-looking statements relating 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 and South African 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, and 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 out in its forward-looking statements. Old Mutual plc undertakes no obligation to update any forward-looking statements contained in this announcement or any other forward-looking statements that it may make.

Notes to editors

A webcast of the presentation on the preliminary results and Q&A will be broadcast live at 9:00 am GMT (10:00 am CET/11:00 am South African time) today on the Company's website www.oldmutual.com. Analysts and investors who wish to participate in the call should dial the following numbers and quote the pass-code 30558280#:

UK/international	+44 (0)20 3139 4830
US	+1 718 873 9077
South Africa	+27 (0)21 672 4008

Playback (available for 14 days from 1 March 2013), using pass-code 636425#:

UK/International	+44 (0)20 3426 2807

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

A Financial Disclosure Supplement relating to the Company's preliminary results can be found on the website. This contains financial data for 2012 and 2011.

Sterling exchange rates

		2012	**2011**	**Appreciation / (depreciation) of local currency**
South African rand	Average rate	13.01	11.64	(12)%
	Closing rate	13.77	12.56	(10)%
US dollar	Average rate	1.58	1.60	1%
	Closing rate	1.62	1.56	(4)%

Part 1 - 2012 Annual Review

Group Review

Overview

Profits up 18%...

Old Mutual delivered a strong performance in 2012, driven primarily by excellent performance from its businesses in the emerging markets. Despite challenging macro-economic conditions throughout most of the year we saw excellent operational performance across most businesses within the Group and good profit growth on a constant currency basis. The Group remains in a strong financial position, with reduced debt levels and a Financial Groups Directive (FGD) surplus of £2.0 billion. We made substantial returns of capital to both equity and debt holders during the year, and paid a Special Dividend of around £1 billion in June 2012. The Board is recommending a final dividend of 5.25p (or its equivalent in other applicable currencies), up 31% in cash terms. The reported results of the Group's businesses were affected by a significant depreciation of the rand against sterling, with the average rand rate declining during the period by 12%.

...against a challenging backdrop...

In South Africa, the economy grew by 2.5%, Government debt to gross domestic product (GDP) is around 40%, and the JSE grew by 23%. The impact was strong credit growth (which is now weakening), strong asset growth but a softening of rates in the general insurance industry. The ratings agencies became concerned about the South African economy, citing the unrest in the mining sector and the drop in commodity prices that fed through into a depreciation of the rand. This year has started with continued asset growth and a strengthening of the rand.

In Europe, sentiment to the euro seemed to improve, but growth remained low, with Germany moving into recession and youth unemployment in parts of Southern Europe growing to over 50%. Conditions in the UK were also challenging, with the economy remaining flat although the FTSE 100 rose by 6%. Unemployment remained lower than expected and consumers continued to save but cut back on spending. In the US, the markets remained flat until Q4 when there was a marked improvement in sentiment.

...following the transformation of Old Mutual…

In March 2010, Old Mutual set its strategic objectives to be achieved by the end of 2012 which would fundamentally change our Group and the way we conduct our business. These objectives were to create a simplified and streamlined Group; to apply rigorous criteria for keeping businesses within the Group; to strengthen our balance sheet; to improve our returns and implement a strict approach to capital allocation; to focus at all times on our customers; and to deploy our human capital, expertise and technology seamlessly across geographies and business units. At that time, we also set financial targets for cost reduction, debt reduction and return on equity (ROE) commensurate with meeting our strategic objectives.

Over the past three years, we have regularly reported our progress against these strategic and financial objectives. We have met or exceeded the financial targets and made substantial strides towards achieving our strategic objectives: we will continue to run our business with them in mind.

We invested in enhancing our governance and control systems and these are working well, and we have implemented numerous initiatives to improve our service to customers. We have transferred technology and intellectual capital across the Group: for example, we rolled out the South African retail mass model in Mexico in 2012, and we will be introducing the same model to our newly acquired Nigerian business in 2013.

Old Mutual is a significantly different business from that of three years ago. It is much simpler, more streamlined and significantly de-risked: we have sold or closed a number of businesses, including selling the Nordic operations for £2.1 billion and US Life for $350 million. The criteria for keeping businesses within the Group are strict: able to meet our capital and risk targets; be capable of achieving a long-term 15% ROE; add value to, or receive value from, other parts of the Group; have scope to create future sustainable growth; and create future value for shareholders. These criteria will remain. We will continue to evaluate the optimal structure for the Group and we will consider all options in creating value for our shareholders and our customers.

In the period since the implementation of the three year strategy on 1 January 2010 through to its completion on 31 December 2012, the London line of Old Mutual shares delivered a Total Shareholder Return (TSR) of 77.31%, versus a 21.16% TSR from the FTSE-100. For the Johannesburg line, Old Mutual delivered a TSR of 102.10% over the three years versus a 54.60% return from the JSE-All Share.

…leading to a financially strong and cash generative Group...

We have a strong balance sheet, with our indebtedness much reduced. Our track record of delivering strong and consistent underlying cash returns – in the last three years we have generated £2.25 billion in free surplus from core continuing operations – which gives us the ability both to invest for growth and to maintain a secure dividend. Our gearing ratio has decreased from 20.1% in 2009 to 8.5% at the end of 2012.

...which is resilient and focused on growth...

Our focus is now on the markets where we see sustained growth underpinned by structural factors. These are markets where our experience, expertise and offering give us competitive advantage, ensuring that we can provide our customers with the products they want and that will fulfil their financial needs.

...with a broad offering in the fastest growing South African demographic...

Through our Old Mutual, Nedbank and Mutual & Federal brands, we have a strong presence across the South African retail financial services sector. These businesses are working ever more closely together. For example, they have cut costs by aligning some of their key procurement activities, and they are working together on a number of customer-facing activities. We continue to seek opportunities for further collaboration.

While parts of the South African financial services sector are undoubtedly heavily penetrated, there is a significant section of the population that is currently demonstrating strong growth – the emerging black middle class. We expect this trend to continue. This section of the population, served by our Mass Foundation Cluster (MFC), represents a spectrum of South African workers, ranging from those coming into the formal economy for the first time, to public sector workers such as teachers and nurses.

We believe we have a significant competitive advantage in this section of the market through our footprint of more than 3,700 tied advisers, our network of more than 200 Old Mutual Finance branches and our holistic product offering. We offer traditional life and savings products through Old Mutual, general insurance through iWyze, banking through Nedbank Retail and loan and debt consolidation through Old Mutual Finance. This approach ensures that we are well placed to capture the best clients and advise and help the more distressed clients to manage their finances.

Old Mutual now has nearly two million MFC customers, having added a further 200,000 in 2012. In addition, our iWyze direct general insurance offering has achieved good growth since launch, selling more than 50,000 policies. Nedbank Retail has over the last few years extended its focus on entry level and youth markets in its drive to be a bank for all and together with the middle-market this has resulted in Nedbank gaining 818,000 entry level banking customers (those earning less than R100,000 per year) in the past three years.

We continue to see growth in our Retail Affluent business, which remains the Group’s largest profit generator and has recently launched a substantially enhanced wealth offering and reorganised its distribution. Over time, we expect some of our MFC customers to migrate to Retail Affluent. Our Corporate business is focusing on improving its efficiency and client offering.

...and expansion plan for sub-Saharan Africa...

Old Mutual has a substantial presence in the southern area of sub-Saharan Africa with more than 1.3 million customers outside South Africa. Rest of Africa customer numbers were up 13% on 2011 with most of the growth in Zimbabwe and Kenya. Profits rose 39% to £43 million in 2012 and funds under management (FUM) grew 19% to £2.9 billion. Our target of achieving profits in Africa equivalent to 10% of OMSA profits by 2012 has been achieved and we are on track to meet 15% by 2015.

We are now looking to build our business across countries in East and West Africa that demonstrate the right levels of growth and have the right demographics. We have set aside around R5 billion of capital to fund this expansion. This is split between a strategic investment fund of R2 billion, and further capital of R3 billion, intended to be deployed over three to five years. The strategic investment fund will be used to acquire minority stakes in businesses in African markets. We will target minority stakes for a number of reasons: where a majority stake is not immediately available; where we do not have the capacity to take a majority stake; or, for strategic reasons such as securing a distribution deal. The further R3 billion will fund growth through buying majority stakes in businesses.

We will deploy this capital in line with our strict capital allocation criteria. We believe that the prospects for growth in Africa are underpinned by sustainable, structural factors: a growing population, with more workers entering the formal economy for the first time and who are keen to protect their wealth and assets; strong domestic GDP growth in a number of countries; growing political stability; and an underpenetrated financial sector for the majority of the population.

In 2000, Africa’s GDP was $587 billion, in 2012 it is expected to be just under $2 trillion, and it is forecast to exceed $2.5 trillion in 2016. Fuelling this GDP growth is a growing youthful population which is becoming increasingly urbanised, has more discretionary income and is under-serviced by the insurance industry – both life insurance and general insurance. While the interest shown in Africa has grown exponentially, over the past few years as companies seek investment opportunities that demonstrate real growth, we have the very real advantage of having operated in Africa for 168 years. We understand the climate for business and investment, as well as the specific needs and expectations of consumers.

As in South Africa, as we expand in the rest of Africa we increasingly see opportunities for Old Mutual, Nedbank and Mutual & Federal to work together. For example, OMSA and M&F will collaborate in each country under one head who will be responsible for driving growth across both business lines. Additionally, we have established the Group African Co-operation Forum which will identify and facilitate opportunities for increased co-operation and incremental synergy in South Africa and collaboration on the African expansion strategy.

We recently acquired the life assurance business of Oceanic Bank in Nigeria, following the acquisition of Oceanic by Ecobank. This can be seen as the template for how we expect to roll-out our business model in new markets in Africa. While initially it will focus on selling credit life and group life assurance schemes, this will be supplemented by the roll-out of the full retail mass market product suite in 2013, using the expertise, knowledge, product and back office systems from our South African MFC business. We are currently building an asset management business in Nigeria to complement this business. We are in the process of acquiring Oceanic’s Nigerian general insurance business from Ecobank which will, once completed, operate under the Old Mutual brand.

In East Africa, the Old Mutual Kenya life assurance business is growing and our asset manager is the market leader. Our life business recently signed a deal with the National Jua Kali, the co-operative for informal workers in Kenya, to provide insurance services for workers who previously had no access to insurance products. It is estimated that the informal sector currently accounts for around 75% of the working population and around 34% of the country's GDP. We will initially sell burial products, but will look to expand this product range in time, with consumers able to pay for their insurance via mobile phones. We want to build scale in the Kenyan life business and are looking at options in other East African countries.

We are also exploring the possibility of entering the markets in the South Africa Development Community where we are not currently present but which meet the criteria we apply to new markets.

Nedbank currently has a banking presence in five southern African countries where it offers retail and wholesale banking, and deposit-taking. The focus is on economically profitable markets where the Nedbank rest of Africa division has a competitive advantage. Nedbank has a deep strategic alliance with Ecobank providing clients of both institutions access to the largest banking network in Africa with more than 2,000 staffed outlets in 36 countries. Nedbank has subscription rights arising from the three year term facility made to Ecobank Transnational Incorporated (ETI), Ecobank's holding company, which together with a top-up investment by way of the anti-dilutionary provisions of the agreement may result in Nedbank holding a 20% equity stake in ETI, sometime between November 2013 and November 2014.

We believe that as we grow in South Africa and wider Africa, we have an obligation to help the communities where we operate. A significant part of this will be through raising funds to create the infrastructure that Africa and its people need. We are already active in this field. Through our Infrastructure, Development and Environmental Assets fund we have partnered with the South African government in a number of infrastructure projects, including: renewable energy projects using wind, solar and hydroelectric technology; toll roads; and the Department of Trade and Industry and Department of Education buildings. Following an approach by the Public Investment Corporation in South Africa we established the Schools and Education Investment Impact Fund and have so far allocated more than £35 million to educational projects. Our Housing Impact Fund raised more than £650 million to build up to 120,000 low cost houses in South Africa, for South Africans earning less than R1,500 a month. These projects will make a real, visible difference to the lives of the communities where we operate.

...combined with a modern, low-risk developed markets offering...

We announced our three-year plan for Old Mutual Wealth in November 2012. The combination of our UK, International and European businesses into one business, supported by the asset management capability of the newly merged Old Mutual Global Investors (OMGI), will allow us to develop further our own investment products which in turn should enable us to capture a greater share of the value chain.

We believe we can unlock value by focusing on our core growth markets, namely the UK and the International cross-border markets, while managing the Old Mutual Wealth Europe business and UK Heritage book for value. The manage for value strategy involves operating a closed book model for our retail portfolios in Switzerland, Austria and Germany, and the pre-Retail Distribution Review (RDR) pension products in the UK with an emphasis on persistency, cost efficiency and capital management to maximise cash generation. In Italy, France and Poland we will focus on developing profitability in our operations. We will also seek to grow our cross-border sales internationally through our International business based in the Isle of Man. We will continue to explore ways to reduce our cost base.

We are targeting IFRS AOP pre-tax profits of more than £300 million by 2015 from the Old Mutual Wealth business. We will do this while meeting the ROE criterion of between 12% and 15%, by growing our asset management and other product revenues, developing our distribution reach and capability, and achieving operational efficiencies.

While we already operate one of the UK's leading platforms, with £22 billion of FUM, we believe that in the post-RDR world more and more retail financial services business will be conducted via platforms. It is forecast that the amount of assets held on UK platforms will grow substantially from the current level of £250 billion and Independent Financial Advisers (IFAs) will continue to write most of their business via platforms. The UK population is growing, most rapidly in the upper age groups who are looking to maximise income to support their retirement; and those approaching retirement looking for products that will maximise their capital position at retirement. Our growth focus will be on innovation and distribution. We will develop investment management and risk solutions tailored to our customers' needs. We will also look to secure and grow distribution in our international cross-border markets. IFAs will remain our core route to market and we will continue to provide them with tools and investment solutions that will allow them to serve their clients.

...and the improvement in US Asset Management continues…

We continue to focus on driving growth, increasing margins and improving investment performance in our US Asset Management business and we are beginning to see real progress. During the period, we completed our programme of focusing on long-term, institutionally-driven, active asset management by disposing of seven out of 17 affiliates. We saw a significant improvement in net client cash flow (NCCF) for 2012, with net flows from continuing operations of £0.9 billion compared with an outflow of £3.0 billion in 2011. This was the first positive annual NCCF recorded by US Asset Management since 2007.

We continue to explore a partial IPO of the US Asset Management business, and, as we have previously stated, the timing of this will be determined by our progress against our goals of growth, improved margins and investment performance, as well as by the conditions of the equity markets.

…all driven by our customers

We understand that our success is governed ultimately by our ability to give our customers the products, outcomes and service levels that they expect from us. We have spent the past three years ensuring that the Group's primary focus is on our customers and ensuring that this ethos is embedded in our culture. We have introduced new customer service metrics and added cultural parameters as part of our management's remuneration targets. While the progress against these metrics has been encouraging, we are clear that we must continue to innovate, in both product offering and customer servicing.

Dividend

The Board has considered the position in respect of the final dividend for 2012 and is recommending the payment of a final dividend for 2012 of 5.25p per Ordinary Share (or its equivalent in other applicable currencies). Based on this recommendation, the full-year Ordinary dividend would be 7.00p, up 23% in cash terms. No scrip dividend alternative is available in relation to this dividend.

Special Dividend

A Special Dividend of 18p per share, amounting to approximately £1 billion in aggregate, was paid to shareholders on 7 June 2012. The Special Dividend was paid by reference to the Company's shares in issue before the 7-for-8 share consolidation that took effect on 23 April 2012.

Dividend policy

From 2013 onwards, the Board intends to pursue a progressive dividend policy consistent with our strategy, having regard to overall capital requirements, liquidity and profitability, and targeting a dividend cover of at least 2.25 times IFRS AOP earnings in future. Interim dividends will continue to be set at about 30% of the prior year's full ordinary dividend.

Board changes

We are pleased to welcome Danuta Gray to the Board as an independent non-executive director. She will also become a member of the Group Audit, Remuneration and Nomination Committees. Ms Gray was Chairman of Telefónica O2 in Ireland until December 2012, having previously been its Chief Executive from 2001 to 2010. She has over 20 years of experience in the telecommunications and mobile phone sector. We were disappointed that Eva Castillo decided to resign from the Board at the end of February 2013 because of the pressure of her other commitments. We greatly valued her contributions for the period she was a director.

At the Annual General meeting on 9 May 2013, Russell Edey and Lars Otterbeck will be retiring from the Board. Both Russell and Lars have played important roles in guiding the Group's executive management in the successful restructuring process during their tenure as directors.

South African empowerment

In South Africa we have continued to transform our businesses, with OMSA and Nedbank achieving Level 2 Broad Based Black Economic Empowerment (BBBEE) status for the third consecutive year. Mutual & Federal has also reached Level 2 BBBEE.

Old Mutual in the community

At Old Mutual, we believe that as well as serving our customers and shareholders, we have a wider responsibility to help the communities where we operate. The support we provide is tailored to local needs and is focused on education. We use our financial skills and resources to support the financial education projects in communities to help people plan their financial futures. Alongside this we also support community business programmes and through this support have created around 8,500 jobs in the past three years. In addition to the practical work we do in our communities, Old Mutual donated £13.4 million in 2012, which is equivalent to just over 0.8% of IFRS AOP profits, to the communities where we operate, including giving through our five Old Mutual Foundations and the Nedbank Foundation.

Outlook

Our businesses have performed very well in 2012. While the economic environment remains uncertain, we have a significantly restructured and de-risked business which is focused on the markets where we want to be and where we see long-term, structural growth. We are clear on our priorities and are confident that we will continue to deliver sustainable value for our customers and shareholders.

Group Financial Highlights

Group highlights[1]	2012	2011 (constant currency)	Change	2011 (as reported)	Change £m
Adjusted operating profit (IFRS basis, pre-tax)	**1,614**	1,363	18%	1,515	7%
Adjusted operating earnings per share (IFRS basis)	**17.5p**	16.1p	9%	18.0p[2]	(3)%
Group net margin[3]	**50bps**	43bps	7bps	46bps	4bps
Return on equity[4]	**13.0%**			14.6%	(160)bps
Net asset value per share	**146.2p**	132.4p	10%	140.2p	4%
LTS gross sales (£bn)	**23.3**	20.4	14%	21.5	8%
Life assurance sales – APE basis	**1,133**	1,152	(2)%	1,207	(6)%
Non-covered business sales[5]	**14,893**	13,007	14%	13,786	8%
Net client cash flow (£bn)	**5.0**	(11.7)		(11.4)	
- LTS net client cash flow (£bn)	**3.2**	3.2		3.2	
- USAM net client cash flow (£bn)	**(0.2)**	(15.6)		(15.3)	
Funds under management (£bn)	**262.2**	255.6	3%	267.2	(2)%
Total dividend for the year	**7.0p**			5.0p	2.0p
Total profit after tax attributable to equity holders of the parent	**1,173**			667	

[1] The figures in the table are in respect of core continuing businesses only. The comparatives have been restated accordingly.

[2] 2011 adjusted operating earnings per share has been restated to take account of the 7-for-8 share consolidation that took effect on 23 April 2012.

[3] Ratio of AOP before tax to average assets under management in the period.

[4] ROE is calculated as core business IFRS AOP (post-tax) divided by average ordinary shareholders' equity (i.e. excluding the perpetual preferred callable securities).

[5] Includes unit trust, mutual fund and other non-covered sales.

Adjusted operating profit (AOP)

During the year to 31 December 2012 ('2012' or 'the period') Old Mutual showed strong growth in profits compared to the year to 31 December 2011 ('2011') on a constant currency basis. Pre-tax AOP was £1,614 million, an increase of £251 million on a constant currency basis, driven by increased profitability in our long-term savings and banking businesses in the emerging markets. AOP earnings per share were up 9% to 17.5p on a constant currency basis. The weakening in the rand to sterling average exchange rate reduced sterling earnings; the profit increase on a reported basis was £99 million.

47% of AOP generated by the business units after tax and non-controlling interests was paid to the holding company in cash.

Group net margin

Group net margin (measured as profit before tax on average FUM and average banking assets at Nedbank) increased by 7 basis points from 43 to 50 basis points on a constant currency basis. The increase was driven by strong profit growth in Nedbank, Emerging Markets and USAM. Average FUM was marginally up. In Emerging Markets, net margin increased by 9 basis points due largely to a 19% growth in profits. In Old Mutual Wealth the net margin, excluding the gain from the previously reported smoothing for policyholder tax in 2011, decreased marginally from 31 basis points to 30 basis points, with a shift towards lower margin platform business, offset by operational scale in our expense base.

Return on equity

Core Group ROE was 13.0%, against a 2011 ROE of 12.5% with Nordic included. The 2012 equity base was reduced as a result of the Special Dividend in June 2012, more than offsetting the profit on disposal of Nordic. The 2011 reported Core Group ROE was 14.6%, with Nordic net average equity of £1.8 billion excluded from the equity base, as a result of its classification as a discontinued operation.

Long Term Savings gross sales

Gross sales for Emerging Markets grew 25% to £11.7 billion, with the sales mix in South Africa continuing to shift from traditional life products to modern investment products including unit trusts and mutual funds. Gross sales in Old Mutual Wealth were £11.6 billion, led by UK Platform and OMGI inflows. Non-covered business sales in LTS, including unit trust and mutual fund sales, were up 27%. Non-covered sales in H2 2012 were strong at £8.3 billion, up 33% on H1 2012. Life assurance annual premium equivalent (APE) sales were down 2% to £1.1 billion.

Net client cash flow

The Group had strong positive NCCF of £5.0 billion (2011: £11.7 billion outflow). Excluding the outflows at the divested affiliate firms at USAM, NCCF was £6.1 billion (2011: £0.9 billion). Old Mutual Wealth NCCF was £2.0 billion; the positive inflows reflecting the momentum in our proposition as we attract new customers and further enhance features and functionality. This is particularly encouraging as it comes despite a backdrop of challenging markets, where advisers have remained focused on ensuring readiness for the RDR. Emerging Markets NCCF improved from £0.4 billion to £1.2 billion, despite the Public Investment Corporation outflow of £1.0 billion (R12.6 billion) from Old Mutual Investment Group South Africa's (OMIGSA) Electus boutique in July 2012. USAM saw net client cash inflows in its continuing business, reflecting continued strong investment performance in a number of key strategies and positive market trends.

Funds under management

Reported FUM increased by 3% on a constant currency basis, with NCCF of £5.0 billion and positive market movements of £26.9 billion offset by a £27.0 billion reduction in FUM from the divestment of affiliates at USAM and the disposal of Old Mutual Wealth's Finnish business. Excluding the impact of these divestments, FUM increased by 15%.

FUM rose 17% in LTS, with Emerging Markets up 16% and Old Mutual Wealth up 18%: £4.0 billion of this increase was due to the inclusion of Old Mutual Asset Managers (UK) (OMAM(UK)) for the first time in 2012. USAM FUM rose 14% in its continuing businesses.

Equity markets finished strongly in 2012, with the FTSE 100, S&P 500, MSCI World and the JSE All Share indices up by 6%, 13%, 13% and 23% respectively over the year.

Impact of foreign exchange

The rand to sterling average exchange rate weakened by 12% during 2012, reducing sterling earnings from our South African businesses. The US dollar to sterling average rate strengthened by 1%, increasing sterling earnings from USAM. The year-end rand closing rate was 10% lower than in 2011. The US dollar closing rate was also lower, down 4% against 2011. Both foreign exchange closing rate movements reduced sterling FUM.

Other economic impacts

South African long-term interest rates reduced significantly in 2012, with the 10-year government bond yield used as the Financial Soundness Valuation (FSV) rate decreasing from 8.2% at end-2011 to 6.9% at end-2012. This economic change had an unfavourable impact on IFRS AOP for Emerging Markets and in particular for the Retail businesses.

In order to manage the downside risk of a volatile FSV interest rate and its consequent impact on IFRS profits, Emerging Markets put a hedge programme in place in H2 2012. This partially hedged the risk and helped to reduce the negative impact from a further decline in the FSV rate in the latter part of the year. The hedge programme has been rolled forward into 2013.

Review of Operations

Long-Term Savings	2012	2011 (constant currency)	Change
AOP (£m)	**800**	733	9%
NCCF (£bn)	**3.2**	3.2	-
FUM (£bn)	**121.8**	104.1	17%
Emerging Markets			
AOP (£m)	**605**	510	19%
NCCF (£bn)	**1.2**	0.4	0.8
FUM (£bn)	**52.6**	45.5	16%
Old Mutual Wealth			
AOP (£m)	**195**	223	(13)%
NCCF (£bn)	**2.0**	2.8	(0.8)
FUM (£bn)	**69.2**	58.6	18%

Emerging Markets

- AOP increased by 19% to £605 million, benefiting from strong growth in profits in Corporate, OMIGSA and Rest of Africa
- NCCF at £1.2 billion was up from £0.4 billion in the prior year, due to strong flows into Retail Affluent, OMIGSA, Rest of Africa and Latin America
- FUM was up 16% to £52.6 billion, due to a combination of strong NCCF and higher equity markets
- APE Sales were up 12% to £523 million; non-covered sales were up 32% to £8.9 billion
- Total gross inflows were £11.7 billion, up 25%.

In South Africa, MFC continued to grow its sales, helped by the increase in our adviser force, which grew by 12% in 2012. Productivity was impacted by our focus on advisers writing their FAIS regulatory exams. We will continue to seek growth in this business and cement our position as the sector leader. MFC now serves just under two million customers, with an additional 200,000 signed up in 2012 and we placed an MFC agent in each of the Old Mutual Finance branches. We will continue to work with Mutual & Federal to develop iWyze into the leading short-term insurance brand in the mass market.

Retail Affluent saw total gross inflows up by 18% due to strong non-covered sales but partially offset by a reduction in sales of fixed bond, living annuity and guaranteed annuities. Corporate sales were up 22% on the prior year, with gross inflows up 20%.

Continual improvement of our customer service remains an absolute focus for us and we are making significant progress toward the implementation of Treating Customers Fairly in South Africa in 2014. The customer service metric we have introduced for our South African operation demonstrates a marked improvement, but we are continuing to strive to improve our service. We have invested heavily in a Customer Relationship Management capability to drive a deeper understanding of our customers. New products launches in 2012 included an enhanced *Greenlight* disability product suite and the *SmartMax* education savings product.

We completed the reorganisation of OMIGSA and all the boutiques involved are fully operational in the new structure. We saw a withdrawal of £1 billion of low margin equity assets by the South African Public Investment Corporation. OMIGSA would have achieved positive NCCF of £0.3 billion in 2012 without this outflow. During the year, OMIGSA's boutiques won a number of awards including the Raging Bull award and certificate for the Old Mutual Real Income fund, the Raging Bull certificate for the Moderate Managed Fund of Funds, the Morningstar Award for the Old Mutual Global Equity Fund and the Imbasa Yegolide award for the Socially Responsible Investor of the Year.

Profits from our business in Rest of Africa reached the targeted 10% of South African profits in 2012 and are on track to rise to 15% by 2015. We saw good inflows in our African business, up by 21% mainly due to higher sales in Zimbabwe following a marketing initiative, higher sales in Namibia and a large deal in Kenya from the Government's pension fund. Following the acquisition of Oceanic Life in Nigeria, we will be looking to roll out our Retail Mass offering in Nigeria this year and build an asset management capability.

The Latin American and Asian businesses saw good inflows, up 61%, although our Asian joint ventures faced tough conditions throughout 2012. We invested in rolling out the Retail Mass product range in Mexico, which contributed to the rise in sales in Latin America of 16%. We acquired a majority stake in Aiva Business Platforms, a Uruguayan-based platform and distribution business operating across South America. The acquisition will allow us to access these fast-developing investment markets in an efficient and capital-light manner. In China, our joint venture has improved its distribution capability via an agreement with MinSheng Bank.

Old Mutual Wealth

- AOP in Old Mutual Wealth fell to £195 million (2011: £223 million). The prior year benefited from a £32 million policyholder tax-smoothing gain. Excluding this, AOP increased 1% despite net restructuring charges of £15 million in 2012

- Gross inflows into Old Mutual Wealth were £11.6 billion, led by flows onto the UK Platform and to OMGI; NCCF was £2 billion
- FUM was up 18% to £69.2 billion due to the inclusion of £4.0 billion of FUM in respect of OMAM(UK), higher equity markets in the later part of 2012, and good NCCF. The sale of the Finnish business reduced FUM by £1.1 billion.

Operating conditions were challenging in 2012 as equity markets remained volatile and the eurozone remained beset by uncertainty. These macro-conditions reduced investors' appetite for risk-based investments, and we saw a continued preference for more defensive allocations, although the rally in late 2012 saw some investors return to equities.

In the UK, despite the focus of advisers on preparing for RDR, our platform attracted NCCF of £2.2 billion leading to FUM on the platform of £22.6 billion at the end of 2012. Across the Wealth business, NCCF was at £2.0 billion for the year. FUM for the Wealth business grew on the prior year due to higher markets and net inflows. Average FUM in 2012 increased from £62.0 billion in 2011 to £65.9 billion. We have seen some redemptions from OMGI following the sale of the Group's Nordic business and we expect these to continue in 2013.

APE sales of covered business, predominantly life-wrapped unit linked and pension products, decreased by 11% to £610 million in 2012, despite a strong final quarter. Our UK Heritage book saw sales down £19 million to £50 million as part of the managed reduction of the older generation products offered ahead of RDR. In the International cross-border business, market conditions were difficult in the first half and the regulatory impact was pronounced, leading to sales decreasing by 13% to £181 million overall for the year. International cross-border business improved considerably in the second half of the year through a combination of new product launches and a refreshed product offering. Q4 2012 saw sales up 24% on the comparative period in the prior year.

Including sales from OMAM(UK), non-covered (mutual funds) sales increased 2% to £5.9 billion from 2011. OMGI increased its non-covered sales by 37% to £3.0 billion as a result of continued flows into a number of funds, most notably the Spectrum fund range. OMGI sales in Europe and Asia were strong at £0.6 billion and £0.4 billion respectively.

OMGI delivered very good investment performance in 2012. Eighty per cent of OMGI funds have outperformed the median over three years, with 33% in the top decile.

In 2012, we reorganised the business further by bringing OMAM(UK) into Old Mutual Wealth and continuing to merge the remaining Skandia operations into one, particularly those that were previously part of Retail Europe. As part of the reorganisation, we have closed our Austrian and German books to new business. The changes are designed to combine asset management capability with our UK Platform's strength and cross-border expertise to build a leading wealth management provider, as well as allow us to achieve further cost and operational efficiencies. As part of this we have combined Skandia Investment Group (SIG) with OMAM(UK) to form OMGI – this new asset management entity will support the growth and transformation of Old Mutual Wealth. The unification of SIG and OMAM(UK) has given us improved operational scale and renewed commercial focus. At the year-end the combined business reported an operating margin of 14% excluding transition costs (or 5% including these costs). The post-merger operating margin on a run-rate basis was 18%, excluding transition costs.

The regulatory requirements arising from the RDR came into effect on 1 January 2013, and for much of 2012 we focused on ensuring we would be compliant by this deadline. We now have flexible adviser charging in place to facilitate advice fees for financial advisers and their clients. We also took this opportunity to launch a new unbundled charging structure on our UK platform where the charge is applied dependent on how much is invested and not by asset class as well as the ability to pass rebates on to our customers in the form of additional units of their investment. This conforms to the FSA's current proposals for the platform market and we believe we are the only platform in the market that is both RDR ready and prepared for the new platform rules that are likely to come into effect later this year.

We believe RDR will create new opportunities for us as the UK market continues to change. In the short term, UK conditions will inevitably be challenging as advisers and customers adapt to the post-RDR world notwithstanding that the UK equity market conditions have been positive for the first two months of the year. Eventually we expect that the market will be characterised by a combination of whole-of-market (independent) advice and more parameterised (restricted) advice. We see opportunities to serve both these models.

We introduced a number of new products during the year, including the *Generation* fund range. *Generation* is an innovative product for retirement in the UK which has targets around both the returns as well as income levels the product aims to generate. We have also launched a revitalised, gender-neutral protection offering in the UK. In our cross-border International markets we launched new products, including a new portfolio bond and a structured product in South Africa and a universal life, high death-benefit product for other markets.

Nedbank

			£m
	2012	2011 (constant currency)	% change
AOP	**828**	676	23%
Net interest income	**1,513**	1,386	9%
Non-interest revenue	**1,332**	1,185	12%

- Headline earnings grew 21% to £577 million, driven by good revenue growth, an improving credit loss ratio (CLR) and responsible expense management while investing for growth. AOP was up 23% to £828 million.

Nedbank made excellent progress in delivering on its strategic focus areas, producing a strong set of results for the year. The results reflect an improvement in all key performance indicators and headline earnings growth in all business clusters.

The return on average ordinary shareholders' equity (ROE) excluding goodwill, increased to 16.4% (2011: 15.3%) and ROE including goodwill increased to 14.8% (2011: 13.6%), with the return on assets (ROA) increasing to 1.13% (2011: 0.99%).

Nedbank is well capitalised, with a Basel II.5 common equity Tier 1 ratio of 11.4% (2011: pro forma Basel II.5 ratio 10.5%). With the introduction of Basel III on 1 January 2013, the pro forma Basel III common equity Tier 1 ratio at 31 December 2012 is a robust 11.6%.

Funding and liquidity levels remained sound. We maintained surplus liquidity buffers at a level of around £1.7 billion and the average long-term funding ratio increased to 26.0% (2011: 25.0%) in Q4 2012.

Mutual & Federal

			£m
	2012	2011 (constant currency)	% change
AOP	**43**	80	(46)%
Underwriting Result	**(10)**	27	(137)%
Gross written premiums	**746**	681	9%

- The underwriting result declined to a £10 million loss due to an increased number of severe weather losses, continued start up losses at iWyze and an increased number of large commercial fire claims
- Good growth in personal lines and iWyze policy numbers.

Mutual and Federal improved its service levels and grew the number of policies written in 2012. Its direct joint venture with OMSA's Mass Foundation business, iWyze, had strong premium growth, with the policy count growing by 33%. Losses at iWyze had a significant impact on Mutual & Federal's overall underwriting result.

Our businesses in Botswana and Namibia continue to perform well. We are in the process of acquiring Oceanic's Nigerian general insurance business from Ecobank and continue to work with Old Mutual Emerging Markets to identify opportunities in other African markets.

The management successfully contained operating costs, with an absolute fall of £5 million, and implemented selective pricing action on poorly performing lines of business. This will continue in the renewal season for 2013.

US Asset Management (continuing operations)[1]

	2012	2011 (constant currency)	Change
AOP (£m)	**95**	86	10%
NCCF (£bn)	**0.9**	(3.0)	3.9
FUM (£bn)	**128.4**	112.9	14%

[1] Continuing operations excluded the results of 2100 Xenon, Larch Lane, 300 North, Analytic, Ashfield, Dwight, and Old Mutual Capital, which were disposed during 2012, and Lincluden, which was disposed during 2011. Continuing operations also excluded OMAM(UK), which was transferred to the Old Mutual Wealth operation of LTS in 2012.

- USAM's AOP from continuing operations was up 10% to £95 million
- NCCF from continuing operations was £0.9 billion, up from £(3.0) billion in 2011
- FUM up 14% to £128.4 billion.

AOP on a continuing basis was up 10%, driven by positive NCCF and rising markets. Continued strong investment performance, combined with a strong market environment led to NCCF of £0.9 billion, the first positive flows in the business since 2007. AOP operating margin was at 29% before non-controlling interests, up 2% on the prior year. This business is being run with a margin target of 25-30%, or greater, before non-controlling interests.

USAM has now completed the repositioning of its affiliate portfolio, via the disposals of 2100 Xenon Group, 300 North Capital, Analytic Investors, Ashfield Capital Partners, Larch Lane Advisors, Old Mutual Capital (OMCAP) and Dwight Asset Management. The business is now focused on long-term, institutionally-driven, active asset management. During the year we also built our international distribution capabilities through filling key roles and identifying key market priorities.

Part 2 – Financial Performance

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AOP analysis

	2012	2011 (constant currency)[1]	% change	2011 (as reported)[1]	% change
					£m
Revenue					
Fees	**2,086**	2,036	2%	2,075	1%
Underwriting[2]	**1,425**	1,322	8%	1,471	(3)%
Nedbank net interest income[3]	**1,145**	1,002	14%	1,120	2%
Nedbank non-interest revenue	**1,298**	1,135	14%	1,268	2%
Net other revenue	**404**	365	11%	402	-
Total revenues	**6,358**	5,860	8%	6,336	-
Expenses					
Finance costs	**(130)**	(128)	(2)%	(128)	(2)%
Administration expenses & other expenses	**(3,592)**	(3,388)	(6)%	(3,676)	2%
Acquisition expenses	**(1,022)**	(981)	(4)%	(1,017)	-
Total expenses	**(4,744)**	(4,497)	(5)%	(4,821)	2%
AOP before tax and non-controlling interests	**1,614**	1,363	18%	1,515	7%

[1] The comparative period has been restated to reflect Nordic as discontinued.

[2] Underwriting includes net income from writing insurance products (protection, annuity and general insurance).

[3] Presented net of impairments.

Sources of earnings are analysed on a constant currency basis below.

Fees increased by 2% to £2,086 million. The increase was driven by Emerging Markets and Old Mutual Wealth, reflecting higher average FUM. This was partly offset by a decrease in USAM due to the disposals of affiliates. Fees include asset-based fees, transactional fees, performance fees and premium-based fees, earned on unit-linked investment contracts and asset management revenues.

Underwriting increased 8% to £1,425 million. The increase was mainly driven by higher mortality profits in Emerging Markets and lower claims costs within Old Mutual Wealth. Mutual & Federal's underwriting results were impacted by higher claims experience during the period.

Nedbank net interest income (NII) was up 14% to £1,145 million, net of impairments, due to an increase in the net interest margin, an increase in interest earning assets and a reduction in impairment provisions.

Nedbank non-interest revenue (NIR) was up 14% to £1,298 million. NIR includes service charges, trading income, commission and transactional fees. The increase was due to higher trading income, higher commission and fees, higher transactional volumes and increased insurance revenues.

Net other revenue was up 11% to £404 million, driven by an increase in long term investment return (LTIR) in Emerging Markets and on excess assets. LTIR on excess assets increased by 64% to £54 million (2011: £33 million), primarily due to an increase in average excess assets held in South Africa pending payment of the Special Dividend to South African shareholders.

The LTIR rates are reviewed annually and reflect the returns expected on the chosen asset classes. The 2012 long-term rates for Emerging Markets, Mutual & Federal and Old Mutual Wealth were 9.0% (2011: 9.0%), 8.6% (2011: 9.0%) and 1.5% (2011: 2.0%) respectively. The 2013 long-term rates for Emerging Markets, Mutual & Federal and Old Mutual Wealth are 8.0%, 7.4% and 1.0% respectively. The asset allocation in South Africa will continue to be split 75% cash and bonds and 25% equity.

In 2012 the Group's AOP finance costs increased marginally as a result of the higher coupon on the £500 million Tier 2 bond issued in June 2011, compared to the Group's other debt instruments, and the timing of the debt repayment during the year. In September 2012 the Group redeemed the $750 million cumulative preference securities. The costs associated with this instrument are accounted for as non-controlling interests. Total finance costs, including the cost of this instrument, reduced by approximately £8 million. These finance costs are expected to reduce by over 35% in 2013 as a result of the full year effects of the debt reduction undertaken in 2012.

Administration expenses increased by 6% to £3,592 million, with increased costs in Nedbank, primarily due to higher staffing to service increased volumes, and Emerging Markets, driven by project costs and inflationary increases. Old Mutual Wealth costs increased, with expense savings offset by transformation and development spend, and the inclusion of OMAM(UK) for the first time in 2012.

The following Group central costs were included in administration expenses:

- Corporate costs were down 5% to £54 million (2011: £57 million), due to our ongoing efforts to reduce corporate costs in line with the Group's previously announced targets. Around 12% of these costs were incurred in South Africa in respect of activities which support the corporate centre. A further 8% were unavoidable listed holding company costs including, corporate insurances, audit fees and other recurring professional fees. We consider them to be low compared to peers.

- Net interest payable to non-core operations reduced by 22% to £18 million (2011: £23 million), due to lower prevailing rates on the loan notes to our Bermuda business.
- The other net expenses reduced to nil (2011: £18 million), primarily due to higher Group seed investment gains generated at USAM's affiliates, offsetting expenses.

Acquisition expenses increased by 4% to £1,022 million, primarily due to increased new business volumes in Emerging Markets and increased trail commission in Old Mutual Wealth, resulting from improved market performance in the year, which more than offset the impact of lower new business volumes.

Summary MCEV results

Adjusted Group MCEV per share

The adjusted Group MCEV per share increased by 13% to 220.3p, with 4,893 million shares in issue (2011: 5,562 million). Adjusted operating earnings contributed 15.7p per share and non-operating earnings and other movements contributed 10.5p per share.

The positive contribution from non-operating earnings and other movements was primarily due to the increase in the uplift for the Nedbank market value of 11.9p per share and the sale of Nordic resulting in an increase of 12.4p per share. This comprised the Nordic sale proceeds of 3.6p, share consolidation impact of 26.8p, offset by the Special Dividend paid on 7 June 2012, which reduced MCEV per share by 18.0p. Foreign exchange movements from rand depreciation had a negative impact of 13.4p per share.

		p
Adjusted Group MCEV per share at 31 December 2011[1]		**194.1**
Covered business	9.0	
Non-covered business	6.7	
Adjusted operating Group MCEV earnings per share[1]		**15.7**
Economic variances and other earnings	7.2	
Foreign exchange and other movements	(13.4)	
Dividends paid to ordinary and preferred shareholders	(6.1)	
Nedbank market value adjustment	11.9	
BEE and ESOP adjustments	(0.3)	
Mark to market of debt	(1.2)	
Impact of share consolidation	26.8	
Net proceeds from Nordic sale	3.6	
Special dividend	(18.0)	
Non-operating MCEV earnings and other movements		**10.5**
Adjusted Group MCEV per share at 31 December 2012[1]		**220.3**

[1] The weighted average number of shares used to calculate adjusted Group MCEV per share and adjusted operating Group MCEV earnings per share does not include preference shares.

The adjusted operating Group MCEV earnings per share decreased by 3.7p to 15.7p, including Nordic, and by 1.6p to 15.2p excluding Nordic. Non-covered business operating earnings increased by 0.7p and now represents 43% of total operating earnings (2011: 31%).

Covered business operating MCEV earnings per share decreased by 4.4p to 9.0p, including Nordic, and by 2.4p to 8.6p excluding Nordic. Excluding Nordic, the movements include:

- Emerging Markets earnings in sterling decreased 0.7p due to the weakening of the rand exchange rate. In rand terms, earnings increased due to a higher new business contribution, expected return and positive experience and assumption changes in respect of mortality and disability. This was partially offset by experience losses, including one-off development expenses in 2012 and significantly lower persistency profits, following the release of short-term termination provisions and alignment of persistency experience to assumptions at the end of 2011.
- Lower earnings from Old Mutual Wealth reflected restructuring initiatives of 1.8p, largely as a result of the change of strategy, including the future operation of the selected European businesses on a manage for value basis and lower positive rebate variances compared to 2011.
- Higher earnings from Old Mutual Bermuda as a result of positive persistency experience on variable annuity products, and the lightening of persistency and expense assumptions.

Non-covered business operating earnings per share increased by 0.7p to 6.7p, including Nordic and increased 0.8p to 6.6p excluding Nordic. The increase excluding the contribution from Nordic was a result of higher earnings from the banking businesses, with Nedbank's earnings a result of higher net interest income and non-interest revenue. This was partially offset by lower earnings from Mutual & Federal.

At end-2012, 63% of the adjusted Group MCEV, pre-debt and net other business, was in emerging market countries (including Nedbank and Mutual & Federal businesses) (2011: 55%), with 22% in European businesses (2011: 35%) and 15% in the US (2011: 10%).

The ROEV is calculated as the adjusted operating Group MCEV earnings after tax and non-controlling interests of £789 million (2011: £1,055 million) divided by the opening Group MCEV.

During the period Old Mutual owned on average 54.6% of Nedbank. At end-2012, the market capitalisation of Nedbank was R90.5 billion, equivalent to £6.6 billion (2011: R69.6 billion; £5.5 billion). On a constant currency basis, Nedbank's market capitalisation increased by £1.5 billion from £5.1 billion at end-2011, due to a 30% increase in its share price over the period.

Free surplus generation

Core continuing operations generated £814 million of free surplus (2011: £803 million), of which £593 million (2011: £552 million) was generated by the LTS division. Covered business generated £493 million (2011: £431 million) with the increase attributable to lower new business investment and higher economic variances resulting from strong equity market performance partly offset by lower transfers from value of in-force business and adverse experience variances mainly arising from one-off development and restructuring costs. We expect the value of our remaining in-force business to generate a surplus of about £1.5 billion over the next three years. Over 50% of this surplus is expected to come from Old Mutual Wealth.

Non-covered business generated £321 million (2011: £372 million), with the decline mainly attributable to the lower underwriting result in M&F.

Cash and liquidity

	£m
Opening cash and liquid assets at Plc at 1 January 2012	**441**
Operational inflows	
Operational receipts	**212**
Distributions from South African operations	**258**
Total operational inflows	**470**
Operational outflows	
Interest paid	**(142)**
GHO costs	**(54)**
Inter-company interest and other operational outflows	**(9)**
Ordinary cash dividends	**(268)**
Total operational outflows	**(473)**
Net capital flows	**34**
Closing cash and liquid assets at Plc at 31 December 2012	**472**

Operational cash inflows to holding company

Inflows to holding company included hard currency operational inflows of £212 million, consisting of £145 million from Old Mutual Wealth and £67 million from US Asset Management. Distributions of £258 million were made by the South African businesses, with £108 million from Emerging Markets, £138 million from Nedbank and £12 million from Mutual & Federal.

Operational cash outflows and distributions by holding company

Operational outflows included finance costs of £142 million and head office costs of £54 million.

Ordinary cash dividends totalled £268 million. Dividends of £147 million were paid to shareholders on the South African register, funded directly by the South African businesses.

Net capital flows

Capital inflows included proceeds from the sale of the Nordic business, Dwight and Old Mutual Capital in H1 2012 and the sale of Old Mutual Wealth's Finnish business in H2 2012. The Group also sold 75% of its Zimbabwean operation to an OMSA subsidiary for an initial consideration of R1.1 billion, with deferred consideration of R0.5 billion potentially payable in 2015, subject to valuation.

We have agreed terms for the transfer of the Colombian and Mexican businesses to OMSA, subject to regulatory approval, and continue arranging the transfer of certain other emerging market subsidiaries to align their legal structures with their operational management.

Capital outflows included:

- Payment of a Special Dividend of £1.0 billion
- A cash transfer of £38 million ($61 million) into Old Mutual Bermuda in July 2012 in response to the expected new Bermudan solvency requirements. This formed part of the total additional capital of $571 million transferred to Bermuda, the balance was comprised of $250 million of new inter-company loan notes and $260 million of Group seed investments
- Cash of £1,073 million used to repay debt during the period
- The settling of an intercompany loan with Nedbank.

Liquidity

At 31 December 2012, the Group had available liquid assets and undrawn committed facilities of £1.7 billion (2011: £1.5 billion). Of this, available liquid assets at the holding company were £0.5 billion (2011: £0.4 billion).

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

Capital and leverage

Debt strategy, profile and maturities

At 31 December 2012 the Group had applied £1.52 billion of cash to the repayment of debt since 1 January 2010, successfully completing its £1.5 billion initial debt reduction target set in March 2010. The £1.52 billion debt repaid included:

- £110 million (net of debt raised) repaid in 2010
- £339 million (net of debt raised) repaid in 2011
- £1,073 million repaid in 2012.

The debt repaid in 2012 included:

- £144 million to repay €200 million of a €750 million Tier 2 bond in January 2012
- £459 million to repay £388 million notional of the £500 million senior debt (maturing in 2016) in August 2012
- £464 million to repay the $750 million cumulative preference securities in September 2012
- £6 million to repay subordinated debt in December 2012.

A further £180 million of debt will be repaid in due course, in accordance with the plans set out in the shareholder circular on the Nordic sale. Any decisions regarding the repayment of further debt will take account of capital treatment and the economic impact of the repayment and, where appropriate, will be subject to regulatory approval.

In the medium-to-long term the Group has further first calls on debt instruments amounting to £620 million in 2015 and £348 million in 2020. In addition the Group has £112 million of senior debt maturing in 2016, representing the amount outstanding following the tender in 2012. The £500 million Tier 2 bond issued in June 2011 matures in 2021.

Financial Groups Directive results

The Group's regulatory capital surplus, calculated under the EU Financial Groups Directive (FGD), at 31 December 2012 was £2.0 billion (2011: £2.0 billion). The £2.0 billion FGD surplus represented a coverage ratio of 158%, compared to 154% at end-2011. When stressed against a 1 in 10 shock event the Group's FGD surplus would fall to £1.6 billion.

The FGD surplus was increased by statutory profits but this was offset by the increase in the local regulatory capital requirement in Bermuda and the repayment of the Tier 2 subordinated debt. The sale of Nordic increased the FGD surplus by £1.6 billion. This was largely offset by the payment of £1.2 billion in special and ordinary dividends during 2012.

The future level of capital required in Old Mutual Bermuda, on both an economic and a regulatory basis, will be influenced by the extent and nature of the run-off of its book and the amount of the investment hedge in place. Taking account of the higher than anticipated surrender experience, we expect to review the regulatory capital requirement with the Bermuda Monetary Authority during 2013.

The Group's subsidiary businesses continue to have strong local statutory capital cover.

Business local statutory capital cover	**31-Dec-12**	31-Dec-11
Old Mutual Life Assurance Company (South Africa)	**4.0x**	4.0x
Mutual & Federal	**1.8x**[1]	1.5x
UK	**2.3x**	2.0x
Nedbank[2,3]	**Common equity Tier 1: 11.4%** **Tier 1: 12.9%** **Total: 14.9%**	Common equity Tier 1: 10.5% Tier 1: 12.0% Total: 14.6%
Bermuda	**1.6x**[4]	2.3x

[1] 2012 local statutory cover was based on interim SAM framework for non-life insurers, implemented on 1 January 2012.

[2] This includes unappropriated profits.

[3] 2012 and 2011 Nedbank capital ratios are calculated on a Basel II.5 basis.

[4] Based on Bermuda's expected new regulatory regime.

The Group's FGD surplus is calculated using the 'deduction and aggregation' method, which determines the Group's capital resources less the Group's capital resources requirement. Group capital resources is the sum of all the business units' net capital resources, calculated as each business unit's stand-alone capital resources less the book value of the Group's investment; the Group capital resources requirement is the sum of all the business units' capital requirements. The contribution made by each business unit to the Group's regulatory surplus is different from the locally reported surplus as the latter is determined without the deduction for the book value of the Group's investment. Thus, although all the Group's major business units have robust local solvency surpluses, not all make a positive contribution to the Group's FGD position. The Group regulatory capital was calculated in line with the FSA's prudential guidelines.

	2012		2011[1]	
Regulatory capital	**£m**	**%**	£m	%
Ordinary Equity	**4,948**	**89%**	4,565	80%
Other Tier 1 Equity	**572**	**10%**	593	10%
Tier 1 Capital	**5,520**	**99%**	5,158	90%
Tier 2	**1,343**	**24%**	1,903	33%
Deductions from total capital	**(1,289)**	**(23)%**	(1,360)	(23)%
Total capital resources	**5,574**	**100%**	5,701	100%

[1] Capital as reported to FSA. Numbers may differ slightly from those reported in Annual Report and Accounts 2011.

Economic capital

We continue to manage our business and monitor solvency internally on an economic capital at risk basis, which expresses solvency at a 99.93% confidence level. We are comfortably solvent on this basis with a current solvency ratio of over 160% (estimated, unaudited figure), and are therefore well-positioned for the transition to Solvency II in the UK and its South African equivalent, Solvency Assessment and Management. Economic capital represents our internal view of our business and is more representative of the underlying risks. It allows for diversification both between different risks within entities and across sectors and territories.

Group ROE and margin and cost savings targets

At the 2009 Preliminary Results and Strategy Update, the Group introduced three-year ROE and cost-saving targets. Progress against these targets is set out below.

ROE and margin targets	**2012**	2011	Target
Long-Term Savings			
Emerging Markets [1]	**24%**	24%	20%-25%
Old Mutual Wealth[2]	**13%**	16%	12%-15%
LTS Total	**20%**	20%	16%-18%
USAM operating margin[3]	**21%**	15%	25%-30%

[1] Within Emerging Markets, African and Asian ROE are calculated as return on allocated capital.

[2] Old Mutual Wealth ROE is calculated as IFRS AOP (post tax) divided by average shareholders' equity, excluding goodwill, PVIF and other acquired intangibles.

[3] USAM operating margin measures AOP as a percentage of revenue and is stated after non-controlling interests and excluding gains/losses on seed capital but makes no adjustment for affiliates held for sale or disposed in the period. The results for the comparative period have been restated to exclude gains/losses on seed capital.

Emerging Markets ROE remained high at 24%, with increased post-tax profits offset by an increased allocated capital base, supporting growth and expansion plans in Africa. Old Mutual Wealth ROE reduced to 13%, with lower operating profits partially offset by a more efficient capital base, following capital flows to the Group in 2012.

USAM's operating margin improved from 15% to 21% on a reported basis. USAM's operating margin from continuing business, which excluded divested affiliates, was 24% (2011: 24%) after non-controlling interests and 29% (2011: 27%) before non-controlling interests.

Nedbank ROE (excluding goodwill) was 16.4%, an improvement of 1.1% on 2011, but was 1.7% below Nedbank's medium-to-long term target of 5% above the cost of ordinary shareholders' equity.

Part 2 – Financial Performance

Cost reduction targets	Cumulative run-rate savings	Cumulative cost incurred to date	2012 run-rate target
			£m
Long-Term Savings			
Emerging Markets	**21**	-	5
Old Mutual Wealth	**80**	56	60
LTS Total	**101**	56	65
USAM	**15**	20	10
Group-wide corporate costs	**17**	1	15
Total	**133**	77	90

We have delivered £133 million of cumulative run-rate savings, more than the £90 million run-target announced in March 2010, with all business units meeting or exceeding targets. The original £100 million target was re-stated to exclude Nordic following its sale. The cost incurred to deliver run-rate savings in 2012 totalled £1 million.

Group corporate cost run-rate savings of £17 million were delivered through ongoing restructuring at the Group's Head Office.

Statutory results

Reconciliation of Group AOP and IFRS profits

		2012		2011[1]
				£m
Adjusted operating profit		**1,614**		1,515
Adjusting items		**(459)**		(329)
Non-core operations (including Bermuda)[2]		**165**		(183)
Profit before tax (net of policyholder tax)		**1,320**		1,003
Income tax attributable to policyholder returns		**75**		(9)
Profit before tax		**1,395**		994
Total tax expense		**(472)**		(225)
Profit from continuing operations after tax		**923**		769
Profit from discontinued operations after tax		**564**		198
Profit after tax for the financial year		**1,487**		967
Other comprehensive income		**(835)**		(1,400)
Total comprehensive income		**652**		(433)
Attributable to				
Equity holders of the parent		**476**		(408)
Non-controlling interests				
Ordinary shares	**126**		(87)	
Preferred securities	**50**		62	
Total non-controlling interests		**176**		(25)
Total comprehensive income		**652**		(433)

[1] The comparative period has been restated to reflect Nordic as discontinued.

[2] Non-core operations include £161 million of profit after tax from Bermuda and £4 million of inter-segment revenue and profit from discontinued operations after tax, reflecting the results of Nordic.

Adjusting items

Key adjusting items made to IFRS profits to determine AOP:

- A £126 million loss on Group debt instruments held at fair value, resulting from a tightening in credit spreads, was excluded from AOP
- A £123 million amortisation charge in respect of other acquisition accounting adjustments primarily relating to the remaining Skandia business (i.e. excluding Nordic), was excluded from AOP

- £113 million of investment returns on policyholder investments in Group equity and debt instruments were included in AOP
- A £78 million charge for short-term fluctuations in investment return, largely as a result of lower returns on cash and bonds in South Africa compared to our LTIR assumption and expected asset allocation.

Non-core business units – Bermuda

The IFRS post-tax profit for the period was £161 million (2011: £178 million loss), driven primarily by the reduction in Universal Guaranteed Minimum Accumulation Benefits (GMAB) reserves and a realised gain on the fixed income portfolio, partially offset by a full write-off of all remaining deferred acquisition costs.

At 31 December 2012, 67% of the Universal Guarantee Option (UGO) GMAB contracts by guarantee amount had passed their five-year top-up mark. The cash cost of fifth anniversary top-ups paid was £268 million, further reduced by positive equity market movements. The estimated outstanding cash cost of fifth anniversary top-ups was £66 million at end-2012.

We experienced significantly higher than expected surrender rates for 2012. The UGO GMAB guarantee reserve at 31 December 2012 was £135 million (2011: £665 million). At 31 December 2012, around 80% of non-Hong Kong UGO policies and around 60% of Hong Kong policies had been surrendered on or after the fifth anniversary date.

Further information on Bermuda is included in Part 3 - Detailed Business Review.

Income tax attributable to policyholder returns

Under IFRS, tax on policyholder investment returns is included in the Group's tax charge rather than being offset against the related income. The impact is to increase profit before tax, with a corresponding increase to the tax charge. In 2012, tax on policyholder investment returns was £75 million (2011: £9 million credit), of which £27 million was attributable to Old Mutual Wealth and £48 million to Emerging Markets. In 2011, a smoothing adjustment in respect of Old Mutual Wealth's previous years' deferred tax assets gave rise to an AOP gain of £32 million; there was no such gain in 2012.

Total tax expense

The effective tax rate (ETR) on AOP increased from 23% in 2011 to 27% in 2012. Over 88% of the 2012 AOP tax charge relates to Emerging Markets and Nedbank. Movements in these business units have a correspondingly large impact on the Group's ETR. The increase in ETR was largely a result of:

- A 2% increase in Nedbank's ETR to 27%, due mainly to a lower proportion of untaxed dividend income
- A return to a more normal ETR of 27% (2011: 21%) in Emerging Markets, which also saw a reduction in the proportion of low taxed income in 2012
- An increase in AOP tax rate in Old Mutual Wealth from 12% to 22%. This was principally driven by market fluctuations resulting in significantly less exempt dividend income being allocated to the shareholder.

During the period we paid corporation tax of approximately £300 million. Around 90% was paid in South Africa, where a large proportion of the Group's profits were generated. Total taxes paid and collected in the year were around £1 billion.

Looking forward, and depending on market conditions and profit mix, we expect the ETR on AOP in future periods to range between 25% and 28%. We are reviewing the proposed changes to South African life business taxes announced in the South African budget on 27 February 2013, which may impact this range if enacted.

Discontinued operations – Nordic

Profit from discontinued operations included a £564 million profit on the disposal of Nordic. A brand impairment of £35 million attributable to the sale was recognised in H2 2012. We anticipate further IT and rebranding costs of around £60 million, directly related to the transaction in 2013.

Other comprehensive income

Other comprehensive income for the period showed a loss of £835 million (2011: £1,400 million loss), driven by the recycling of the foreign exchange reserves associated with Nordic from other comprehensive income through the income statement and unrealised foreign exchange losses, largely on the net asset value of the South African businesses.

Non-controlling interests

Non-controlling interests' share of total comprehensive income was £176 million (2011: £25 million loss), mainly reflecting non-controlling interests' share of Nedbank's profit, partially offset by their share of unrealised losses generated on the translation of Nedbank.

Risk management

Risk allocation and Solvency II

The Group's internal capital model supports the setting of our integrated risk and business strategy and forms the basis of our risk appetite and limit-setting framework. It is a useful tool, allowing us to understand better the potential impact of strategic decisions and possible future developments (both internally and externally) on our economic capital position.

Given the delay to the Solvency II go-live date, we plan to focus on further embedding our model and Own Risk and Solvency Assessment (ORSA) within the business and enhancing our stress and scenario testing framework. In South Africa, our insurance businesses are well positioned for the new SAM regulations, which will be effective January 2015 with dual reporting during 2014.

Part 2 – Financial Performance

Risks and uncertainties

A number of potential risks and uncertainties could have a material impact on Group performance and cause actual results to differ materially from expected and historical results.

Although we continue to operate in difficult economic conditions, the Group's overall profile is stable despite the weakened global recovery. Important questions remain about how the global economy will operate in a world of high government debt and whether emerging market economies can maintain their strong expansion while shifting further from external to domestic sources of growth. Nonetheless, the Group continues to show that it is resilient and well capitalised.

The most significant external risks to earnings relate to the concentration of businesses in South Africa and the translation of earnings from rand to sterling. The rand is susceptible to changes in the level of foreign investment in South African government debt. This remains high as the prolonged period of low growth in the US and Europe drives foreign investors to seek yield elsewhere. Any reversal of these flows could potentially trigger a decline in the rand, reducing our sterling earnings. Having modelled scenarios involving a severe fall in the rand, we are comfortable that the Group has sufficient capital and liquidity headroom to withstand such events.

The strategic changes to our Old Mutual Wealth business are a top priority. As we position our businesses for growth over the next few years, we recognise that this could increase short-term operational risk – particularly in Old Mutual Wealth, where the pace and level of change are greatest.

Exposure to credit risk has increased slightly, reflecting controlled growth in Nedbank and Old Mutual Finance, but remains within appetite limits. In the current environment, our South African life business remains exposed, from an IFRS earnings perspective, to further reductions in long-term interest rates resulting in an increase in the value of certain life insurance liabilities. This was partially hedged in 2012 and the hedge programme has been rolled forward into 2013.

Old Mutual Bermuda has significantly reduced its market risk exposures - including volatility risk associated with the five-year top-up anniversaries - through the hedging programme introduced in March 2012 and favourable surrender experience in 2012. This has greatly benefited the overall Group capital position.

The current regulatory environment is changing and we expect to see a growing intensity of regulation over time, specifically with the move to the FSA twin peaks regulatory model in the UK. A similar move is imminent in South Africa, with regulators aiming to have the legislative framework in place by the end of 2013, with the split to be made by April 2014. Our strategic emphasis on customer focus and our continuing senior-level engagement with regulatory policymakers positions us well to address the move to this new regulatory model in the UK and South Africa, as well as the recently implemented UK RDR. Nedbank has successfully implemented Basel II.5 and is well positioned for Basel III. This is effective from January 2013, but the new requirements will be phased-in over several years.

The Board believes that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis for preparing accounts.

Exposure to sovereign debt in Portugal, Italy, Ireland, Greece, Spain and France

At 31 December 2012 the Group had no direct exposure to the sovereign debt of Portugal, Italy, Ireland, Greece and Spain. The exposure to French sovereign debt at 31 December 2012 was less than £3 million.

Supplementary financial information (data tables)

Summarised financial information (as reported)	2012	2011	% change
			£m
IFRS results[1]			
Basic earnings per share	**24.9p**	12.9p	93%
IFRS profit after tax attributable to equity holders of the parent	**1,173**	667	76%
MCEV results[2]			
Adjusted Group MCEV (£bn)	**10.8**	10.8	-
Adjusted Group MCEV per share	**220.3p**	194.1p	13%
AOP Group MCEV earnings (post-tax and non-controlling interests)	**789**	1,055	(25)%
Adjusted operating Group MCEV earnings per share	**15.7p**	19.4p	(19)%
Return on Group MCEV	**8.1%**	10.7%	

[1] The comparative period has been restated to reflect Nordic as discontinued.

[2] Includes Nordic and US Life.

Group return on equity (as reported)[1]	2012	2011
		£m
AOP including accrued hybrid dividends – core operations	**842**	855
Opening shareholders' equity excluding hybrid capital – core operations	**5,857**	5,788
Half-year shareholders' equity excluding hybrid capital – core operations	**6,996**	5,987
Closing shareholders' equity excluding hybrid capital – core operations	**6,583**	5,857
Average shareholders' equity – core operations	**6,479**	5,877
Return on average equity	**13.0%**	14.6%

[1] ROE is calculated as core business IFRS AOP (post-tax) divided by average ordinary shareholders' equity (i.e. excluding the perpetual preferred callable securities)

Group debt summary	2012	2011
		£m
Senior gearing (net of holding company cash)	**(3.0)%**	0.5%
Total gearing (net of holding company cash)	**8.5%**	15.6%
Book value of debt - MCEV basis	**1,607**	2,515
Book value of debt - IFRS basis	**1,569**	2,529
Total interest cover[1]	**8.8 times**	7.7 times
Hard interest cover[1]	**1.9 times**	1.7 times

[1] Total interest cover and hard interest cover ratios exclude Nordic profits in current and prior periods.

Part 3 – Detailed Business Review

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Long-Term Savings

Long-Term Savings[1]	2012 Reported	2011 Constant currency	% change	2011 Reported	% change
					£m
AOP (IFRS basis, pre-tax)	**800**	733	9%	793	1%
NCCF (£bn)	**3.2**	3.2	-	3.2	-
FUM (£bn)	**121.8**	104.1	17%	108.5	12%
Life assurance sales (APE)	**1,133**	1,152	(2)%	1,207	(6)%
PVNBP	**8,665**	8,767	(1)%	9,113	(5)%
Non-covered sales[2,3]	**14,549**	11,450	27%	12,248	19%
Value of new business	**197**	167	18%	177	11%
APE margin	**18%**			15%	
PVNBP margin	**2.3%**			1.9%	
Operating MCEV earnings (covered business, post-tax)	**336**			552	(39)%
Adjusted MCEV (covered business)	**5,740**			5,713	-
Return on embedded value[4]	**5.9%**			9.3%	
(VNB + experience variance)/MCEV (covered business)[4]	**2.6%**			5.1%	

Emerging Markets	2012 Reported	2011 Constant currency	% change	2011 Reported	% change
					£m
AOP (IFRS basis, pre-tax)	**605**	510	19%	570	6%
NCCF (£bn)	**1.2**	0.4	200%	0.4	200%
FUM (£bn)	**52.6**	45.5	16%	49.9	5%
Life assurance sales (APE)[5]	**523**	469	12%	524	-
PVNBP[5,6]	**3,331**	2,949	13%	3,295	1%
Non-covered sales[2]	**8,937**	6,761	32%	7,559	18%
Value of new business[5,6]	**135**	89	52%	99	36%
APE margin[6]	**27%**			20%	
PVNBP margin[6]	**4.1%**			3.0%	
Operating MCEV earnings (covered business, post-tax)	**328**			349	(6)%
Adjusted MCEV (covered business)[6]	**3,296**			3,167	4%
Return on embedded value[4,6,7]	**10.7%**			11.9%	
(VNB + experience variance)/MCEV (covered business)[4,6,7]	**3.5%**			6.8%	

Old Mutual Wealth	2012 Reported	2011 Constant currency	% change	2011 Reported	% change
					£m
AOP (IFRS basis, pre-tax)	**195**	223	(13)%	223	(13)%
NCCF (£bn)	**2.0**	2.8	(29)%	2.8	(29)%
FUM (£bn)	**69.2**	58.6	18%	58.6	18%
Life assurance sales (APE)	**610**	683	(11)%	683	(11)%
PVNBP	**5,334**	5,818	(8)%	5,818	(8)%
Non-covered sales[2,3]	**5,612**	4,689	20%	4,689	20%
Value of new business	**62**	78	(21)%	78	(21)%
APE margin	**10%**			11%	
PVNBP margin	**1.2%**			1.3%	
Operating MCEV earnings (covered business, post-tax)	**8**			203	(96)%
Adjusted MCEV (covered business)	**2,444**			2,546	-
Return on embedded value[4]	**0.3%**			7.8%	
(VNB + experience variance)/MCEV (covered business)[4]	**1.7%**			4.0%	

[1] The comparative period has been restated to reflect Nordic as discontinued.

[2] Includes unit trust, mutual fund and other sales.

[3] OMAM(UK) was transferred to Old Mutual Wealth from USAM at the beginning of Q2 2012. £270 million of OMAM(UK) non-covered sales from Q1 2012 and £1,096 million from 2011 are therefore excluded from non-covered sales.

[4] ROEV and (VNB + experience variance)/MCEV (covered business) were calculated in local currency, except for LTS where they were calculated on a reporting currency basis.

[5] Premiums in respect of MFC Credit Life sales have been included in APE sales, PVNBP and VNB for the first time in 2012.

[6] PVNBP, value of new business APE margin and PVNBP margin for Emerging Markets represent South Africa and Namibia only, they exclude Zimbabwe, Kenya, Malawi and Swaziland.

[7] The return on embedded value and (VNB + experience variance)/MCEV metrics for the comparative period have not been restated to include Zimbabwe, Kenya, Malawi and Swaziland in the opening MCEV.

On a reported basis the Emerging Markets business accounts for 76% of LTS IFRS AOP earnings, 43% of LTS FUM and 46% of LTS APE sales.

The following analysis is presented on a constant currency basis.

IFRS AOP results

Overall LTS AOP increased 9% to £800 million.

Emerging Markets AOP (pre-tax) increased by 19% to £605 million, with strong growth in profits in South Africa and Rest of Africa.

- Strong profits in the South African retail businesses were due to good investment returns on policyholder funds and positive mortality and disability experience. Successful maintenance expense management has resulted in positive assumption changes. There was reduced new business strain, given improved product mix and pricing and a release of some contingency reserves in respect of a legacy structured product. The 130 bps reduction in the benchmark 10 year government bond yield increased the value placed on certain policyholder liabilities. The impact in H2 2012 was less than the impact in H1 2012 as a result of management actions, including the implementation of some partial hedging. The pre-tax net effect for 2012 was a charge of R374 million. Persistency for 2012 was in line with the revised assumptions set in December 2011
- Corporate business profits in South Africa returned to normalised levels after the strengthening of the Investment Guarantee Reserve in 2011
- Rest of Africa profits improved mainly within Namibia and Zimbabwe due to favourable experience variances, assumption changes and foreign exchange gains
- OMIGSA profits increased, with improved management and performance fees, notwithstanding the exceptional private equity gain in 2011
- This was partly offset by increased central and administration expenses, due to higher share-based payment and incentive provisions, increased investment in technology and new business development.

Old Mutual Wealth AOP was £195 million after a net £15 million restructuring charge during the year. The prior year's AOP of £223 million included £32 million of policyholder tax smoothing. OMAM(UK) AOP was £2 million in 2011 meaning that the pro-forma comparable total Old Mutual Wealth AOP was £225 million, including policyholder tax smoothing. The UK Platform generated a profit in 2012. In Q3 2012 we completed the sale of the Finnish business, which generated £12 million of post-tax profits in 2012 and £12 million for the whole of 2011.

Operating conditions have been difficult: world equity markets have remained volatile and economic conditions in Europe have continued to be challenging, with much uncertainty over the euro during the year. This uncertainty continues to play a role in investor decisions, dampening demand for risk-based investments and driving a continued preference for more defensive asset allocations. Sales margins improved in H2 2012 as clients started to return to equities.

Net client cash flow and gross inflows

Overall LTS NCCF was flat at £3.2 billion, with increased NCCF in Emerging Markets offset by reduced net inflows to Old Mutual Wealth.

Gross inflows for Emerging Markets grew 25% to £11.7 billion, with our sales mix continuing to highlight the growing shift in South Africa from traditional life products to modern investment products including unit trusts and mutual funds.

Emerging Markets NCCF improved by £0.8 billion to £1.2 billion, driven mainly by large deals secured by the OMIGSA boutiques and the Latin American businesses, strong sales in Old Mutual Unit Trusts (OMUT) and Rest of Africa, and improved single premium sales in Corporate. An expected outflow of £1.0 billion low-margin equity assets from the South African Public Investment Corporation (PIC) took place in July 2012 (2011: £0.2 billion outflow from PIC). Only a small amount of assets managed for the PIC in traditional asset classes remain. Excluding the PIC outflows, NCCF improved by £1.6 billion versus 2011 and OMIGSA would have reflected positive NCCF of £0.3 billion in 2012.

Gross inflows in Old Mutual Wealth were £11.6 billion (2011: £11.0 billion), led by UK Platform and OMGI inflows. OMAM(UK) was transferred to Old Mutual Wealth at the beginning of Q2 2012. Including the gross sales of OMAM(UK) for the whole of 2012 and 2011, gross sales were down 2% to £11.9 billion (2011: £12.1 billion).

Old Mutual Wealth NCCF decreased to £2.0 billion from £2.8 billion in 2011, given lower sales volumes, the closure of the Austrian, German and Swiss books to new business and modest change in redemptions and transfers from the Platform in the run-up to RDR. We continued to see strong inflows reflecting the momentum in our proposition as we attract new customers and further enhance features and functionality. This is particularly encouraging as it comes despite a backdrop of challenging markets, where advisers have remained focused on ensuring readiness for the RDR. UK Platform NCCF was £2.2 billion (2011: £3.3 billion). Net outflows from the UK Heritage business reduced by 23%.

Funds under management

Overall LTS FUM rose 17% to £121.8 billion, due to higher equity markets and strong net client cash inflows. Emerging Markets FUM increased by 16% to £52.6 billion. Old Mutual Wealth FUM increased by 18% to £69.2 billion. The sale of the Finnish business reduced FUM by £1.1 billion.

UK Platform FUM increased to £22.6 billion (2011 £18.8 billion), further cementing Old Mutual Wealth's position as one of the largest participants in this retail market.

OMGI delivered solid investment performance, with 80% of OMGI funds above median over three years (AUM weighted) and 33% of funds in the top decile. Six of its 40 investment professionals were named in the CityWire Global Top 1000 Fund Managers for 2012.

Life sales summary

Overall LTS APE sales decreased by 2% to £1,133 million.

In Emerging Markets, life APE sales increased by 12% to £523 million, with continued momentum in MFC and a good performance in Corporate.

South African regular premium sales increased by 15%, with MFC sales up by 21% as a result of a larger sales force and the inclusion of Old Mutual Finance Credit Life sales of £14 million for the first time boosting risk sales. South African single premium sales increased by 3%: Corporate sales growth of 30%, due mainly to large annuity deals, was partially offset by lower Retail Affluent revenue due to reduced fixed bond, living annuity and guaranteed annuity sales. Had we converted Retail Affluent non-life sales to an APE basis, total Retail Affluent sales would have increased by 11%.

In the Rest of Africa, total APE sales increased by 15% – due mainly to strong underlying growth in Zimbabwe and Malawi, with the latter benefitting from the introduction of mandatory occupational pension schemes.

Old Mutual Wealth single premium sales on the UK Platform were down 4%, although inflows improved in Q4. Platform sales accounted for £229 million of the total £279 million total UK life sales on an APE basis.

APE sales on the UK Heritage book reduced by £19 million to £50 million, reflecting the managed reduction in product range in the lead-up to RDR.

In the cross-border International market, APE sales decreased by 13% to £181 million, impacted by difficult market conditions in H1 as well as regulatory changes. Sales picked up in H2 as markets improved, with Q4 seeing the year's strongest quarterly sales and an improvement of 24% on the same period in 2011.

Covered APE sales in Old Mutual Wealth Europe increased by 12% to £124 million in the open book. Sales in Italy were up 32% as a result of new distribution arrangements and ongoing improvements in sales volumes from key strategic partners. Modest sales levels in France and Poland reflected the still challenging sales environment across Europe.

In Old Mutual Wealth's European heritage markets, reduced APE sales followed the closure of the German, Austrian and Swiss books, as we reposition our business in these markets to manage them for value.

Part 3 – Detailed Business Review

Non-covered sales including unit trust, mutual fund and other non-covered sales

Overall LTS non-covered sales were up 27% to £14,549 million.

In Emerging Markets, non-covered sales increased by 32% to £8,937 million. Unit trust and mutual fund sales increased by 42% with higher OMUT, acsis and Galaxy sales on the back of high equity market growth in South Africa. The Colombian Unit Trust business achieved strong sales in money market and cross-border products. Other non-life sales grew by 22% – boosted by significant, albeit lower-margin, inflows into OMIGSA's Dibanisa and Liability-Driven Investment boutiques.

Sales in Asia improved by 24% leading to market share gains, following increased single premium sales through the bank channel in our Chinese joint venture, Old Mutual-Guodian, and strong support from the Kotak Bank channel in India. Sales in Asia will be reclassified as life sales from Q1 2013.

Old Mutual Wealth non-covered sales increased by 20% to £5,612 million, primarily due to the inclusion of the non-covered sales from OMAM(UK) for the first time in 2012. Including OMAM(UK) sales in both 2011 and 2012, non-covered sales increased by 2% to £5,882 million. OMGI sales increased by 37% to £3,040 million as a number of funds attracted increased inflows – notably the *Spectrum* fund range. *Spectrum* now has £1.6 billion of FUM. OMGI European retail sales were also strong, with gross inflows of around £670 million. UK Heritage sales into Institutional products increased during the year, benefiting from new partnerships established in 2012. On the UK Platform, non-covered sales fell 26% to £2,067 million as investor confidence was weakened by volatile markets and IFAs focused on preparation for RDR.

Margins and value of new business

Across LTS as a whole, new business APE margin increased to 18% from 15% and present value of new business premiums (PVNBP) margin improved to 2.3% (2011: 1.9%).

In Emerging Markets, VNB improved strongly by 52% to £135 million, with a significant increase in the APE margin from 20% to 27%. VNB was boosted by improved product mix in Corporate, due to a greater proportion of higher-margin with-profit annuity sales, improved risk product sales including the recording of Old Mutual Finance Credit Life sales in MFC for the first time, improved mix of business in Retail Affluent and a favourable change in economic assumptions.

The value of new business in Old Mutual Wealth reduced by £16 million to £62 million. H1 2012 was challenging, with reduced sales volumes; but VNB strengthened in H2, boosted by improved sales performance and a more profitable product mix, particularly in the International business, coupled with lower acquisition expenses.

In Old Mutual Wealth, lower sales and a less profitable business mix in H1 reduced the APE margin to 10% (2011: 11%) and PVNBP margin to 1.2%. (2011: 1.3%).

Operating MCEV earnings

Overall LTS operating MCEV earnings decreased by 39% to £336 million, with Old Mutual Wealth impacted by restructuring costs following strategic changes announced in November 2012.

In Emerging Markets, operating MCEV earnings (post-tax) increased by 5% to £328 million, but was down 6% on a reported basis. The main contributors to this were the improved VNB and positive operating assumption changes and positive experience for mortality and disability. This was partially offset by lower persistency experience variances, following the final releases of short-term termination provisions and closer alignment of persistency experience to assumptions at the end of 2011, increased development costs and tax experience losses. Total MCEV earnings (post-tax) increased by 38% to £583 million – benefiting from positive investment variances in 2012's strong equity and bond markets, and economic assumption changes resulting from lower swap yields. There were some offsetting negative impacts from changes to capital gains tax and the introduction of dividend withholding tax.

Old Mutual Wealth reported an operating MCEV earnings (post-tax) of £8 million (2011: £203 million), reflecting £89 million of restructuring costs following strategic changes in the UK business and the implementation of the 'manage for value' strategy in the European businesses. Future cost saving benefits expected to emerge from restructuring initiatives are not yet reflected in MCEV, consistent with the Finance Forum principles that govern MCEV methodology. Negative experience variances relating to development cost overruns and lower rebate profits, following positive assumption changes in the UK and International businesses at the end of 2011, reduced MCEV operating profit further. Total MCEV earnings were £127 million (2011: £160 million), mainly due to positive investment returns driven by growth in the UK equity market.

Value creation

One of our key performance metrics for LTS covered business is Group Value Creation. This measures the contribution to return on embedded value from management actions of writing profitable new business and managing expenses, persistency, risk and other experience compared to what had been assumed. Excluding the impact of our managing for value strategy, this metric reduced to 3.0% from 5.6% in LTS. Value creation on a reported basis was 2.6% (2011: 5.1%).

One-off restructuring costs and project spend in Old Mutual Wealth and Emerging Markets reduced the Group Value Creation by 1.4%, these initiatives will improve Group Value Creation going forward. The VNB contribution has remained strong, despite lower sales volumes in Old Mutual Wealth in H1 2012. The Old Mutual Wealth International business saw strong VNB in Q4 2012 and we expect to improve the contribution from cross-border product sales in the future.

Management actions

Emerging Markets

When we completed our acquisition of Oceanic Life in Nigeria in February 2013, our experienced integration team had already been in place for some time. Old Mutual Nigeria will be the hub for our expansion in West Africa and we are looking at further options both in Nigeria and Ghana to gain scale in the region. In East Africa, we are making progress with our plans to expand further in Kenya and other selected markets.

In November 2012, we officially launched the Retail Mass business in Mexico under the Old Mutual brand. In the same month we announced the acquisition of a majority stake in Aiva Business Platforms, a Uruguay-based strategic distribution business with over $800 million of assets under management, further increasing our distribution reach in other emerging markets. The acquisition was completed in January 2013. In China, Old Mutual-Guodian strengthened its distribution capabilities through an agreement with MinSheng Bank.

The Group's Zimbabwean business was transferred to Old Mutual South Africa (OMSA) on 1 July 2012 for an initial consideration of R1.1 billion and a deferred consideration of R0.5 billion potentially available in 2015, subject to valuation. We have also agreed the terms of the transfer of the Colombian and Mexican businesses to OMSA, subject to regulatory approval. The new organisational structure will reflect the operational management of the businesses, and we are in the process of transferring several other emerging market subsidiaries to align their legal structure with their operational management.

Following the restructure of the OMIGSA boutiques in 2012, all impacted boutiques are fully operational in the new structure.

In South Africa the majority of our advisers required to sit the FAIS regulatory exams have now passed, significantly mitigating the risk to our sales and retention. We will continue to support our advisers to pass the exams as part of business as usual going forward, which will put us in a strong position to capture the growing opportunity we see in the mass market.

Old Mutual Wealth

In Q3 2012 we announced the combination of the Skandia businesses (Skandia UK, Skandia International, OMGI and the Skandia European businesses outside the Nordic region) into a single business called Old Mutual Wealth. The operational changes are designed to combine asset management capability with UK platform strength and cross-border expertise to grow a leading provider of wealth management solutions in the UK and internationally. The combination has resulted in significant cost efficiencies, predominantly from central functions as we reduce duplication across the business.

As part of the reorganisation we combined SIG, our multi-manager, with OMAM(UK) to create OMGI, a profitable asset management capability that can support the growth and transformation of Old Mutual Wealth. The newly combined asset manager has achieved run-rate expense savings and improved operating margins.

We also decided to move to a 'managing for value' strategy in Europe, which will focus management attention on maintaining the existing books and managing them for profitability and cash generation, rather than pursuing pan-European growth. As part of this strategy we closed the Austrian and German books to new business. The Swiss book was closed to new business in 2011. We also initiated a cost reduction programme in France to bring the business to profitability in the near term. For growth in Europe we will focus on expanding our cross-border (International) sales, and improving the profitability of the Italian, French and Polish domestic businesses.

The RDR came into effect on 1 January 2013. Our focus in 2012 was to ensure that we were compliant and 'open for business' on schedule. In Q4 2012 we launched our new flexible adviser charging structure and introduced a new unbundled charging structure for clients on both our onshore and International platforms. We also implemented the full set of RDR regulations on our systems. While the implementation of RDR has resulted in significant development costs, we believe the post-RDR landscape will create new opportunities for us.

New UK products launched during the year included the *Generation* fund range, an innovative retirement solution, and a revitalised, gender-neutral protection offering. Launches in our cross-border International markets included a new portfolio bond and a structured product in South Africa and a universal life, high death-benefit product for selected other markets. These products successfully boosted sales performance through H2 2012. We also began the roll-out of *Wealth Interactive*, our new-generation, e-enabled international investment platform.

Outlook

Emerging Markets

Our focus in 2013 will be on strong, profitable sales growth and new growth opportunities that use the strength and core competencies of the wider Group. In particular, we see good prospects to grow our businesses in sub-Saharan Africa – where we believe the recent economic growth is a sustainable, long-term trend. We will explore means for organic and inorganic growth in this region – leveraging our established business bases in South Africa, Namibia, Kenya and Zimbabwe, whose expertise will enable us to design and export relevant products and low-cost IT infrastructure into new markets.

Economic growth for the whole of sub-Saharan Africa is expected to average around 5% in real terms. This growth in consumer and urban wealth is supported by substantial long-term demographic trends and provides good prospects for our business. Despite a moderately improved global outlook, real GDP growth in South Africa is expected to be below 3%. The ANC Conference in December

2012 accepted a number of pragmatic policy decisions and the National Development Plan as the backbone of future government economic policy, paving the way for growth-enhancing policy reforms.

Despite Moody's downgrade of South Africa's sovereign rating and the resulting downgrade of Old Mutual Life Assurance Company South Africa's (OMLAC(SA)) Global Insurance Financial Strength rating from A1 (negative) to A3 (negative), OMLAC(SA) remains one of South Africa's highest-rated institutions. We continue to explore ways of managing our balance sheet structure to provide long-term capital flexibility.

The Group's general insurance businesses in the Rest of Africa will be managed as part of the operations of Old Mutual Emerging Markets in the countries in which they are situated. We will continue to reflect both Long-Term Savings and the general insurance businesses in our Rest of Africa KPIs and targets going forward.

Old Mutual Wealth

Our priority in 2013 is to embed the strategic decisions taken in 2012 and continue the implementation of all aspects of our Simplify, Unify and Grow plan.

We believe the UK market for retail financial services will continue to develop as advisers fully implement new business models. In the short term, UK conditions will inevitably be challenging as advisors and customers adapt to the post-RDR world notwithstanding that the UK equity market conditions have been positive for the first two months of the year. We expect it to be characterised by a combination of whole-of-market (independent) advice and more parameterised (restricted) advice. We see opportunities to service both these models and will support both. Our new focused fund range, due for launch later in the year, will be a key solution for advisers in the post-RDR world. We have reorganised our UK sales force to match the market's future shape and needs.

Changing regulation is also a strong theme in International markets, with Singapore's Financial Advisory Industry Review and similar initiatives emerging in other markets. We launched new products and new distribution relationships with a number of major banks and stockbrokers in South Africa, UK, Hong Kong and the Middle East in 2012. We have a strong pipeline of similar deals we are pursuing, all of which will strengthen our distribution footprint and improve access to mass affluent and high net worth customers in local markets. We believe this will support positive sales momentum in 2013. We also look forward to further strengthening our long-standing relationship with Aiva, the Latin American distribution business recently acquired by Old Mutual Emerging Markets.

We expect to incur further non-recurring restructuring costs in 2013 to execute the strategy. Several programmes to improve efficiency are already underway: for example, we are assessing ways to cut the cost of technology and administration on our heritage books to reflect the reducing policy count inherent in a closed-book model.

We are confident that OMGI is well placed to meet investors' needs in 2013, following our work to strengthen its marketing, product and sales functions, as well as its excellent investment performance in 2012. We have seen some redemptions from OMGI following the sale of the Group's Nordic business and we expect these to continue in 2013.

Following the change of strategy for our European business, we expect to see a continued slowdown in sales across Germany, Austria and Switzerland. Poland and France both had reduced sales, in challenging market conditions. Italy continued to perform well finishing 2012 strongly, with early indications suggesting this will continue into 2013.

Emerging Markets data tables (South African rand)

Adjusted operating profit

			Rm
	2012	2011	% change
Retail Affluent	**2,725**	2,377	15%
Mass Foundation Cluster	**1,621**	1,529	6%
Corporate	**1,127**	693	63%
Rest of Africa	**561**	404	39%
Latin America & Asia	**218**	225	(3)%
LTIR	**1,613**	1,308	23%
Life and Savings	**7,865**	6,536	20%
OMIGSA[1]	**933**	723	29%
Central expenses and administration	**(924)**	(618)	(50)%
Total Emerging Markets	**7,874**	6,641	19%

[1] From 2012, Old Mutual Unit Trusts is reported as part of Retail Affluent only and no longer also as part of OMIGSA together with a subsequent elimination within central expenses. Prior year comparatives have been restated accordingly.

Gross sales

			Rm
	2012	2011	% change
Retail Affluent	**49,677**	42,139	18%
Mass Foundation Cluster	**6,796**	5,889	15%
Corporate	**15,152**	12,619	20%
OMIGSA	**34,820**	30,729	13%
Total South Africa	**106,445**	91,376	16%
Rest of Africa	**10,804**	8,952	21%
Latin America & Asia	**34,792**	21,550	61%
Total Emerging Markets	**152,041**	121,878	25%

APE sales

									Rm
	Single premium APE			**Gross regular premiums**			**Total APE**		
By cluster:	**2012**	2011	% change	**2012**	2011	% change	**2012**	2011	% change
South Africa									
Mass Foundation Cluster	**2**	3	(33)%	**2,441**	2,017	21%	**2,443**	2,020	21%
Retail Affluent	**956**	1,064	(10)%	**1,529**	1,442	6%	**2,485**	2,506	(1)%
Corporate	**652**	503	30%	**486**	427	14%	**1,138**	930	22%
Total South Africa	**1,610**	1,570	3%	**4,456**	3,886	15%	**6,066**	5,456	11%
Rest of Africa	**133**	123	8%	**480**	408	18%	**613**	531	15%
Latin America & Asia[1]	**24**	22	9%	**105**	89	18%	**129**	111	16%
Total Emerging Markets	**1,767**	1,715	3%	**5,041**	4,383	15%	**6,808**	6,098	12%

[1] Latin America & Asia represents Mexico only.

By product:	Single premium APE 2012	Single premium APE 2011	Single premium APE % change	Gross regular premiums 2012	Gross regular premiums 2011	Gross regular premiums % change	Total APE 2012	Total APE 2011	Total APE % change
									Rm
Emerging Markets									
Savings	**1,234**	1,388	(11)%	**2,525**	2,196	15%	**3,759**	3,584	5%
Protection	**-**	-	-	**2,516**	2,187	15%	**2,516**	2,187	15%
Annuity	**533**	327	63%	**-**	-	-	**533**	327	63%
Total Emerging Markets	**1,767**	1,715	3%	**5,041**	4,383	15%	**6,808**	6,098	12%

Non-covered sales

	Unit trust / mutual fund sales 2012	Unit trust / mutual fund sales 2011	Unit trust / mutual fund sales % change	Other non-covered sales 2012	Other non-covered sales 2011	Other non-covered sales % change	Total non-covered sales 2012	Total non-covered sales 2011	Total non-covered sales % change
									Rm
South Africa	**26,422**	20,934	26%	**46,851**	39,709	18%	**73,273**	60,643	21%
Rest of Africa	**5,457**	4,778	14%	**3,286**	1,464	124%	**8,743**	6,242	40%
Latin America & Asia	**32,161**	19,401	66%	**2,098**	1,691	24%	**34,259**	21,092	62%
Total Emerging Markets	**64,040**	45,113	42%	**52,235**	42,864	22%	**116,275**	87,977	32%

Old Mutual Finance

	2012	2011	% change
			Rm
Lending book (gross)	**6,431**	5,699	13%
Sales	**5,482**	5,261	4%
NPAT/average lending book[1]	**3.8%**	3.4%	
Loan approval rate	**34.2%**	33.6%	
Impairments: average lending book	**13.3%**	12.9%	
Branches	**201**	172	17%
Staff	**1,821**	1,421	28%

[1] Net profit after tax (NPAT)/average lending book is stated after capital charges.

2012 sales reflected our conservative approach to lending, following evidence of increased client debt levels. Impairment provisions rose 0.4%, following a change in the maturity profile of the loan book.

Old Mutual Wealth data tables (sterling)

Adjusted operating profit

			£m
	2012	**2011**	**% change**
Core markets			
UK Platform	**2**	(4)	n/m
International	**68**	79	(14%)
OM Global Investors[1]	**3**	9	(67%)
Total core markets	**73**	84	(13%)
Manage for Value markets			
UK Heritage	**92**	100	(8%)
Old Mutual Wealth Europe – open book[2]	**(4)**	3	n/m
Old Mutual Wealth Europe – closed book[3]	**34**	38	(11%)
Total Manage for Value	**122**	141	(13%)
Total Old Mutual Wealth	**195**	225	(13%)

[1] OMGI includes OMAM(UK) AOP of £2 million in 2011.

[2] Includes business written in France, Italy and Poland

[3] Includes business written in Germany, Austria and Switzerland.

Gross sales and funds under management

						£bn
	1-Jan-12	**Gross sales**	**Redemptions**	**Net flows**	**Market and other movements**	**31-Dec-12**
Core markets						
UK Platform	18.8	4.1	(1.9)	2.2	1.6	22.6
International[1]	14.3	1.7	(1.5)	0.2	(0.4)	14.1
OMGI	12.1	4.8	(4.5)	0.3	1.4	13.8
Total core	**45.2**	**10.6**	**(7.9)**	**2.7**	**2.6**	**50.5**
Manage for Value markets						
UK Heritage	14.3	1.3	(2.5)	(1.2)	1.0	14.1
Old Mutual Wealth Europe - open book	5.2	1.2	(0.8)	0.4	0.5	6.1
Old Mutual Wealth Europe- closed book	4.3	0.6	(0.4)	0.2	-	4.5
Total Manage for Value	**23.8**	**3.1**	**(3.7)**	**(0.6)**	**1.5**	**24.7**
Elimination of intra-Group assets	(6.4)	(1.8)	1.7	(0.1)	0.5	(6.0)
Total Old Mutual Wealth	**62.6**[3]	**11.9** [2]	**(9.9)**	**2.0**	**4.6**	**69.2**

[1] International FUM 'market and other movements' includes an outflow of £1.1 billion of assets following the sale of Finland.

[2] Gross sales included £0.3 billion of Q1 2012 sales in respect of OMAM(UK).

[3] Opening FUM includes OMAM(UK) FUM of £4.0 billion.

APE sales

£m

	Gross single premiums			Gross regular premiums			Total APE		
	2012	2011	% change	**2012**	2011	% change	**2012**	2011	% change
Core markets									
UK market									
Pensions	**1,610**	1,649	(2)%	**32**	38	(16)%	**193**	203	(5)%
Bonds	**363**	407	(11)%	**-**	-	-	**36**	40	(10)%
Total UK Platform	**1,973**	2,056	(4)%	**32**	38	(16)%	**229**	243	(6)%
International									
Unit-linked	**168**	209	(20)%	**13**	26	(50)%	**30**	47	(36)%
Bonds	**1,245**	1,350	(8)%	**27**	26	4%	**151**	161	(6)%
Total International	**1,413**	1,559	(9)%	**40**	52	(23)%	**181**	208	(13)%
Total core	**3,386**	3,615	(6)%	**72**	90	(20)%	**410**	451	(9)%
Manage for Value markets									
UK Heritage	**166**	255	(35)%	**33**	43	(23)%	**50**	69	(27)%
Old Mutual Wealth Europe - open book	**1,053**	863	22%	**19**	25	(24)%	**124**	111	12%
Old Mutual Wealth Europe - closed book	**27**	42	(36)%	**23**	48	(52)%	**26**	52	(50)%
Total Manage for Value	**1,246**	1,160	7%	**75**	116	(35)%	**200**	232	(14)%
Total Old Mutual Wealth	**4,632**	4,766	(3)%	**147**	207	(29)%	**610**	683	(11)%

Non-covered sales[1]

£m

	2012	2011	% change
Core markets			
UK market			
Mutual Funds	**1,144**	1,652	(31)%
ISA	**923**	1,159	(20)%
Total UK Platform	**2,067**	2,811	(26)%
Old Mutual Global Investors[2]	**3,040**	2,221	37%
Total core	**5,107**	5,032	1%
Manage for Value markets			
UK Heritage	**736**	704	5%
Old Mutual Wealth Europe - open book	**30**	29	3%
Old Mutual Wealth Europe - closed book	**9**	20	(55)%
Total Manage for Value	**775**	753	3%
Total Old Mutual Wealth	**5,882**	5,785	2%

[1] Non-covered sales included unit trust, mutual fund and other non-covered sales.

[2] To allow comparison on a like for like basis, OMGI's non-covered sales includes sales of £1,403 million from OMAM(UK) in 2012, including £270 million of sales in Q1 2012, and £1,096 million in 2011.

Nedbank

Nedbank's strong franchise and growth focus delivered a strong performance in a challenging economic environment

			Rm
Highlights	**2012**	2011	% change
AOP (IFRS basis, pre-tax)	**10,773**	8,791	23%
AOP (IFRS basis, pre-tax) (£m)	**828**	755	10%
Headline earnings[1]	**7,510**	6,184	21%
Net interest income[1]	**19,680**	18,034	9%
Non-interest revenue[1]	**17,324**	15,412	12%
Net interest margin[1]	**3.53%**	3.48%[2]	
Credit loss ratio[1]	**1.05%**	1.13%	
Cost to income ratio[1]	**55.5%**	56.6%	
Return on Equity[1]	**14.8%**	13.6%	
Return on Equity (excluding goodwill)[1]	**16.4%**	15.3%	
Basel II.5 common equity Tier 1 ratio[1,3]	**11.4%**	10.5%	

[1] As reported by Nedbank in its report to shareholders for year ended 31 December 2012.

[2] Restated from 3.46% to exclude clients' indebtedness for acceptances from interest-earning banking assets to align with the rest of the industry.

[3] 2011 is presented on pro-forma Basel II.5 basis.

The full text of Nedbank's results for the year ended 31 December 2012, released on 25 February 2013, can be accessed on our website http://www.oldmutual.com/mediacentre/pressReleases/viewPressRelease.jsp?pressItem_id=19630. The following is an edited extract:

Banking and economic environment

South Africa's GDP is expected to have grown at around 2.5% in 2012 after expanding 3.1% in 2011. Concerns around the operating environment and infrastructure constraints, the widening current account deficit, rising national debt, higher inflation, high levels of unemployment and declining trends in competitiveness with wage settlements outpacing productivity were included in the rationale by international rating agencies, Moody's, Standard & Poor's and Fitch Ratings for the downgrade of South Africa's sovereign-debt rating, which in turn placed pressure on the rand. Domestic bond yields have, however, remained stable.

Households remained the primary driver of private sector credit demand, with the unexpected 50 basis points (bps) reduction in interest rates in July 2012 providing some relief for highly indebted consumers against rising electricity, food and fuel costs. Growth rates in unsecured lending are slowing as expected.

Corporate credit demand improved towards the end of the year as the recovery in public sector infrastructure spending supported industries producing capital goods and other inputs for local projects, although corporates on the whole remained cautious, constrained by a weak eurozone and a relatively sluggish domestic economic environment.

Review of results

Nedbank made excellent progress in delivering on its strategic focus areas, producing a strong set of results for the year ended 31 December 2012. The results reflect an improvement in all key performance indicators and headline earnings growth in all business clusters.

Headline earnings grew 21.4% to R7,510 million (2011: R6,184 million), driven by good revenue growth, an improving credit loss ratio (CLR) and responsible expense management while investing for growth.

Diluted headline earnings per share increased 19.0% to 1,595 cents (2011: 1,340 cents) and diluted earnings per share increased 18.4% to 1,588 cents (2011: 1,341 cents). In line with the earnings guidance range provided in Nedbank's trading statement released on 20 February 2013, Nedbank recorded headline earnings per share and basic earnings per share of 1,646 and 1,638 cents per share respectively.

Nedbank generated economic profit (EP) of R1,511 million, up 63.5% (2011: R924 million). The ROE excluding goodwill, increased to 16.4% (2011: 15.3%) and ROE increased to 14.8% (2011: 13.6%), with the return on assets (ROA) increasing to 1.13% (2011: 0.99%).

Nedbank is well capitalised, with its Basel II.5 common equity Tier 1 ratio at 11.4% (2011: pro forma Basel II.5 ratio 10.5%). With the introduction of Basel III on 1 January 2013, the pro forma Basel III common equity Tier 1 ratio at 31 December 2012 is a robust 11.6%. Funding and liquidity levels remained sound. Surplus liquidity buffers were maintained at a level of around R24 billion and the average long-term funding ratio increased to 26.0% (2011: 25.0%) in Q4 2012.

The net asset value per share continued to increase, growing 9.7% to 11,798 cents at 31 December 2012 (2011: 10,753 cents).

Part 3 – Detailed Business Review

Delivering sustainability to all our stakeholders

Nedbank has developed a strategic framework that will enable delivery of its vision of building Africa's most admired bank by all its stakeholders and assist in creating a vibrant and flourishing South Africa through appropriate alignment of its activities with the National Development Plan (NDP). This is underpinned by a firm belief that its long-term success is inextricably linked to its ability to fulfil its social purpose.

Nedbank is committed to delivering sustainable value to all its stakeholders as demonstrated by the following highlights for 2012:

- For staff – creating over 450 new permanent jobs in South Africa, investing R352 million in the development of staff and supporting more than 1,300 managers through its personal mastery and team effectiveness programme known as 'Leading for Deep Green' and 8,500 staff through its Batho Pele diversity programme. This focus on values-based behaviour has led to higher levels of staff morale and an ongoing positive shift in corporate culture, now measuring at world-class levels.
- For clients – paying out R144 billion in new loans, up 24.1% on 2011; launching various market-leading innovations such as the Nedbank App SuiteTM, MyFinancialLifeTM, Small Business FridayTM in association with the National Small Business Chamber, cash management solutions and longer-term deposit products; providing great-value banking and saving clients R163 million through the use of bundled products; increasing its footprint by 80 net new staffed outlets and 476 net new ATMs; and achieving multi-year highs in client satisfaction as measured by Net Promoter Scores across Nedbank. As a result, more clients chose to bank with Nedbank, resulting in a net gain of 655,000 new retail clients in the year, including 377,000 entry-level banking clients, 165,000 middle-market clients, 1,113 high-net-worth clients, 775 and 27 new business banking and corporate primary-banked clients, respectively. Nedbank was recognised by Euromoney as the best bank in South Africa in 2012.
- For shareholders – delivering R1,511 million EP, generating a 34.3% total shareholder return and a total dividend increase of 24.3%, as well as maintaining excellence in transparency and reporting as acknowledged by numerous reporting awards. We have created an opportunity for shareholders to participate in the Africa growth story through its rights to acquire 20% in Ecobank Transnational Incorporated (ETI).
- For regulators – increasing capital levels further and being well positioned for the implementation of Basel III on 1 January 2013 and the Solvency Assessment and Management regime on 1 January 2015, making cash taxation contributions of R6.2 billion relating to direct, indirect and other taxation and supporting the National Treasury in our actions and commitments to responsible banking practices. Nedbank's credit rating was upgraded by Fitch in July 2012, while the five largest South African banks were downgraded in January 2013 following the downgrade of the South African sovereign-risk rating.
- For communities – making banking more accessible and affordable for the entry-level market and rural communities; identifying numerous non-urban areas for footprint expansion; increasing staffed outlets and ATMs by over 48% and 74% respectively since the beginning of 2009. To date Nedbank has donated more than R200 million to charities through its innovative card affinity programmes, and in 2012 we contributed R116 million to socioeconomic development. Nedbank achieved Department of Trade and Industry (dti) code level 2 for the fourth consecutive year and was ranked first overall among the top 50 JSE-listed companies in the Financial Mail/Empowerdex Top Empowered Companies survey. Furthermore 75.5% of its procurement was sourced locally. Nedbank's leadership role in environmental sustainability was demonstrated by initiatives such as funding a large percentage of South Africa's renewable-energy programme and the introduction of Nedbank's Green Savings Bond, the value of which has increased to R866 million since its launch. Nedbank maintained its carbon-neutral status and received the Financial Times 2012 Sustainable Bank of the Year for Africa and the Middle East award as well as African Business Environmental Sustainability in Africa 2012 award.

Cluster performance

Nedbank's business clusters generated an increased ROE of 17.9% (2011: 17.1%) and headline earnings growth of 16.3%, with all line clusters delivering good performances.

	Headline earnings (Rm)			ROE (%)	
	2012	2011[1]	% change	**2012**	2011[1]
Nedbank Capital	**1,428**	1,228	16.3%	**25.4%**	22.6%
Nedbank Corporate[2]	**1,817**	1,571	15.7%	**22.5%**	24.5%
Nedbank Business Banking	**944**	866	9.0%	**21.5%**	21.3%
Nedbank Retail	**2,552**	2,091	22.0%	**12.1%**	10.8%
Nedbank Wealth	**716**	654	9.5%	**29.6%**	27.7%
Operating units	**7,457**	6,410	16.3%	**17.9%**	17.1%
Centre[2]	**53**	(226)			
Total	**7,510**	6,184	21.4%	**14.8%**	13.6%

[1] Restated for enhancements to capital allocation methodologies implemented in 2012.

[2] 2011 restated for transfer of the Rest of Africa Division from Nedbank Corporate to the centre.

Strong earnings growth of 16.3% and the 25.4% ROE in Nedbank Capital were driven by good asset growth and pipeline conversion in investment banking, together with strong performance from global markets that resulted in materially increased structuring and trading income. The cluster's CLR improved, although remaining above its through-the-cycle range.

Nedbank Corporate performed well, producing good earnings growth of 15.7% and an ROE of 22.5%, underpinned by increased cash and electronic banking volumes, a strong delivery from the listed-property investment portfolio and favourable deposit growth. This performance was achieved within a well-managed impairment and expense environment across the businesses.

Nedbank Business Banking achieved headline earnings growth of 9.0% to R944 million through maintaining quality client relationships and outstanding risk management practices, as reflected in the CLR of 0.34% (2011: 0.53%). Good underlying momentum was noted in asset payouts, deposits and new client gains, notwithstanding the protracted challenges facing the small- and medium-enterprise (SME) sector in South Africa, which resulted in EP for the year of R368 million and a sustained high ROE of 21.5%.

Nedbank Retail's momentum is reflected in the 22.0% headline earnings growth and ROE improvement to 12.1%, narrowing the gap in relation to the cost of equity. This is testimony to the excellent progress strategically and financially in repositioning the cluster. The embedding of sound risk practices is reflected in the CLR of 2.01% (2011: 1.98%) remaining within the through-the-cycle range, while continuing to reduce defaulted loans and strengthen balance sheet impairments. Investment in distribution and distinctive client value propositions is yielding strong client gains and related transactional, deposit and lending volumes.

Nedbank Wealth continued to record sound earnings growth of 9.5% and an excellent ROE of 29.6%, supported by solid performance in the asset management and insurance businesses. These results were achieved despite pressure on impairments, a considerable deterioration in the short-term insurance claims environment in H2 2012 and the R31.5 million, post-tax, rebranding costs relating to the launch of its new single high-net-worth offering, Nedbank Private Wealth.

The centre produced a small profit in 2012 from a loss of R226 million in 2011, largely as a result of the R200 million portfolio impairment provision recognised at Nedbank Group level in the prior year. The Rest of Africa division, now included in the centre, delivered a strong increase in headline earnings of 35.2%.

Financial performance

Net interest income

Net interest income increased 9.1% to R19,680 million (2011: R18,034 million) and average interest-earning banking assets grew 7.5% (2011 growth: 5.1%).

The net interest margin (NIM) increased to 3.53% from the restated 3.48% level achieved in 2011. The margin expansion reflects the ongoing benefits of risk-adjusted pricing of new advances and portfolio-tilt-driven changes in the asset and deposit mix, partially offset by:

- the negative endowment effect of lower average interest rates in 2012
- the cost of lengthening Nedbank's funding profile
- the cost of carrying higher levels of lower-yielding liquid assets as Nedbank prepared for the implementation of Basel III liquidity coverage ratios.

Impairments

Lower levels of impairments at R5,199 million (2011: R5,331 million) were reported. The CLR improved to 1.05% for the year (2011: 1.13%), remaining above Nedbank's through-the-cycle range of 60 to 100 basis points.

				(%)
Credit loss ratio analysis	**2012**	H2 2012	H1 2012	2011
Specific impairments	**0.91%**	0.84%	1.00%	1.01%
Portfolio impairments	**0.14%**	0.16%	0.11%	0.12%
Total credit loss ratio	**1.05%**	1.00%	1.11%	1.13%

Given the levels of overall consumer indebtedness, credit risk management remained a strong area of focus. The reduction in specific impairments to 0.91% (2011: 1.01%) was driven by a 17.0% decrease in defaulted advances to R19,273 million (2011: R23,210 million), while further strengthening the portfolio impairments charge to 0.14% (2011: 0.12%) mainly on the performing personal loans, Motor Finance Corporation and home loans books.

The increased level of portfolio impairments was mainly as a result of further model conservatism and book growth in personal loans as well as the lengthening of the emergence period in the Motor Finance Corporation book. Nedbank retained the R200 million central portfolio provision set aside last year for unknown events that may have already occurred but which will only be evident in the future. The total impairment coverage ratio increased to 56.4% (2011: 49.5%), largely due to asset mix changes in Nedbank's banking book.

Nedbank's collections processes, enhanced by additional collections staff and more effective collections processes, generated a 35.1% increase in bad-debt recoveries amounting to R866 million (2011: R641 million).

Part 3 – Detailed Business Review

Credit loss ratio	2012	H2 2012	H1 2012	2011	(%) Through-the-cycle target ranges
Nedbank Capital	**1.06%**	0.72%	1.41%	1.23%	0.10 – 0.55
Nedbank Corporate	**0.24%**	0.18%	0.30%	0.29%	0.20 – 0.35
Nedbank Business Banking	**0.34%**	0.28%	0.41%	0.53%	0.55 – 0.75
Nedbank Retail	**2.01%**	2.02%	2.00%	1.98%	1.50 – 2.20
Nedbank Wealth	**0.61%**	0.76%	0.46%	0.25%	0.20 – 0.40
Total	**1.05%**	1.00%	1.11%	1.13%	0.60 – 1.00

CLRs in the wholesale clusters improved in H2 2012. Nedbank Retail's CLR was maintained within its through-the-cycle range and at levels similar to those in H1 2012, reflecting the effect of asset mix changes as unsecured lending attracts higher levels of impairments than secured lending. Nedbank Wealth's CLR deteriorated mainly due to the impact of a subdued property market.

Non-interest revenue

The continued investment in the Nedbank franchise contributed to strong NIR growth of 12.4% to R17,324 million (2011: R15,412 million), lifting the ratio of NIR to expenses to 84.4% (2011: 81.5%), close to Nedbank's medium-to-long-term target of > 85.0%. Nedbank has delivered compound growth in NIR, excluding fair-value adjustments, of 11.0% over a four-year period.

Commission and fee income increased by R1.5 billion, rising by 13.7% to R12,538 million (2011: R11,031 million) on the back of increased activity in the transactional banking, card, personal loans, investment banking and advisory activities of Nedbank.

Insurance income grew strongly, increasing 24.9% to R1,695 million (2011: R1,357 million) from good insurance sales and underwriting performance, notwithstanding the poor weather conditions and fire-related claims in H2 2012.

Favourable market conditions and good performance in the trading business, notably in fixed-income, delivered excellent trading income growth of 22.0% to R2,644 million (2011: R2,168 million). Realisations and dividends received in Nedbank Corporate property and Nedbank Capital investment portfolios generated R211 million (2011: R323 million) in private equity income.

Negative fair-value adjustments of R265 million (2011: R60 million loss) were recognised mainly as a result of basis risk on centrally hedged positions, accounting mismatches in hedged portfolios, including fixed-rate retail deposits and personal loans, and credit spread unwind on certain of Nedbank's Tier 2 debt.

Following the scheduled termination of the contract with Swisscard that previously housed the Tando card processing operations, NIR was negatively impacted as no further revenue was generated in 2012 (2011: R214 million).

Expenses

Nedbank's strong cost management culture remains a key differentiator and contributed to a lower level of expense growth for 2012 in line with guidance.

Expenses increased 8.5% to R20,528 million (2011: R18,919 million), consisting of 4.1% for business-as-usual activities, 2.1% for investing in growth initiatives and 2.3% for variable compensation.

Growth in expenses was primarily from:

- Staff-related expenses increasing 11.2% and comprising:
  - remuneration and other staff cost growth of 8.5%, following inflation-related annual increases averaging 6.5% and 0.9% headcount growth
  - short-term incentive costs increasing 18.7% driven by 21.4% headline earnings and 63.5% EP growth
  - long-term incentive costs increasing by 71.4% as 2011 contained a higher reversal of costs when corporate performance targets were not met and related incentive awards lapsed
- Volume-driven costs, such as fees and computer processing costs, continuing to grow in support of revenue-generating business activities
- Investing for growth initiatives, including footprint rollout, headcount growth in frontline and collections staff, new innovative offerings and enhancements in product and system functionality.

The efficiency ratio improved to 55.5% (2011: 56.6%), absorbing the negative impact of the interest rate cut in July on endowment and consequently NII growth.

Since 2007 Nedbank's five-year compound NIR growth of 10.6% exceeded the related compound expense growth of 8.8%.

Taxation

The tax charge increased 30.9% to R2,871 million (2011: R2,194 million), with the effective tax rate increasing to 26.8% (2011: 25.2%). The increase resulted mainly from lower levels of dividend income received and an increase in capital gains tax (CGT) rate from 14.0% to 18.65%.

Statement of financial position

Capital

Nedbank's capital ratios strengthened during the year, positioning the organisation favourably for the adoption of Basel III, which was successfully implemented on 1 January 2013. All capital adequacy ratios remained well above the Basel II.5 minimum regulatory capital requirements and Nedbank's new Basel III internal target ranges. Nedbank's strong capital position enabled the redemption of a further R1.8 billion Tier 2 subordinated debt during 2012 in line with our capital management planning and positioning for Basel III.

In August 2012 Nedbank obtained approval from the South African Reserve Bank (SARB) to manage the Motor Finance Corporation book on its Advanced Internal Ratings-based Credit Approach. The resultant reduction in risk-weighted assets, along with good earnings growth, contributed to further strengthening of the Basel II.5 common equity Tier 1 ratio to 11.4%.

Nedbank reset its internal targets in line with the new South African Basel III regulations based on the increased minimum regulatory requirements for common equity Tier 1 in 2019, and Tier 1 and total ratios in 2015.

The new internal targets include a conservative management buffer and allowance for potential Pillar 2B bank-specific add-ons while taking cognisance of anticipated Basel III capital levels in other jurisdictions, the view of rating agencies and Nedbank's Internal Capital Adequacy Assessment Process. The Basel III regulatory minimums include minimum regulatory requirements for common equity Tier 1 in 2019, Tier 1 and total ratios in 2015 as well as a conservative Pillar 2B add-on, but exclude any countercyclical capital buffer requirements.

(%)

	2012 ratio (Pro-forma Basel III)	**2012 ratio (Basel II.5)**	2011 ratio (Basel II.5)	Internal target range (Basel III)	Regulatory minimum (Basel III)
Common equity Tier 1 ratio	11.6%	11.4%	10.5%	10.5%-12.5%	9.00%
Tier 1 ratio	13.1%	12.9%	12.0%	11.5%-13.0%	11.25%
Total capital ratio	15.1%	14.9%	14.6%	14.0%-15.0%	13.50%

(Ratios calculated include unappropriated profits.)

Nedbank's ratios are anticipated to continue improving in 2013, driven by projected earnings growth and the portfolio tilt strategy.

Capital allocation to businesses

As reported during Nedbank's 2012 interim results, economic capital allocated to the business clusters was revised from 10.0% to 11.0% to align the businesses with the higher operating capital levels held by Nedbank under Basel III and the allocation of capital impaired against certain intangible assets, previously held at the centre. The upward revision of capital allocated to the clusters resulted in a dilution of the clusters' ROE performance, given higher capital levels. Headline earnings and ROE numbers for the business clusters for 2011 were restated on a like-for-like basis. These enhancements had no impact on Nedbank's overall headline earnings, capital levels and ROE.

Funding and liquidity

Nedbank remains well funded with a strong liquidity position and a lengthened funding profile, with the fourth-quarter average long-term funding ratio increasing further to 26.0% (2011: 25.0%).

In addition to launching a number of competitive and innovative savings and investment products for the retail market, the following funding strategies were implemented during the year:

- Issuing of R3.2 billion of senior unsecured debt with a tenure ranging from three to seven years
- Issuing of R1.8 billion through the Greenhouse securitisation programme with tenure of up to five years
- Maintaining a significant surplus liquidity buffer in excess of R24.0 billion
- Improving Nedbank's sources of quick liquidity to R107.5 billion (2011: R103.6 billion).

In May the SARB announced that banks would be able to include cash reserves in the calculation of the liquidity coverage ratio (LCR), and the SARB would make available a committed liquidity facility (CLF) of up to 40% of the LCR requirements. Taking into account Nedbank's cash reserves, the liquid assets held for regulatory purposes, the surplus liquidity buffer and the notional ability to access the CLF, Nedbank would be compliant with the Basel III LCR on a pro forma basis at 31 December 2012.

This was further supported by amendments to the LCR by the Basel Committee on Banking Supervision (BCBS) on 6 January 2013, which are likely to be adopted by the South African regulator. These amendments are positive in that they:

- Allow for a longer lead time to implement the LCR, starting from 60% (previously 100%) in January 2015 and increasing to 100% in January 2019
- Result in a broader definition of qualifying high-quality liquid assets (HQLA)
- Reduce HQLA requirements given refinements to various cash outflow assumptions in the LCR formula.

The revisions to the LCR will be beneficial for banks, with associated cost savings and more time to implement the LCR.

Having finalised the LCR, the BCBS is now expected to focus on the net stable funding ratio (NSFR). The impact of NSFR compliance by South Africa and most banking industries worldwide would be punitive if implemented as currently set out in the draft requirements, significantly impacting both global and domestic economic growth and job creation. Structural constraints within South African financial markets will add further challenges to domestic compliance with the NSFR. The SARB and National Treasury, in conjunction with the financial services industry, are engaging proactively during the observation period prior to implementation in order to address any unintended consequences for South Africa. It is anticipated, based on extensive global discussion and the experiences gained from the LCR implementation process, that a fundamental revision and a pragmatic approach will be applied to the NSFR well in advance of its proposed implementation in 2018.

Loans and advances

Loans and advances grew 5.6% to R527 billion (2011: R499 billion), with strong growth in trading advances of 49.2%. Excluding trading advances, banking advances growth of 3.8% was largely underpinned by advances growth in Nedbank Capital and Nedbank Retail.

Loans and advances by cluster at year-end are as follows:

			Rm
	2012	2011	% change (annualised)
Banking activity	**52,732**	48,558	8.6%
Trading activity	**29,762**	19,952	49.2%
Nedbank Capital	**82,494**	68,510	20.4%
Nedbank Corporate	**162,730**	157,271	3.5%
Nedbank Business Banking	**60,115**	58,856	2.1%
Nedbank Retail	**190,647**	183,748	3.7%
Nedbank Wealth	**19,864**	19,624	1.2%
Other	**11,316**	11,014	2.7%
Total	**527,166**	499,023	5.6%

Nedbank Capital's banking advances growth was driven by the successful conversion of its robust investment banking pipeline and increased trading advances as the interbank funding desk experienced significantly better market conditions than in the year before. Nedbank Corporate recorded favourable growth in term loans and commercial mortgages of 8.4% and 5.3% respectively, while reducing the levels of lower-yielding overnight loans. Continuing pressure in the SME environment saw Nedbank Business Banking's clients defer expansion plans, deleverage further and transact less, which – together with judicious risk management – kept advances growth to 2.1%. Retail's advances growth came from strong gains in cards of 16.1% (2011: 9.2%) and in the Motor Finance Corporation book of 10.3% (2011: 9.7%), while tightening criteria resulted in personal loans growing at a reduced rate of 28.7% (2011: 36.5%). Low consumer demand for home loans in conjunction with selective advances growth and the roll-off of the back-book led to a 5.5% reduction in the retail home loans book, with origination through its own client relationships and channels being emphasised.

Deposits

Deposits grew by a healthy 5.1% to R551 billion (2011: R524 billion), maintaining a strong loan-to-deposit ratio of 95.7% (2011: 95.2%).

The lengthening of the funding profile was primarily due to ongoing growth in call and term deposits of 9.9% and fixed deposits of 8.2% as a result of a strong uptake in the Retail Savings Bond of R3.3 billion and wholesale deposit offerings such as Corporate Saver. Cash management deposits grew 7.5%, boosted by net primary banking client gains, whereas the more volatile negotiable certificate of deposit (NCD) category decreased 21.4%.

Current and savings accounts grew well, increasing 7.9% and 9.3% respectively, underpinned by Nedbank's strong franchise. Altogether, these improvements in the funding profile ensured that Nedbank continued to hold a higher proportion of household deposits relative to the size of our retail bank.

However, strong competition for deposits in 2012 resulted in some loss of overall market share in household deposits. The launch of innovative new deposit products such as Nedbank Money Trader, increasing functionality on our world-class internet and mobile banking applications, and various other initiatives will contribute to growing the transactional client base and positioning Nedbank strongly for sustainable growth in savings and investment deposits.

Strategic focus

Nedbank's strategy is outward-looking, with a focus on growing the franchise and delivering on its key strategic initiatives of repositioning Nedbank Retail, growing NIR, implementing the portfolio tilt strategy and expanding into the rest of Africa.

- Nedbank Retail is allocated 39.1% of Nedbank's capital and its strategic repositioning will contribute significantly to ongoing improvements in Nedbank's performance. While endeavouring to leverage early turnaround gains to achieve an ROE at or above the cost of equity (COE) of 13% by the end of 2013, a year ahead of the original 2014 target, the deteriorating credit health of consumers noted in the last quarter of 2012 could make this challenging to deliver. Continued excellent progress was made in positioning Nedbank Retail as a more client-centred and integrated business while maintaining growth momentum in the underlying businesses, growing the number and quality of clients, embedding effective risk management practices and strengthening balance sheet impairments.

- Nedbank's NIR-to-expenses ratio target of > 85% is a key focus area as we continue to deliver good-quality annuity income through commission and fee growth from primary-client gains, volume growth, new innovative products and cross-sell. In our technology division we enabled greater efficiencies, including the rationalisation of 20 banking systems and the reduction of our servers from 3,500 to 1,139 since 2009.
- The portfolio tilt strategy continued to gain traction, supporting EP growth from R57 million in 2009 to R1,511 million in 2012. Excellent growth in 2012 in commission and fee income of 13.7%, insurance income of 24.9%, assets under management of 34.1% and deposits of 5.1%, while emphasising profitable secured lending, demonstrates the benefit of focusing on these strategically important EP-rich, lower-capital and liquidity-consuming activities.
- In the short to medium term Nedbank's primary focus on South Africa and the Southern African Development Community (SADC) area continues to benefit Nedbank as this region has the largest EP pool for financial services in sub-Saharan Africa. The rights to acquire a shareholding of up to 20% in ETI in less than two years creates a path to provide a significant benefit to Nedbank's clients in the rest of Africa and the opportunity for shareholders to gain access to the higher economic growth in the rest of Africa in a prudent yet substantive manner.

Economic outlook

Despite a more promising start to many financial markets in 2013 there appears to be downside risk in most developed and many emerging market economies and forward visibility is limited.

South Africa's GDP is forecast to grow by 2.6% in 2013. Interest rates are likely to remain lower for longer and are expected to be unchanged through most of 2013.

Consumer indebtedness is anticipated to ease gradually, but remains high compared with historical levels, particularly with 39-year-low interest rates. This, combined with the lack of job security, is expected to limit the growth in demand for housing and other secured loans. Growth rates in unsecured lending are expected to continue to moderate.

Uncertainty is likely to continue to affect the level of business confidence and contain capital expenditure and growth in wholesale assets in the private sector. Government and public corporations are forecast to escalate their infrastructure spending, which should contribute to improved wholesale advances growth.

Prospects

In the context of the anticipated economic environment and continued low interest rates in South Africa, Nedbank's guidance for 2013 is as follows:

- Advances to grow at mid to upper single digits
- NIM to remain at levels similar to those in 2012
- The CLR to continue improving into the upper end of Nedbank's through-the-cycle target range
- NIR (excluding fair-value adjustments) to grow at low double digits, and allow Nedbank to meet the medium-to-long-term NIR-to-expenses target of > 85%
- Expenses to increase by mid to upper single digits.

Nedbank's medium-to-long-term targets remain unchanged, with the exception of revised targets relating to capital adequacy and dividend cover following finalisation of the SARB's revised guidelines on Basel III capital levels and the new dividend tax regime in South Africa announced during the year.

Metric	2012 performance	Medium-to-long-term targets	2013 outlook
ROE (excluding goodwill)	16.4%	5% above cost of ordinary shareholders' equity	Improving, remaining below target
Growth in diluted headline earnings per share	19.0%	≥ consumer price index + GDP growth + 5%	Meet target
Credit loss ratio	1.05%	Between 0.6% and 1.0% of average banking advances	Improving into upper end of target
NIR-to-expenses ratio	84.4%	> 85%	Improving to meet the target
Efficiency ratio	55.5%	< 50.0%	Improving, remaining above target
Common equity Tier 1 capital adequacy ratio (Basel III)	11.6%	10.5% to 12.5%	Strengthening, remaining around mid-point of new target
Economic capital	Internal Capital Adequacy Assessment Process (ICAAP): A debt rating (including 10% capital buffer)		
Dividend cover	2.19 times	1.75 to 2.25 times	1.75 to 2.25 times

Mutual & Federal

Growth continued with exceptional claims and start-up losses in iWyze impacting the underwriting result

			Rm
Highlights	**2012**	2011	% change
Underwriting margin	**(1.7)%**	5.0%	
Underwriting result	**(132)**	354	(137)%
Long-term investment return (LTIR)	**608**	625	(3)%
AOP (IFRS basis, pre-tax)[1]	**555**	1,039	(47)%
Gross written premiums	**9,706**	8,865	9%
Net earned premiums	**7,573**	7,039	8%
Claims ratio	**72.4%**	65.2%	
Combined ratio	**101.7%**	95.0%	
International Solvency ratio	**64.0%**	66.4%	
Return on equity	**7.1%**	14.9%	

[1] 2012 and 2011 included 50% of the losses incurred by iWyze, M&F's direct insurance joint venture with Emerging Markets. The remaining 50% was recognised in Emerging Markets.

Overview

Despite strong growth in the number of policies written, particularly in new direct markets and niche business, AOP was down 47%. This decrease was due primarily to a lower underwriting result, following severe weather losses and a marked deterioration in commercial fire claims. LTIR decreased by 3% due to the lower LTIR rate applied in 2012.

iWyze, our direct insurance joint venture with the Mass Foundation distribution team, continued to grow premiums, with policy count growth of 33% during the period. While still in a start-up phase, we are on track to deliver underwriting profitability.

The company remains well capitalised, with a 64% international solvency ratio (the ratio of net assets to net premiums) at 31 December 2012. M&F is at an advanced stage in its preparation for Solvency II and its South African equivalent, Solvency Assessment and Management (SAM), and continues to explore mechanisms to structure its balance sheet efficiently.

Underwriting and IFRS AOP results

The underwriting margin of (1.7)% (2011: 5.0%) was impacted by a significant market-wide increase in claims, investment in new business and lower premium rates, but benefited from well-contained claims servicing costs. Credit Guarantee performed well and the businesses in Namibia and Botswana continued to deliver satisfactory contributions. Start-up losses in iWyze increased to R161 million (2011: R119 million) and continued to have a significant impact on the overall underwriting result.

Gross written premiums increased by 9%, supported by good unit growth partially offset by softening rates. We increased our focus on achieving premium growth through alternative distribution channels, including direct through iWyze, underwriting management agencies and niche business.

The claims ratio increased from 65.2% in 2011 to 72.4%. We experienced a significant increase in large claims in our Commercial lines business and a higher number of claims in our Personal lines business, due primarily to adverse weather conditions. Some R204 million of hailstorm and flood claims from storms in Q4 2012 accounted for 2.7% of the claims ratio in 2012.

Process efficiencies identified in our change programme enabled us to reduce expenses by 5.5%. The expense ratio improved from 15.7% to 13.8% as we continued to grow the business without increasing the cost base. But the reduced underwriting result decreased the ROE from 14.9% to 7.1%.

Management actions during the year

We are in the process of acquiring Oceanic's Nigerian general insurance business from Ecobank, subject to regulatory approval, for around R170 million (US$20 million). The transaction is expected to be completed in Q2 2013.

We successfully contained operating costs and implemented selective pricing action on poorly performing lines of business. This will continue in the 2013 renewal season and beyond.

We continued to partner Old Mutual Emerging Markets in the rest of Africa to identify opportunities and exploit synergies.

Outlook for 2013

The significant number of catastrophe claims in late 2012 – and the continued high incidence of large claims in early 2013 – supports a likely hardening of rates in 2013. In addition, improved management information will allow us to implement selective price strengthening. We will continue to focus on disciplined, profitable premium growth, particularly through increased contributions from alternative channels. And we will improve underwriting performance through continued cost containment and a more efficient supply chain management strategy to reduce average claims costs.

Our operational activities and targets include:

- Keeping the expense ratio below 14% and increasing operational efficiency
- Implementing selective rate increases
- Increasing innovation, particularly in the area of digital connectivity
- Further developing pricing differentiation between iWyze customers
- Helping the broker community to manage the impact of tightened regulation on the remuneration for their services to customers
- Improving service levels to support further growth in policy count.

Going forward we will report all of the Group's Property and Casualty activities as a single segment, including 100% of the iWyze result.

US Asset Management

AOP up 35% through strategic repositioning of affiliate portfolio, strong market returns, and a return to positive NCCF in our continuing operations

			$m
Highlights	**2012**	2011	% change
***Reported results*[1]**			
AOP (IFRS basis, pre-tax)	**144**	107	35%
Operating margin, before non-controlling interests	**26%**	18%	
Operating margin, after non-controlling interests	**21%**	15%	
Net client cash flow ($bn)	**(0.4)**	(24.6)	98%

	31-Dec-12	31-Dec-11	% change
Funds under management ($bn)	**208.6**	231.5	(10)%

			$m
	2012	2011	% change
***Results from continuing operations*[1]**			
AOP (IFRS basis, pre-tax)	**151**	137	10%
Operating margin, before non-controlling interests	**29%**	27%	
Operating margin, after non-controlling interests	**24%**	24%	
Net client cash flow ($bn)	**1.4**	(4.7)	130%

	31-Dec-12	31-Dec-11	% change
Funds under management ($bn)	**208.6**	183.3	14%

[1] Continuing operations excluded the results of 2100 Xenon, Larch Lane, 300 North, Analytic, Ashfield, Dwight, and Old Mutual Capital, which were disposed during 2012, and Lincluden, which was disposed during 2011. Continuing operations also excluded OMAM(UK), which was transferred to the Old Mutual Wealth operation of LTS in 2012. Reported results include OMAM(UK) in 2011 and Q1 2012.

Review of 2012 progress (2012 results from continuing operations compared to 2011 reported results)

IFRS AOP from continuing operations of $151 million was up 41% on the 2011 reported result, supported by positive markets. AOP operating margin on continuing operations (before non-controlling interests) increased 1,100 basis points to 29% from a reported margin of 18% in 2011.

Benefiting from positive market conditions, continued strong investment performance and affiliate divestitures, net client cash inflows from continuing operations improved to $1.4 billion (2011: $24.6 billion outflow on a reported basis), turning positive for the first time since the reported flows of 2007.

IFRS AOP results and operating margin

Reported results

IFRS AOP was up 35% to $144 million (2011: $107 million), driven largely by savings realised through the sale of seven affiliates and the transfer of OMAM(UK) to Old Mutual Wealth, in addition to strong market performance.

AOP operating margin before non-controlling interests improved 800 basis points to 26% (2011: 18%) as a result of the improvement in IFRS AOP, despite the fall in FUM over the period.

Results from continuing operations

IFRS AOP from continuing operations was up 10% to $151 million (2011: $137 million), due to increases in management and performance fees and lower deferred acquisition cost amortisation than the comparative period, partly offset by additional investment in global distribution.

Management fees increased $15 million or 3% over the comparative period due to higher average FUM, while performance and transaction fees were up $24 million or 126%.

AOP operating margin before non-controlling interests was up 200 basis points at 29%. We maintain a margin target of 25% to 30% or more, before non-controlling interests.

Investment performance for continuing operations

For the one-year period ended 31 December 2012, 62% of assets outperformed benchmarks (2011: 65%). Over the three- and five-year periods to 31 December 2012, 66% and 76% of assets outperformed benchmarks (2011: 73% and 69%); the fall in three-year performance resulted primarily from one product's below-benchmark performance.

	Continuing operations		Disposed of or transferred affiliates		Total	$bn
	2012	2011	**2012**	2011	**2012**	2011
Opening FUM	**183.3**	188.4	**48.2**	69.9	**231.5**	258.3
Gross inflows	**28.7**	20.9	**3.4**	8.5	**32.1**	29.4
Gross outflows	**(25.3)**	(24.6)	**(5.2)**	(28.4)	**(30.5)**	(53.0)
Total client driven net flows	**3.4**	(3.7)	**(1.8)**	(19.9)	**1.6**	(23.6)
Hard asset disposals[1]	**(2.0)**	(1.0)	**-**	-	**(2.0)**	(1.0)
Net client cash flow	**1.4**	(4.7)	**(1.8)**	(19.9)	**(0.4)**	(24.6)
Disposals	**-**	-	**(42.0)**	(2.7)	**(42.0)**	(2.7)
Transferred to Old Mutual Wealth	**-**	-	**(6.6)**	-	**(6.6)**	-
Market and other	**23.9**	(0.4)	**2.2**	0.9	**26.1**	0.5
Closing FUM	**208.6**	183.3	**-**	48.2	**208.6**	231.5

[1] Hard asset disposals constitute forestry, property and similar assets, which were sold and proceeds passed to client beneficiaries.

Reported results

FUM ended the period at $208.6 billion (31 December 2011: $231.5 billion).

The management buy-outs of 2100 Xenon Group, 300 North Capital, Analytic Investors, Ashfield Capital Partners and Larch Lane Advisors during Q4 2012 reduced FUM by $11.2 billion, while the disposals of Dwight Asset Management Company LLC and OMCAP in Q2 2012 reduced FUM by $30.8 billion. Positive market movements added $26.1 billion, or 11% of opening FUM.

Net client cash outflows for the period totalled $0.4 billion (2011: $24.6 billion outflow). Positive cash flows in continuing firms concentrated in global fixed income and emerging markets were offset by outflows in US equities. 2011 saw substantial stable value outflows at Dwight.

Results from continuing operations

Year-end FUM increased 14% to $208.6 billion (2011: $183.3 billion) due to market appreciation and improved NCCF.

FUM consisted primarily of long-term investment products diversified across equities ($118 billion, 57%), fixed income ($63 billion, 30%) and alternative investments ($28 billion, 13%).

Net client cash inflows of $1.4 billion (2011: $4.7 billion outflow) reflected continued strong affiliate investment performance and positive market trends for the year in aggregate. Total client driven net client cash inflows were $3.4 billion before investment driven hard asset disposals of $2.0 billion in USAM's real estate and timber managers.

The combination of improved NCCF and an increase in average basis points on cash flows yielded annualised revenue of $12.4 million (or an average of 88 basis points) from NCCF in 2012.

Gross inflows totalled $28.7 billion (2011: $20.9 billion), with $11.8 billion of gross inflows relating to new client accounts. Inflows were led by US and global fixed income products, in addition to emerging markets, international and global equities. Gross outflows totalled $27.3 billion (2011: $25.6 billion), led by US and international equities, and global fixed income products.

During 2012, Barrow, Hanley, Mewhinney & Strauss won a $1.4 billion mandate to sub-advise the Transamerica Dividend Focused Fund. $871 million of this funded in January 2013; the remainder is expected to fund later this year. In the fourth quarter our timber manager, Campbell Group, won a $0.7 billion acquisition of forestry assets in South Australia – a key step in its global expansion.

Non-US clients currently account for 35% of FUM (2011: 33%). International equity, emerging markets, global equity and global fixed income products accounted for 52% of year-end FUM (2011: 50%).

Management actions and decisions taken during the year

We completed the repositioning of our existing affiliate portfolio in Q4 2012, divesting five affiliates through management buy-outs: 2100 Xenon Group, 300 North Capital, Analytic Investors, Ashfield Capital Partners and Larch Lane Advisors. These transactions completed at the end of Q4, followed the Q2 sales of OMCAP and Dwight Asset Management Company – allowing us to refocus on investment and distribution efforts for the nine continuing affiliates. OMAM(UK) was transferred to Old Mutual Wealth at the start of Q2 2012. We are exploring opportunities to reallocate the capital returned as a result of these transactions.

In 2012 we announced organisational changes to further align USAM's executive structure with its strategic objectives. Key among these was the appointment of Linda Gibson as Head of Global Distribution. She will advance our strategy of building core institutional distribution capabilities in global markets and channels to support the expansion of our nine continuing affiliates, including leveraging existing Group capabilities and relationships. We continued to progress this strategy in 2012, completing the process of filling key roles and identifying primary focus areas.

Outlook for 2013

In 2013, we expect to maintain our operating margin within the target range of 25% to 30% or more, before non-controlling interests. We expect aggregate NCCF to remain positive, assuming continued strong markets and affiliate investment performance, and we aim to increase our penetration of markets outside the US in 2013 and beyond. We continue actively seeking and evaluating opportunities to add to the existing investment capabilities in our portfolio of affiliates, both organically and through fold-in acquisitions.

Non-core business – Bermuda (additional disclosures)

Old Mutual Bermuda is a non-core business; its results are excluded from the Group's IFRS AOP, although the interest on intercompany loans from Bermuda to Group Head Office is charged to AOP.

Management actions

Old Mutual Bermuda continued to implement its run-off strategy of risk reduction while managing for value. An option-based hedging strategy implemented in March 2012 has significantly improved its risk profile by hedging the impact of any subsequent adverse equity market movements on the cash top-up payments to policyholders reaching the fifth anniversary of their Universal Guarantee Option (UGO) Guaranteed Minimum Accumulation Benefits (GMAB) contracts.

In addition to the option hedge in place for fifth anniversary cash top-up payments, we have dynamically hedged foreign currency exchange exposures and the residual equity market risk for the risk extending beyond the five-year top-ups at a level of 50%.

In July 2012, in consultation with the Bermuda Monetary Authority, the Group recapitalised Old Mutual Bermuda in anticipation of the expected new Bermudan solvency requirements.

Key Metrics and Outcomes

IFRS results

The IFRS post-tax profit for the period was $254 million (2011: $286 million loss), driven primarily by the reduction in GMAB reserves and a realised gain on the fixed income portfolio, partially offset by a full write-off of all remaining deferred acquisition costs.

MCEV results

The 2012 operating MCEV earnings resulted in an after-tax gain of $157 million (2011: $76 million). The improvement was due mainly to a combination of positive operating experience and favourable changes in the surrender and future operating expense assumptions as a result of higher-than-expected lapses on the UGO GMAB business.

MCEV earnings including economic variances and other non-operating variances totalled $342 million (2011: $343 million loss), primarily due to an improvement in capital markets and realised fixed income portfolio gains.

Total insurance liabilities

Of year-end insurance liabilities totaling $2,764 million (2011: $4,831 million):

- $2,119 million (2011: $3,130 million) was held in a separate account relating to variable annuity investments, of which $1,856 million related to GMAB policies (2011: $2,858 million)
- $229 million (2011: $1,061 million) related to the variable annuity guarantee reserve on the GMAB policies
- $416 million (2011: $640 million) related to other policyholder liabilities. These included deferred and fixed indexed annuity business as well as variable annuity fixed credited interest investments

The vast majority of the variable annuity guarantee reserve relates to contracts with UGO GMABs. The 2012 year-end UGO GMAB reserve was $219 million – a decrease of $816 million over the year, due mainly to improved overall equity market performance and a high level of UGO GMAB surrenders during the year.

UGO GMAB reserves and top-up payments

The UGO GMAB reserve relates to the full remaining period of the relevant policies, including the five-year anniversary value of 105% of total premiums on contracts yet to reach that anniversary; the 10-year 120% top-up of total premiums; and any contracts with a Highest Anniversary Value (HAV) feature.

Fifth anniversary payments began on 5 January 2012 and will continue until 29 August 2013. At the end of 2012, 67% of the UGO GMAB contracts by guarantee amount had passed their five-year top-up date.

The total estimated cash cost of meeting these fifth-anniversary payments to policyholders decreased from $689 million to $530 million as a result of favourable equity market movements. Hedge gains and losses have not been taken into account in the cash cost calculations.

The table below shows the level of guarantee reserves and, in respect of the UGO GMAB fifth-anniversary guarantees, the cumulative top-ups paid and the estimated top-up payments remaining based on equity market levels on the calculation date:

				$m
Calculation Date	**Guarantee reserves for UGO GMAB**	**Actual cumulative top-up paid**[1,2]	**Estimated remaining top-up payment**[1,2]	**Total estimated top-up payment**[1,2]
31-Dec-10	660	-	334	334
31-Dec-11	1,035	-	689	689
31-Dec-12	219	425	105	530
31-Jan-13	164	443	67	510

[1] To meet UGO GMAB fifth anniversary payments
[2] Cash cost before gains on hedge options.

Highest Anniversary Value

On an account value basis, at 31 December 2012, 80% of the UGO GMAB book had a HAV feature, giving them a 10-year guarantee value based on the highest policy value at any anniversary date. As at 31 December 2012, 5% of the total UGO GMAB book had a 10-year guarantee above 120%.

Surrender development

Across the whole Bermuda book there were $1,929 million of surrenders in 2012 (2011: $1,182 million). At 31 December 2012 around 80% of non-Hong Kong UGO policies and around 60% of Hong Kong policies had been surrendered on or after their anniversary date.

Of the 16,842 UGO GMAB contracts that reached their fifth anniversary during 2012, 10,343 were surrendered. There were 10,765 UGO GMAB contracts that had not reached their fifth anniversary at 1 January 2013, of these 10,472 will reach their fifth anniversary in H1 2013, with the remainder reaching this milestone by the end of August 2013.

2,840 non-GMAB policies remained at 31 December 2012, 13% of the total book. Total non-GMAB liabilities decreased by 26% to $679 million, of which non-GMAB separate account liabilities relating to variable annuity investments were $263 million.

Investment portfolio and treasury management

The Bermuda business assets backing the liabilities include:

			$m
	31-Dec-12	31-Dec-11	% change
Cash and other liquid assets	**330**	443	(26)%
Fixed income general account portfolio	**195**	543	(64)%
Collateral for hedge assets & FV of equity options	**52**	91	(43)%
Intercompany loan notes	**1,032**	830	24%
Investment in affiliated subsidiary (Group seed investments)	**260**	-	
Separate account assets	**2,119**	3,130	(32)%
Other assets	**58**	122	(52)%
Total Assets	**4,046**	5,159	(22)%

The realised gain on the fixed income portfolio was $31 million (2011: $1 million) and the net unrealised position was a gain of $14 million (2011: $29 million). There were no investment losses and no impairment or credit defaults in the period.

The portfolio has a current average Moody's rating of Aa3, with investment-grade holdings continuing to represent more than 90% of the portfolio.

Old Mutual Bermuda will continue to sell assets from the fixed income portfolio and use other liquid assets of the business to meet its liabilities, which will include the cash requirements of the remaining top-ups as they fall due.

Collateral posted for the hedge assets will adjust as the liabilities develop and could be released as the business evolves. The inter-company loan notes are structured in tranches allowing capital and treasury management flexibility, if cash is required from this source.

Capital and surplus

Local entity statutory capital and surplus increased to $1,105 million at 31 December 2012 (2011: $291 million), reflecting the July recapitalisation and the improved profitability for the year. The July recapitalisation related to the transfer of $571 million of capital to Bermuda from Group. The capital comprised $250 million of new inter-company loan notes, $260 million of Group seed investments and cash of $61 million.

The future level of capital required on both an economic and a regulatory basis will be influenced by the nature and extent of the run-off of the Bermuda business book and the amount of the investment hedge in place. We would expect to review the regulatory capital requirement with the Bermuda Monetary Authority in 2013.

Strategy and outlook

Old Mutual Bermuda will continue to implement its run-off strategy of reducing risk while managing for value, with liability management and de-risking initiatives designed to accelerate the run-off in 2013. Consideration is also being given to the future management of the remaining book of 10-year 120% top-up, HAV policies and non-GMAB policies.

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Statement of directors' responsibilities

in respect of the Annual Report and the financial statements

The directors confirm that to the best of their knowledge:

- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- The Annual Report includes a fair review of the development and performance of the business and the position of Old Mutual plc and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Julian Roberts	Philip Broadley
Group Chief Executive	Group Finance Director

1 March 2013

Consolidated income statement

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
			£m
Revenue			
Gross earned premiums	B2	**3,725**	3,584
Outward reinsurance		**(322)**	(325)
Net earned premiums		**3,403**	3,259
Investment return (non-banking)		**9,524**	(567)
Banking interest and similar income		**3,431**	3,669
Banking trading, investment and similar income		**214**	217
Fee and commission income, and income from service activities		**3,096**	3,035
Other income		**125**	171
Total revenues		**19,793**	9,784
Expenses			
Claims and benefits (including change in insurance contract provisions)		**(5,612)**	(3,331)
Reinsurance recoveries		**221**	123
Net claims and benefits incurred		**(5,391)**	(3,208)
Change in investment contract liabilities		**(5,361)**	1,889
Losses on loans and advances		**(400)**	(458)
Finance costs		**(214)**	(58)
Banking interest payable and similar expenses		**(1,887)**	(2,095)
Fee and commission expenses, and other acquisition costs		**(1,031)**	(1,007)
Other operating and administrative expenses		**(3,754)**	(3,852)
Goodwill impairment	C1(b)	**-**	(264)
Change in third party interest in consolidated funds		**(328)**	2
Total expenses		**(18,366)**	(9,051)
Share of associated undertakings' and joint ventures' profit after tax		**24**	10
(Loss)/profit on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	**(56)**	251
Profit before tax		**1,395**	994
Income tax expense	D1	**(472)**	(225)
Profit from continuing operations after tax		**923**	769
Discontinued operations			
Profit from discontinued operations after tax	H1	**564**	198
Profit after tax for the financial year		**1,487**	967
Attributable to			
Equity holders of the parent		**1,173**	667
Non-controlling interests			
Ordinary shares	F2(a)	**264**	238
Preferred securities	F2(a)	**50**	62
Profit after tax for the financial year		**1,487**	967
Earnings per share			
Basic earnings per share based on profit from continuing operations (pence)		**12.6**	8.9
Basic earnings per share based on profit from discontinued operations (pence)		**12.3**	4.0
Basic earnings per ordinary share (pence)	C2(a)	**24.9**	12.9
Diluted earnings per share based on profit from continuing operations (pence)		**11.6**	8.0
Diluted earnings per share based on profit from discontinued operations (pence)		**11.5**	3.7
Diluted earnings per ordinary share (pence)	C2(a)	**23.1**	11.7
Weighted average number of ordinary shares - millions	C2(a)	**4,587**	4,935

Consolidated statement of comprehensive income

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
			£m
Profit after tax for the financial year		**1,487**	967
Other comprehensive income for the financial year			
Fair value gains			
Property revaluation		**20**	39
Net investment hedge		**160**	28
Available-for-sale investments			
Fair value gains/(losses)		**30**	(1)
Recycled to the income statement		**(21)**	(6)
Shadow accounting		**6**	(22)
Currency translation differences/exchange differences on translating foreign operations		**(641)**	(1,240)
Other movements		**(46)**	(49)
Income tax relating to components of other comprehensive income	D1(c)	**5**	12
Total other comprehensive income for the financial year from continuing operations		**(487)**	(1,239)
Total other comprehensive income for the financial year from discontinued operations	H1(b)	**(348)**	(161)
Total other comprehensive income for the financial year		**(835)**	(1,400)
Total comprehensive income for the financial year		**652**	(433)
Attributable to			
Equity holders of the parent		**476**	(408)
Non-controlling interests			
Ordinary shares		**126**	(87)
Preferred securities		**50**	62
Total comprehensive income for the financial year		**652**	(433)

Reconciliation of adjusted operating profit to profit after tax

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
			£m
Core operations			
Long-Term Savings	B3	**800**	793
Nedbank	B3	**828**	755
Mutual & Federal	B3	**43**	89
USAM	B3	**91**	67
		1,762	1,704
Finance costs		**(130)**	(128)
Long term investment return on excess assets		**54**	37
Net interest payable to non-core operations		**(18)**	(23)
Corporate costs		**(54)**	(57)
Other net expenses		**-**	(18)
Adjusted operating profit before tax		**1,614**	1,515
Adjusting items	C1(a)	**(459)**	(329)
Non-core operations	B3	**165**	(183)
Profit before tax (net of policyholder tax)		**1,320**	1,003
Income tax attributable to policyholder returns	B3	**75**	(9)
Profit before tax		**1,395**	994
Total tax expense	D1(a)	**(472)**	(225)
Profit from continuing operations after tax		**923**	769
Profit from discontinued operations after tax	H1(a)	**564**	198
Profit after tax for the financial year		**1,487**	967

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

	Notes	Year ended 31 December 2012	Year ended 31 December 2011[1]
			£m
Adjusted operating profit before tax		**1,614**	1,515
Tax on adjusted operating profit	D1(d)	**(441)**	(341)
Adjusted operating profit after tax		**1,173**	1,174
Non-controlling interests – ordinary shares	F2(a)	**(281)**	(257)
Non-controlling – preferred securities	F2(a)	**(50)**	(62)
Adjusted operating profit after tax attributable to ordinary equity holders of the parent		**842**	855
Adjusted weighted average number of shares (millions)	C2(b)	**4,818**	4,756
Adjusted operating earnings per share (pence)	C2(b)	**17.5**	18.0

[1] The results for the year ended 31 December 2011 have been restated to reflect the share consolidation which occurred on 23 April 2012 (see note A2).

Basis of preparation

Adjusted operating profit (AOP) reflects the directors' view of the underlying long-term performance of the Group. AOP is a measure of profitability which adjusts the standard IFRS profit measures for the specific items detailed in note C1, and as such it is a non-GAAP measure. This reconciliation explains the differences between adjusted operating profit and profit after tax as reported under IFRS as adopted by the EU.

For core life assurance and general insurance businesses, adjusted operating profit is based on a long-term investment return, including investment returns on life funds' investments in Group equity and debt instruments, and is stated net of income tax attributable to policyholder returns. For the US Asset Management business it includes compensation costs in respect of certain long-term incentive schemes defined as non-controlling interests in accordance with IFRS. For all core businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, revaluations of put options related to long-term incentive schemes, profit/(loss) on acquisition/disposal of subsidiaries, associated undertakings and strategic investments, and fair value profits/(losses) on certain Group debt movements but includes dividends declared to holders of perpetual preferred callable securities. Bermuda is treated as a non-core operation in the AOP disclosure, and Nordic, which is disclosed as discontinued operations for IFRS reporting, is also treated a non-core operation for AOP disclosure. Non-core operations are not included in AOP.

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

Consolidated statement of financial position

At 31 December 2012

	Notes	At 31 December 2012 £m	At 31 December 2011 £m
Assets			
Goodwill and other intangible assets		**3,056**	3,358
Mandatory reserve deposits with central banks		**921**	951
Property, plant and equipment		**848**	925
Investment property		**1,946**	2,064
Deferred tax assets		**340**	339
Investments in associated undertakings and joint ventures		**137**	111
Deferred acquisition costs		**1,288**	1,351
Reinsurers' share of policyholder liabilities		**1,406**	989
Loans and advances		**38,495**	40,001
Investments and securities		**86,381**	81,253
Current tax receivable		**103**	138
Trade, other receivables and other assets		**2,890**	3,348
Derivative financial instruments – assets		**1,781**	1,795
Cash and cash equivalents		**3,863**	3,624
Non-current assets held for sale	H2	**42**	22,138
Total assets		**143,497**	162,385
Liabilities			
Long-term business policyholder liabilities		**80,188**	76,350
General insurance liabilities		**346**	325
Third-party interests in consolidated funds		**2,783**	1,893
Borrowed funds	E1	**3,050**	3,656
Provisions	F1	**263**	269
Deferred revenue		**689**	701
Deferred tax liabilities		**400**	504
Current tax payable		**287**	199
Trade, other payables and other liabilities		**4,789**	4,243
Amounts owed to bank depositors		**39,499**	41,215
Derivative financial instruments – liabilities		**1,402**	1,755
Non-current liabilities held for sale	H2	**3**	20,417
Total liabilities		**133,699**	151,527
Net assets		**9,798**	10,858
Shareholders' equity			
Equity attributable to equity holders of the parent		**7,833**	8,488
Non-controlling interests			
Ordinary shares	F2(b)	**1,692**	1,652
Preferred securities	F2(b)	**273**	718
Total non-controlling interests		**1,965**	2,370
Total equity		**9,798**	10,858

Consolidated statement of cash flows

For the year ended 31 December 2012

	Year ended 31 December 2012	Year ended 31 December 2011
		£m
Cash flows from operating activities - continuing operations		
Profit before tax	**1,395**	994
Non-cash movements in profit before tax	**249**	1,372
Changes in working capital	**1,041**	(1,415)
Taxation paid	**(295)**	(402)
Net cash inflow from operating activities - continuing operations	**2,390**	549
Cash flows from investing activities		
Net (acquisitions)/disposals of financial investments	**(1,531)**	43
Acquisition of investment properties	**(55)**	(57)
Proceeds from disposal of investment properties	**67**	6
Acquisition of property, plant and equipment	**(120)**	(184)
Proceeds from disposal of property, plant and equipment	**7**	43
Acquisition of intangible assets	**(72)**	(91)
Acquisition of interests in subsidiaries, associated undertakings and strategic investments	**(23)**	103
Disposal of interests in subsidiaries, associated undertakings and strategic investments	**1,883**	(329)
Net cash inflow/(outflow) from investing activities - continuing operations	**156**	(466)
Cash flows from financing activities		
Dividends paid to		
Ordinary equity holders of the Company	**(1,172)**	(97)
Non-controlling interests and preferred security interests	**(211)**	(206)
Interest paid (excluding banking interest paid)	**(85)**	(87)
Proceeds from issue of ordinary shares (including by subsidiaries to non-controlling interests)	**35**	10
Net disposal/(acquisition) of treasury shares	**19**	(17)
Issue of subordinated and other debt	**290**	890
Subordinated and other debt repaid	**(1,293)**	(905)
Net cash outflow from financing activities - continuing operations	**(2,417)**	(412)
Net increase/(decrease) in cash and cash equivalents - continuing operations	**129**	(329)
Net (decrease)/increase in cash and cash equivalents - discontinued operations	**(129)**	346
Effects of exchange rate changes on cash and cash equivalents	**(271)**	(594)
Cash and cash equivalents at beginning of the year	**5,055**	5,632
Cash and cash equivalents at end of the year	**4,784**	5,055
Consisting of		
Cash and cash equivalents in the statement of financial position	**3,863**	3,624
Mandatory reserve deposits with central banks	**921**	951
Cash and cash equivalents included in assets held for sale	**-**	480
Total	**4,784**	5,055

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

Except for mandatory reserve deposits with central banks of £921 million (2011: £951 million) and cash and cash equivalents subject to consolidation of funds of £679 million (2011: £756 million), management do not consider that there are any material amounts of cash and cash equivalents which are not available for use in the Group's day-to-day operations. Mandatory reserve deposits are, however, included in cash and cash equivalents for the purposes of the cash flow statement in line with market practice in South Africa.

Included within the above is interest income received (including banking interest) of £4,490 million (2011: £4,936 million), dividend income received of £508 million (2011: £371 million) and interest paid (including banking interest) of £2,047 million (2011: £2,143 million).

Consolidated statement of changes in equity

For the year ended 31 December 2012

Year ended 31 December 2012	Notes	Millions Number of shares issued and fully paid	£m Share capital	Share premium	Merger reserve	Available-for-sale reserve
Shareholders' equity at beginning of the year		**5,801**	**580**	**805**	**2,532**	**53**
Profit after tax for the financial year		**-**	**-**	**-**	**-**	**-**
Other comprehensive income						
Fair value gains/(losses)						
Property revaluation		-	-	-	-	-
Net investment hedge[1]		-	-	-	-	-
Available-for-sale investments						
Fair value gains		-	-	-	-	33
Recycled to the income statement		-	-	-	-	(21)
Exchange differences recycled to the income statement[1]		-	-	-	-	-
Shadow accounting		-	-	-	-	6
Currency translation differences/exchange differences on translating foreign operations		-	-	-	-	-
Other movements		-	-	-	-	-
Income tax relating to components of other comprehensive income	D1(c)	-	-	-	-	(6)
Total comprehensive income for the financial year		**-**	**-**	**-**	**-**	**12**
Dividends for the year	C3	-	-	-	-	-
Other movements in share capital and share-based payment reserve		27	3	30	-	-
Cancellation of treasury shares		(239)	(24)	-	-	-
Share consolidation		(697)	-	-	-	-
Preferred securities purchased		-	-	-	-	-
Merger reserve realised in the period		-	-	-	(815)	-
Change in participation in subsidiaries		-	-	-	-	-
Transactions with shareholders		**(909)**	**(21)**	**30**	**(815)**	**-**
Shareholders' equity at end of the year		**4,892**	**559**	**835**	**1,717**	**65**

[1] Following the sale of the Nordic business on 21 March 2012, foreign exchange translation gains of £350 million relating to the Nordic operations, and foreign exchange hedge losses of £112 million relating to net investment hedges in respect of the Nordic investment were recognised in the income statement. These amounts are included in the £564 million profit on sale.

£m

Property revaluation reserve	Share-based payments reserve	Other reserves	Translation reserve	Retained earnings	Perpetual preferred callable securities	Attributable to equity holders of the parent	Total non-controlling interests	Total equity
124	230	5	301	3,170	688	8,488	2,370	10,858
-	-	-	-	1,141	32	1,173	314	1,487
19	-	-	-	-	-	19	1	20
-	-	-	160	-	-	160	-	160
-	-	-	-	-	-	33	1	34
-	-	-	-	-	-	(21)	-	(21)
-	-	-	(350)	-	-	(350)	-	(350)
-	-	-	-	-	-	6	-	6
-	-	-	(489)	-	-	(489)	(150)	(639)
1	(24)	4	-	(40)	-	(59)	10	(49)
-	-	-	-	-	10	4	-	4
20	(24)	4	(679)	1,101	42	476	176	652
-	-	-	-	(1,172)	(42)	(1,214)	(169)	(1,383)
-	62	-	-	7	-	102	13	115
-	-	24	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	(13)	(6)	(19)	(445)	(464)
-	-	-	-	815	-	-	-	-
-	-	-	-	-	-	-	20	20
-	62	24	-	(363)	(48)	(1,131)	(581)	(1,712)
144	268	33	(378)	3,908	682	7,833	1,965	9,798

Retained earnings were reduced in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other undertakings at 31 December 2012 by £489 million (2011: £501 million).

Consolidated statement of changes in equity

For the year ended 31 December 2012

Year ended 31 December 2011	Notes	Number of shares issued and fully paid (Millions)	Share capital (£m)	Share premium (£m)	Merger reserve (£m)	Available-for-sale reserve (£m)
Shareholders' equity at beginning of the year		5,695	570	795	2,845	225
Profit after tax for the financial year		-	-	-	-	-
Other comprehensive income						
Fair value gains/(losses)						
Property revaluation		-	-	-	-	-
Net investment hedge		-	-	-	-	-
Available-for-sale investments						
Fair value gains		-	-	-	-	51
Recycled to the income statement		-	-	-	-	(10)
Realised on disposal		-	-	-	-	(157)
Exchange differences realised on disposal		-	-	-	-	-
Shadow accounting		-	-	-	-	(58)
Currency translation differences/exchange differences on translating foreign operations		-	-	-	-	-
Other movements		-	-	-	-	-
Income tax relating to components of other comprehensive income	D1(c)	-	-	-	-	2
Total comprehensive income for the financial year		-	-	-	-	(172)
Dividends for the year	C3	-	-	-	-	-
Other movements in share capital and share-based payment reserve		7	-	10	-	-
Merger reserve realised in the year		-	-	-	(313)	-
Change in participation in subsidiaries		-	-	-	-	-
Reclassification of translation differences on non-controlling interests		-	-	-	-	-
Shares issued in lieu of cash dividend		99	10	-	-	-
Transactions with shareholders		106	10	10	(313)	-
Shareholders' equity at end of the year		5,801	580	805	2,532	53

£m

Property revaluation reserve	Share-based payments reserve	Other reserves	Translation reserve	Retained earnings	Perpetual preferred callable securities	Attributable to equity holders of the parent	Total non-controlling interests	Total equity
101	215	5	1,176	2,331	688	8,951	2,523	11,474
-	-	-	-	635	32	667	300	967
30	-	-	-	-	-	30	9	39
-	-	-	28	-	-	28	-	28
-	-	-	-	-	-	51	(1)	50
-	(1)	-	-	-	-	(11)	-	(11)
-	-	-	-	-	-	(157)	-	(157)
-	-	-	24	-	-	24	-	24
(7)	-	-	-	-	-	(65)	-	(65)
-	-	-	(970)	-	-	(970)	(313)	(1,283)
-	(34)	-	-	15	-	(19)	(20)	(39)
-	-	-	-	-	12	14	-	14
23	(35)	-	(918)	650	44	(408)	(25)	(433)
-	-	-	-	(221)	(44)	(265)	(162)	(427)
-	50	-	-	(17)	-	43	16	59
-	-	-	-	313	-	-	-	-
-	-	-	-	-	-	-	61	61
-	-	-	43	-	-	43	(43)	-
-	-	-	-	114	-	124	-	124
-	50	-	43	189	(44)	(55)	(128)	(183)
124	230	5	301	3,170	688	8,488	2,370	10,858

Notes to the consolidated financial statements

For the year ended 31 December 2012

A: Significant accounting policies

A1: Basis of preparation

The Group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU. The accounting policies adopted by the Group, unless otherwise stated, have been applied consistent with those applied in the preparation of the Group's 2011 Annual Report and Accounts.

The Group financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial assets and liabilities designated as fair value through the income statement or as available-for-sale, owner-occupied property and investment property. Non-current assets and disposal groups held for sale are stated at the lower of the previous carrying amount and the fair value less costs to sell.

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

The financial statements contained herein do not constitute the Company's statutory accounts for the financial years ended 31 December 2012 and 31 December 2011 within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the financial year ended 31 December 2011 have been reported on by the Company's auditors and delivered to the Registrar of Companies. The statutory accounts for the financial year ended 31 December 2012 will be delivered in due course. The report of the auditors for the financial year ended 31 December 2011 was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

Translation of foreign operations

The assets and liabilities of foreign operations are translated from their respective functional currencies into the Group's presentation currency using the year end exchange rates, and their income and expenses using the average exchange rates. Other than in respect of cumulative translation gains and losses up to 1 January 2004, cumulative unrealised gains or losses resulting from translation of functional currencies to the presentation currency are included as a separate component of shareholders' equity. To the extent that these gains and losses are effectively hedged, the cumulative effect of such gains and losses arising on the hedging instruments are also included in that component of shareholders' equity. Upon the disposal of subsidiaries the cumulative amount of exchange differences deferred in shareholders' equity, net of attributable amounts in relation to net investments, is recognised in the income statement. Cumulative translation gains and losses up to 1 January 2004 were reset to zero.

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

	Year ended 31 December 2012		Year ended 31 December 2011	
	Income Statement (average rate)	**Statement of financial position (closing rate)**	Income Statement (average rate)	Statement of financial position (closing rate)
Rand	**13.0123**	**13.7696**	11.6445	12.5643
US dollars	**1.5850**	**1.6242**	1.6037	1.5553
Swedish kronor	**10.7363**	**10.5638**	10.4144	10.6801
Euro	**1.2326**	**1.2307**	1.1519	1.1970

A2: Significant corporate activity and business changes

Disposal of Nordic

As previously reported the Group had agreed at 31 December 2011 to the disposal of its life assurance operations, asset management and banking operations in Sweden, Denmark and Norway to Skandia Liv. Following final regulatory approval on 8 March 2012 and subsequent shareholder approval, the sale was completed on 21 March 2012. The sale represented the Group's exit from the life assurance market in the Nordic region and therefore met the criteria of a discontinued operation. The assets and liabilities of Nordic were classified as non-current assets and liabilities held for sale at 31 December 2011. At 31 December 2012, following the completion of the disposal, there are no assets and liabilities of Nordic remaining in the Statement of Financial Position. For the purposes of adjusted operating profit, Nordic is classified as a non-core operation. Further details of the impact of discontinued operations are provided in note H1.

Special dividend and share consolidation

On 9 March 2012 the Group declared a special dividend of 18p per 10p ordinary share to all holders of those shares on the register at 20 April 2012 and the dividend was subsequently paid on 7 June 2012. A seven-for-eight share consolidation was effected on 23 April 2012 and from that date only new ordinary shares of $11^{3/7}$ pence have been in issue. For basic and diluted earnings per share, the weighted average number of shares is adjusted with effect from 23 April 2012. For adjusted operating earnings per share the adjustment of the weighted average number of shares has been made effective 1 January 2012. Consequently the comparative information in the adjusted operating earnings per share note C2(b) has been restated accordingly.

Disposal of Finnish branch in Old Mutual Wealth

On 21 December 2011 the Group announced that it had agreed terms to sell the Finnish branch of Old Mutual Wealth to OP-Pohjola osk. The assets and liabilities of the Finnish branch were classified as non-current assets and liabilities held for sale in the Statement of Financial Position at 31 December 2011. As at 31 December 2012, following the completion of the sale of the business on 31 August 2012, there were no assets and liabilities of the Finland branch remaining in the Statement of Financial Position.

Consolidation of other African businesses

As reported in the Group's 2011 Annual Report and Accounts the Group's operations in Zimbabwe, Kenya, Malawi, Swaziland and Nigeria (the other African businesses), were consolidated effective from 1 January 2011. The net asset value of the underlying businesses on 1 January 2011 was deemed to be the fair value of these operations on that date. As a result of the consolidation of these businesses, the Group recognised a gain on 1 January 2011, which was disclosed as a profit on acquisition of subsidiaries. The results of the other African businesses were included in the comparatives for the year ended 31 December 2011.

In anticipation of the indigenisation of the Zimbabwe business a non-controlling interest adjustment has been included for this operation in respect of adjusted operating profit to reflect the agreed indigenous shareholding to be provided. At 31 December 2012 the Group had completed the transfer of the agreed indigenous shareholding to approved indigenisation and economic empowerment trusts, the majority of which remains fully consolidated for the purposes of IFRS reporting.

Reporting of Retail Europe within Old Mutual Wealth

On 24 January 2012 the Group announced that that it would combine its Old Mutual Wealth Continental Europe business (France and Italy) with the Skandia Retail Europe business unit (Germany, Austria, Poland and Switzerland). As a result of these operational changes, the businesses previously reported as the Retail Europe segment are now reported within the Old Mutual Wealth segment for the year ended 31 December 2012. The comparative information for the year ended 31 December 2011 has been reclassified where applicable.

Integration of OMAM UK with Skandia Investment Group

On 26 April 2012 the Group announced the integration of Old Mutual Asset Management UK (OMAM UK) with Skandia Investment Group. OMAM UK was previously reported within the US Asset Management segment and Skandia Investment Group is reported within the Old Mutual Wealth segment. Consequently OMAM UK is included within the Old Mutual Wealth segment for the year ended 31 December 2012.

In September 2012 the Group announced the merger of the Skandia businesses (Skandia UK, Skandia International, Old Mutual Global Investors and the Skandia European businesses outside of the Nordic region) into a single business called Old Mutual Wealth. The operational changes are designed to combine asset management capability with UK platform strength and international expertise to grow into a leading provider of wealth management solutions in selected markets. As a result the businesses previously reported as the Retail Europe segment are now reported within the Old Mutual Wealth segment for the year ended 31 December 2012. The comparative information for the year ended 31 December 2011 has been reclassified where applicable.

Cancellation of treasury shares

On 13 January 2012 the Group announced that it had cancelled 239,434,888 Ordinary Shares of 10p each previously held in treasury.

Repayment of debt

On 18 January 2012, the remaining €200 million of the €750 million subordinated bond was repaid on the first call date.

Following an open market tender offer on 19 July 2012, the Group announced it repurchased £388 million of the £500 million senior bond with a repayment date of 1 August 2012.

On 23 August 2012, the Group announced it had applied to repay the US$750 million Subordinated Cumulative Perpetual Notes at their nominal value. The transaction was completed on 24 September 2012.

On 4 December 2012, €5 million of the €500 million perpetual preferred callable securities and on 5 December 2012, £2 million of the £350 million preferred callable securities were acquired, both via open market repurchase.

Notes to the consolidated financial statements

For the year ended 31 December 2012

A: Significant accounting policies continued

A3: Critical accounting estimates and judgements

In the preparation of these financial statements, the Group is required to make estimates and judgements that affect items reported in the consolidated income statement, statement of financial position, other primary statements and related supporting notes.

Critical accounting estimates and judgements are those which involve the most complex or subjective judgements or assessments. Where applicable the Group applies estimation and assumption setting techniques that are aligned with relevant actuarial and accounting guidance based on knowledge of the current situation, and require assumptions and predictions of future events and actions. There has been no significant change to the critical accounting estimates and judgements that the Group applied at 31 December 2011. The significant accounting policies are described in the Annual Report

Specific areas that have required closer attention in respect of the estimates and judgements applied during the year ended 31 December 2012 are explained in more detail below.

(a) Loans and advances

Provisions for impairment of loans and advances

The majority of loans and advances are in respect of Nedbank, which assesses its loan portfolios for impairment at each financial reporting date. Nedbank actively manages their exposure to loans and advances through robust credit approval processes which contributed to the improved credit loss ratio at 31 December 2012 of 1.05% (2011: 1.13%).

The impairment for performing loans is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

These include early arrears and other indicators of potential default, such as changes in macroeconomic conditions and legislation affecting credit recovery. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

For portfolios which comprise large numbers of small homogenous assets with similar risk characteristics where credit scoring techniques are generally used, statistical techniques are used to calculate impairment allowances on the portfolio, based on historical recovery rates and assumed emergence periods. There are many models in use, each tailored to a product, line of business or client category. Judgement and knowledge is needed in selecting the statistical methods to use when the models are developed or revised.

For larger exposures impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cash flows are taken into account. The level of impairment allowance is the difference between the value of the discounted expected future cash flows and its carrying amount. Subjective judgements are made in the calculations of future cash flows and change with time as new information becomes available or as strategies evolve, resulting in frequent revisions to the impairment provision as individual decisions are taken.

Further detail is provided in the Annual Report.

(b) Policyholder liabilities

Emerging Markets Financial Soundness Valuation discount rate

The calculation of the Group's South African Life assurance contract provisions is sensitive to the discount rate applied to future liabilities. The methodology applied by the Group requires discount rates to be set according to the Financial Soundness Valuation (FSV) principles as prescribed by the Actuarial Society of South Africa. These In line with these principles the reference rate is selected as the Bond Exchange of South Africa (BESA) par bond 10-year yield.

During 2012 the reference discount rate applied to its South African business reduced from 8.2% to 6.9% in line with observable market data. During H1 2012, the discount rate reduced from 8.2% to 7.6%, which resulted in an increase in FSV provisions of £20m. During H2 2012, the discount rate reduced further from 7.6% to 6.9%, resulting in a further increase to FSV provisions of £15m.

During the fourth quarter of 2012 a broad duration based hedge was implemented which partially mitigated the negative impact of the decline in the FSV rate over H2. This hedge remains in place and is expected to reduce the South African business's sensitivity to interest rate movements in future. The Group estimates that a 1% reduction in the discount rate will result in an increase in policyholder liabilities of £39 million (2011: £42 million), allowing for the impact of the duration based hedge. The growth in the book over 2012 and the fact that a 1% fall now represents a larger proportionate fall in interest rates mean that the sensitivity at the end of 2012 is higher than the actual impact observed over 2012.

Further disclosure of the Policyholder sensitivity to interest rates is provided in the Annual Report.

Emerging Markets discretionary reserves

Management has discretion in managing exposure to financial options and guarantees, particularly within participating business. As required by applicable Actuarial Society of South Africa guidance, the time value of the financial options and guarantees included in the statutory reserves in the Emerging Markets businesses at 31 December 2012 have been valued using a risk-neutral market consistent asset model and is referred to as the Investment Guarantee Reserve (IGR). This reserve includes a discretionary margin as defined by local guidelines to allow for the sensitivity of the reserve to future interest rate and equity market movements. Further detail is provided in the Old Mutual audited market consistent Embedded Value supplementary basis information section of the Annual Report.

Bermuda guarantees

Old Mutual Bermuda was closed to new business on 18 March 2009. Management's key priority since the closure to new business has been to de-risk the business. The main risks associated with this business relate to guarantees in the products previously sold by the business. At 31 December 2012 a total of 21,975 (2011: 34,828) contracts remain active, comprising of 20,910 variable annuity products (2011: 33,373) and 1,065 deferred and fixed index annuity investments (2011:1,455). The variable annuity products provided both a guaranteed minimum accumulation benefit (GMAB) and guaranteed minimum death benefit (GMDB).

During 2012 the business experienced significantly higher rates of surrender than assumed with 12,380 variable annuity contracts surrendering in total (2011:5,657). The increase in surrender activity was attributable to variable annuity UGO policyholders passing through a top-up process on the fifth anniversary following product inception. At 31 December 2012 approximately 70% of variable annuity UGO policyholders had reached their 5-year top-up. At 31 December 2012, 77% of non-Hong Kong policies and 57% of Hong Kong policies had been surrendered on or after their 5-year anniversary date. The significantly reduced size of the book has meant that associated GMAB reserves have reduced from $1,056 million at 31 December 2011 to $229 million at 31 December 2012 while the associated GMDB reserves reduced from $5 million to $155,677.

The favourable lapse experience has been reflected in surrender assumptions for the remaining policies that are yet to go through their 5-year policy anniversary. These revised assumptions have resulted in further releases of reserves, contributing positively to IFRS and MCEV operating profits for 2012. Policies still in force after the 5-year anniversary are no longer subject to surrender penalties.

The Group continues to operate strong oversight over the business. The key remaining risk relates to the 10-year GMAB top-up process which will commence in 2017.

(c) Tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income, in which case it is correspondingly recognised in other comprehensive income.

The Group is regularly in discussion with the respective tax authorities in each of the jurisdictions where the Group is active. In certain circumstances the Group applies its judgement to determine if a provision for future tax should be raised. The Group reviews any potential exposure to tax authorities under the requirements of IAS 37 to determine if a provision should be recognised. The measurement of any provisions for future taxes is based on the Group's assessment of the specific circumstances and it applies judgement to determine the most likely outcome of its discussions with the relevant tax authorities. As these provisions are based on estimates and rely on judgements made by the Group, the actual amount of future taxes paid by the Group could be different to the amounts provided.

Notes to the consolidated financial statements
For the year ended 31 December 2012

B: Segment information

B1: Basis of segmentation

The Group's segmental results are analysed and reported on a basis consistent with the way that management and the Board of directors assesses performance and allocates resources. Information is presented to the Board on a consolidated basis in pounds sterling (the presentational currency) and in functional currency of each business.

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

A reconciliation between the segment revenues and expenses and the Group's revenues and expenses is shown in note B3. In line with internal reporting, assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where appropriate and where there is a reasonable basis for doing so. The Group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices. Given the nature of the operations, there are no major customers within any of the segments.

The revenues generated in each reported segment can be seen in the analysis of profits and losses in note B3. The segmental information in notes B3 and B4, reflects the adjusted and IFRS measures of profit and loss, assets and liabilities for each operating segment as provided to management and the Board of directors. There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments.

There are four principal business activities from which the Group generates revenues. These are life assurance (premium income), asset management business (fee and commission income), banking (banking interest receivable) and general insurance (premium income). The lines of business in each operating segment derive its revenues are as follows:

Core operations

Long-Term Savings
Emerging Markets – life assurance and asset management
Old Mutual Wealth – life assurance and asset management

Other core operations
Nedbank – banking and asset management
Mutual & Federal – general insurance
US Asset Management – asset management

Discontinued and non-core operations
Bermuda – life assurance (non-core)
Nordic – life assurance, asset management and banking (discontinued and non-core)

Income statement segmentation
For both reported periods:

- Nordic has been classified as a discontinued operation in the IFRS income statement and its results as non-core in determining the Group's adjusted operating profits; and
- Bermuda has been classified as a continuing operation in the IFRS income statement, but as non-core in determining the Group's adjusted operating profit.

US Life is classified as a discontinued operation in the comparative period.

All other businesses have been classified as continuing operations for both reported periods.

The results of OMAM UK (previously included within US Asset Management) and Retail Europe are included within the Old Mutual Wealth segment for the year ended 31 December 2012. Except for OMAM UK, the income statement segmental presentation for the year ended 31 December 2011 is consistent with the above.

Statement of financial position segmentation
At 31 December 2011, the assets and liabilities of Nordic were classified as non-current assets and liabilities held for sale. Following disposal of the business during 2012, no assets and liabilities remain at 31 December 2012.

The segmental analysis of the statement of financial position at 31 December 2012 and 31 December 2011 discloses Bermuda as non-core.

At 31 December 2011, the assets and liabilities of the Finnish branch were classified as non-current assets and liabilities held for sale. Following disposal of the business during 2012, no assets and liabilities remain at 31 December 2012.

B2: Gross earned premiums and deposits to investment contracts

£m

Year ended 31 December 2012	Emerging Markets	Old Mutual Wealth	Long-Term Savings	M&F	Bermuda	Total
Life assurance – insurance contracts	**1,673**	**362**	**2,035**	**-**	**-**	**2,035**
Life assurance – investment contracts with discretionary participation features	**970**	**-**	**970**	**-**	**-**	**970**
General insurance	**-**	**-**	**-**	**720**	**-**	**720**
Gross earned premiums	**2,643**	**362**	**3,005**	**720**	**-**	**3,725**
Life assurance – other investment contracts recognised as deposits	**2,022**	**5,699**	**7,721**	**-**	**-**	**7,721**

£m

Year ended 31 December 2011	Emerging Markets	Old Mutual Wealth	Long-Term Savings	M&F	Bermuda	Total
Life assurance – insurance contracts	1,567	304	1,871	-	2	1,873
Life assurance – investment contracts with discretionary participation features	975	-	975	-	-	975
General insurance	-	-	-	736	-	736
Gross earned premiums	2,542	304	2,846	736	2	3,584
Life assurance – other investment contracts recognised as deposits	2,088	6,406	8,494	-	-	8,494

Notes to the consolidated financial statements

For the year ended 31 December 2012

B: Segment information continued

B3: Adjusted operating profit statement - segment information year ended 31 December 2012

	Notes	Long-Term Savings: Emerging Markets	Long-Term Savings: Old Mutual Wealth	Long-Term Savings: Total Long-Term Savings
Revenue				
Gross earned premiums	B2	2,643	362	3,005
Outward reinsurance		(82)	(87)	(169)
Net earned premiums		2,561	275	2,836
Investment return (non-banking)		5,288	3,806	9,094
Banking interest and similar income		-	-	-
Banking trading, investment and similar income		-	-	-
Fee and commission income, and income from service activities		440	1,199	1,639
Other income		61	26	87
Inter-segment revenues		83	3	86
Total revenues		8,433	5,309	13,742
Expenses				
Claims and benefits (including change in insurance contract provisions)		(4,813)	(387)	(5,200)
Reinsurance recoveries		89	59	148
Net claims and benefits incurred		(4,724)	(328)	(5,052)
Change in investment contract liabilities		(1,756)	(3,605)	(5,361)
Losses on loans and advances		-	-	-
Finance costs (including interest and similar expenses)		-	-	-
Banking interest payable and similar expenses		-	-	-
Fee and commission expenses, and other acquisition costs		(233)	(677)	(910)
Other expenses		(1,066)	(446)	(1,512)
Goodwill impairment	C1(b)	-	-	-
Change in third-party interest in consolidated funds		-	-	-
Income tax attributable to policyholder returns		(49)	(26)	(75)
Inter-segment expenses		(20)	(32)	(52)
Total expenses		(7,848)	(5,114)	(12,962)
Share of associated undertakings' and joint ventures' profit after tax		20	-	20
Loss on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	-	-	-
Adjusted operating profit/(loss) before tax and non-controlling interests		605	195	800
Income tax expense	D1	(164)	(43)	(207)
Non-controlling interests	F2(a)	(9)	-	(9)
Adjusted operating profit/(loss) after tax and non-controlling interests		432	152	584
Adjusting items net of tax and non-controlling interests	C1(a)	(153)	(134)	(287)
Profit/(loss) after tax from continuing operations		279	18	297
Profit from discontinued operations after tax	H1	-	-	-
Profit/(loss) after tax attributable to equity holders of the parent		279	18	297

Of the total revenues, excluding intercompany revenues, £4,190 million was generated in the UK (2011: (£1,492)), £1,191 million in the rest of Europe (2011: (£81) million), £13,739 million in southern Africa (2011: £11,007 million), £590 million in United States (2011: £201 million) and £83 million relates to other operating segments (2011: £80 million).

[1] Non-core operations relates to Bermuda with the exception of £4 million of inter-segment revenue and the profit from discontinued operations after tax, with these reflecting the results of Nordic which has been classified as discontinued operations as detailed in notes A2 and B1. Bermuda profit after tax for the year ended 31 December 2012 was £161 million. Further details on the results of discontinued operations is provided in note H1.

£m

Nedbank	M&F	USAM	Other	Consolidation adjustments	Adjusted operating profit	Adjusting items (note C1)	Discontinued and non-core operations[1]	IFRS Income statement
-	720	-	-	-	3,725	-	-	3,725
-	(153)	-	-	-	(322)	-	-	(322)
-	567	-	-	-	3,403	-	-	3,403
-	44	1	75	366	9,580	(191)	135	9,524
3,431	-	-	-	-	3,431	-	-	3,431
214	-	-	-	-	214	-	-	214
1,084	26	421	-	2	3,172	(76)	-	3,096
23	1	1	-	(1)	111	-	14	125
21	18	-	7	(156)	(24)	-	24	-
4,773	656	423	82	211	19,887	(267)	173	19,793
-	(485)	-	-	-	(5,685)	-	73	(5,612)
-	73	-	-	-	221	-	-	221
-	(412)	-	-	-	(5,464)	-	73	(5,391)
-	-	-	-	-	(5,361)	-	-	(5,361)
(400)	-	-	-	-	(400)	-	-	(400)
-	-	-	(130)	-	(130)	(84)	-	(214)
(1,886)	-	-	-	-	(1,886)	(1)	-	(1,887)
-	(107)	(5)	-	(34)	(1,056)	88	(63)	(1,031)
(1,601)	(82)	(329)	(68)	(5)	(3,597)	(139)	(18)	(3,754)
-	-	-	-	-	-	-	-	-
-	-	-	-	(328)	(328)	-	-	(328)
-	-	-	-	-	(75)	75	-	-
(58)	(14)	-	(32)	156	-	-	-	-
(3,945)	(615)	(334)	(230)	(211)	(18,297)	(61)	(8)	(18,366)
-	2	2	-	-	24	-	-	24
-	-	-	-	-	-	(56)	-	(56)
828	43	91	(148)	-	1,614	(384)	165	1,395
(222)	(9)	(15)	12	-	(441)	(31)	-	(472)
(287)	(8)	-	(27)	-	(331)	17	-	(314)
319	26	76	(163)	-	842	(398)	165	609
16	(15)	(10)	(102)	-	(398)	398	-	-
335	11	66	(265)	-	444	-	165	609
-	-	-	-	-	-	-	564	564
335	11	66	(265)	-	444	-	729	1,173

B: Segment information continued

B3: Adjusted operating profit statement – segment information year ended 31 December 2011

	Notes	Long-Term Savings: Emerging Markets	Long-Term Savings: Old Mutual Wealth	Long-Term Savings: Total Long-Term Savings
Revenue				
Gross earned premiums	B2	2,542	304	2,846
Outward reinsurance		(88)	(88)	(176)
Net earned premiums		2,454	216	2,670
Investment return (non-banking)		2,626	(2,878)	(252)
Banking interest and similar income		-	-	-
Banking trading, investment and similar income		-	-	-
Fee and commission income, and income from service activities		411	1,183	1,594
Other income		68	23	91
Inter-segment revenues		66	11	77
Total revenues		5,625	(1,445)	4,180
Expenses				
Claims and benefits (including change in insurance contract provisions)		(2,854)	(102)	(2,956)
Reinsurance recoveries		73	9	82
Net claims and benefits incurred		(2,781)	(93)	(2,874)
Change in investment contract liabilities		(925)	2,814	1,889
Losses on loans and advances		-	(1)	(1)
Finance costs (including interest and similar expenses)		-	-	-
Banking interest payable and similar expenses		-	-	-
Fee and commission expenses, and other acquisition costs		(223)	(664)	(887)
Other operating and administrative expenses		(1,076)	(404)	(1,480)
Goodwill impairment	C1(b)	-	-	-
Change in third-party interest in consolidated funds		-	-	-
Income tax attributable to policyholder returns		(53)	62	9
Inter-segment expenses		(7)	(46)	(53)
Total expenses		(5,065)	1,668	(3,397)
Share of associated undertakings' and joint ventures' profit after tax		10	-	10
Profit on disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	-	-	-
Adjusted operating profit/(loss) before tax and non-controlling interests		570	223	793
Income tax expense	D1	(120)	(26)	(146)
Non-controlling interests	F2(a)	(3)	-	(3)
Adjusted operating profit/(loss) after tax and non-controlling interests		447	197	644
Adjusting items net of tax and non-controlling interests	C1(a)	126	(87)	39
Profit/(loss) after tax from continuing operations		573	110	683
Profit from discontinued operations after tax	H1	-	-	-
Profit/(loss) after tax attributable to equity holders of the parent		573	110	683

[1] Non-core operations relates to Bermuda with the exception of £22 million and £5 million of inter-segment revenue and expenses and the profit from discontinued operations after tax, with these reflecting the results of Nordic and US Life both of which have been classified as discontinued operations. More detail is provided in notes A2 and B1. Bermuda loss after tax for the year ended 31 December 2011 was £201 million. Further detail on the results of discontinued operations are provided in note H1.

£m

Nedbank	M&F	USAM	Other	Consolidation adjustments	Adjusted operating profit	Adjusting items (note C1)	Discontinued and non-core operations[1]	IFRS Income statement
-	736	-	-	-	3,582	-	2	3,584
-	(149)	-	-	-	(325)	-	-	(325)
-	587	-	-	-	3,257	-	2	3,259
-	54	-	52	30	(116)	(241)	(210)	(567)
3,669	-	-	-	-	3,669	-	-	3,669
217	-	-	-	-	217	-	-	217
1,051	34	447	-	-	3,126	(91)	-	3,035
50	-	10	-	-	151	-	20	171
27	18	1	16	(185)	(46)	-	46	-
5,014	693	458	68	(155)	10,258	(332)	(142)	9,784
-	(422)	-	-	-	(3,378)	-	47	(3,331)
-	41	-	-	-	123	-	-	123
-	(381)	-	-	-	(3,255)	-	47	(3,208)
-	-	-	-	-	1,889	-	-	1,889
(457)	-	-	-	-	(458)	-	-	(458)
-	-	-	(128)	-	(128)	70	-	(58)
(2,091)	-	-	-	-	(2,091)	(4)	-	(2,095)
(9)	(109)	(12)	-	(24)	(1,041)	104	(70)	(1,007)
(1,641)	(95)	(379)	(81)	(8)	(3,684)	(154)	(14)	(3,852)
-	-	-	-	-	-	(264)	-	(264)
-	-	-	-	2	2	-	-	2
-	-	-	-	-	9	(9)	-	-
(61)	(19)	-	(48)	185	4	-	(4)	-
(4,259)	(604)	(391)	(257)	155	(8,753)	(257)	(41)	(9,051)
-	-	-	-	-	10	-	-	10
-	-	-	-	-	-	251	-	251
755	89	67	(189)	-	1,515	(338)	(183)	994
(188)	(22)	(8)	23	-	(341)	117	(1)	(225)
(269)	(8)	-	(39)	-	(319)	19	-	(300)
298	59	59	(205)	-	855	(202)	(184)	469
16	(24)	(260)	27	-	(202)	202	-	-
314	35	(201)	(178)	-	653	-	(184)	469
-	-	-	-	-	-	-	198	198
314	35	(201)	(178)	-	653	-	14	667

Notes to the consolidated financial statements

For the year ended 31 December 2012

B: Segment information continued

B4: Statement of financial position – segment information at 31 December 2012

	Notes	Emerging Markets	Old Mutual Wealth	Total Long-Term Savings
				£m
Assets				
Goodwill and other intangible assets		98	1,594	1,692
Mandatory reserve deposits with central banks		-	-	-
Property, plant and equipment		336	13	349
Investment property		1,588	-	1,588
Deferred tax assets		82	44	126
Investments in associated undertakings and joint ventures		57	-	57
Deferred acquisition costs		103	1,159	1,262
Reinsurers' share of policyholder liabilities		55	1,236	1,291
Loans and advances		142	180	322
Investments and securities		31,157	45,402	76,559
Current tax receivable		16	64	80
Trade, other receivables and other assets		697	333	1,030
Derivative financial instruments – assets		612	-	612
Cash and cash equivalents		816	576	1,392
Non-current assets held for sale	H2	-	5	5
Inter-segment assets		562	101	663
Total assets		36,321	50,707	87,028
Liabilities				
Life assurance policyholder liabilities		31,124	46,455	77,579
General insurance liabilities		-	-	-
Third-party interests in consolidated funds		-	-	-
Borrowed funds	E1	218	-	218
Provisions	F1	148	54	202
Deferred revenue		11	667	678
Deferred tax liabilities		122	189	311
Current tax payable		198	39	237
Trade, other payables and other liabilities		2,221	669	2,890
Amounts owed to bank depositors		86	-	86
Derivative financial instruments – liabilities		377	-	377
Non-current liabilities held for sale	H2	-	-	-
Inter-segment liabilities		216	587	803
Total liabilities		34,721	48,660	83,381
Net assets		1,600	2,047	3,647
Equity				
Equity attributable to equity holders of the parent		1,586	2,047	3,633
Non-controlling interests		14	-	14
Ordinary shares	F2(b)	14	-	14
Preferred securities	F2(b)	-	-	-
Total equity		1,600	2,047	3,647

The net assets of Emerging Markets are stated after eliminating investments in Group equity and debt instruments of £364 million (2011: £368 million) held in policyholder funds. These include investments in the Company's ordinary shares and subordinated liabilities and preferred securities issued by the Group's banking subsidiary Nedbank Limited. All Emerging Markets debt relates to life assurance. All other debt relates to other shareholders' net assets.

£m

Nedbank	M&F	USAM	Other	Consolidation adjustments	Non-core operations Bermuda	Total
534	14	816	-	-	-	3,056
921	-	-	-	-	-	921
465	20	13	1	-	-	848
15	-	-	-	343	-	1,946
29	20	162	2	-	1	340
49	2	3	26	-	-	137
-	18	8	-	-	-	1,288
15	100	-	-	-	-	1,406
38,173	-	-	-	-	-	38,495
6,303	397	37	368	1,765	952	86,381
18	5	-	-	-	-	103
674	92	121	62	316	595	2,890
1,003	-	-	97	51	18	1,781
1,049	109	131	379	678	125	3,863
37	-	-	-	-	-	42
111	43	21	1,366	(2,877)	673	-
49,396	820	1,312	2,301	276	2,364	143,497
907	-	-	-	-	1,702	80,188
-	346	-	-	-	-	346
-	-	-	-	2,783	-	2,783
2,163	-	10	659	-	-	3,050
1	30	1	29	-	-	263
1	10	-	-	-	-	689
44	21	-	24	-	-	400
9	-	6	34	-	1	287
1,076	127	203	70	331	92	4,789
39,413	-	-	-	-	-	39,499
977	-	-	8	39	1	1,402
3	-	-	-	-	-	3
596	2	554	922	(2,877)	-	-
45,190	536	774	1,746	276	1,796	133,699
4,206	284	538	555	-	568	9,798
2,309	261	507	555	-	568	7,833
1,897	23	31	-	-	-	1,965
1,624	23	31	-	-	-	1,692
273	-	-	-	-	-	273
4,206	284	538	555	-	568	9,798

B: Segment information continued

B4: Statement of financial position – segment information at 31 December 2011

£m

	Notes	Emerging Markets	Old Mutual Wealth	Total Long-Term Savings
Assets				
Goodwill and other intangible assets		104	1,756	1,860
Mandatory reserve deposits with central banks		-	-	-
Property, plant and equipment		374	16	390
Investment property		1,666	-	1,666
Deferred tax assets		81	65	146
Investments in associated undertakings and joint ventures		32	-	32
Deferred acquisition costs		113	1,164	1,277
Reinsurers' share of policyholder liabilities		31	844	875
Loans and advances		299	190	489
Investments and securities		30,064	41,508	71,572
Current tax receivable		10	70	80
Trade, other receivables and other assets		711	310	1,021
Derivative financial instruments – assets		298	-	298
Cash and cash equivalents		339	516	855
Non-current assets held for sale	H2	-	1,161	1,161
Inter-segment assets		1,025	138	1,163
Total assets		35,147	47,738	82,885
Liabilities				
Life assurance policyholder liabilities		30,270	42,159	72,429
General insurance liabilities		-	-	-
Third-party interests in consolidated funds		-	-	-
Borrowed funds	E1	239	-	239
Provisions	F1	137	64	201
Deferred revenue		17	673	690
Deferred tax liabilities		185	189	374
Current tax payable		120	39	159
Trade, other payables and other liabilities		1,667	673	2,340
Amounts owed to bank depositors		-	-	-
Derivative financial instruments – liabilities		230	-	230
Non-current liabilities held for sale	H2	-	1,120	1,120
Inter-segment liabilities		141	462	603
Total liabilities		33,006	45,379	78,385
Net assets		2,141	2,359	4,500
Equity				
Equity attributable to equity holders of the parent		2,144	2,359	4,503
Non-controlling interests		(3)	-	(3)
Ordinary shares	F2(b)	(3)	-	(3)
Preferred securities	F2(b)	-		
Total equity		2,141	2,359	4,500

£m

Nedbank	M&F	USAM	Other	Consolidation adjustments	Non-core operations Bermuda	Discontinued operations[1]	Total
557	23	904	13	-	1	-	3,358
951	-	-	-	-	-	-	951
502	21	11	1	-	-	-	925
49	-	-	-	349	-	-	2,064
21	14	165	(8)	-	1	-	339
49	1	2	27	-	-	-	111
-	16	9	-	-	49	-	1,351
16	98	-	-	-	-	-	989
39,511	1	-	-	-	-	-	40,001
6,403	416	41	216	874	1,731	-	81,253
56	2	-	-	-	-	-	138
943	75	126	54	293	836	-	3,348
1,022	-	-	86	388	1	-	1,795
1,071	113	197	467	756	165	-	3,624
1	-	16	-	-	-	20,960	22,138
206	23	21	1,136	(3,155)	566	40	-
51,358	803	1,492	1,992	(495)	3,350	21,000	162,385
815	-	-	-	-	3,106	-	76,350
-	325	-	-	-	-	-	325
-	-	-	-	1,893	-	-	1,893
2,273	-	11	1,133	-	-	-	3,656
-	32	3	33	-	-	-	269
1	10	-	-	-	-	-	701
93	13	-	24	-	-	-	504
10	-	(3)	32	-	1	-	199
1,123	108	219	96	348	9	-	4,243
41,215	-	-	-	-	-	-	41,215
1,103	-	-	3	419	-	-	1,755
-	-	8	-	-	-	19,289	20,417
501	2	598	1,451	(3,155)	-	-	-
47,134	490	836	2,772	(495)	3,116	19,289	151,527
4,224	313	656	(780)	-	234	1,711	10,858
2,347	294	625	(1,226)	-	234	1,711	8,488
1,877	19	31	446	-	-	-	2,370
1,605	19	31	-	-	-	-	1,652
272	-	-	446	-	-	-	718
4,224	313	656	(780)	-	234	1,711	10,858

Notes to the consolidated financial statements

For the year ended 31 December 2012

C: Other key performance information

C1: Operating profit adjusting items

(a) Summary of adjusting items

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

	Notes	**Year ended 31 December 2012** £m	Year ended 31 December 2011 £m
Income/(expense)			
Goodwill impairment and impact of acquisition accounting	C1(b)	**(123)**	(401)
(Loss)/profit on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	C1(c)	**(56)**	251
Short-term fluctuations in investment return	C1(d)	**(78)**	(171)
Investment return adjustment for Group equity and debt instruments held in life funds	C1(e)	**(113)**	(71)
Dividends declared to holders of perpetual preferred callable securities	C1(f)	**42**	44
US Asset Management equity plans and non-controlling interests	C1(g)	**(5)**	(4)
Credit-related fair value losses on Group debt instruments	C1(h)	**(126)**	23
Total adjusting items		**(459)**	(329)
Tax on adjusting items		**44**	108
Non-controlling interest in adjusting items		**17**	19
Total adjusting items after tax and non-controlling interests		**(398)**	(202)

(b) Goodwill impairment and impact of acquisition accounting

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

Year ended 31 December 2012	**Emerging Markets**	**Old Mutual Wealth**	**USAM**	**Total** £m
Amortisation of acquired PVIF	**-**	**(84)**	**-**	**(84)**
Amortisation of acquired deferred costs and revenue	**-**	**12**	**-**	**12**
Amortisation of other acquired intangible assets	**(2)**	**(48)**	**(1)**	**(51)**
Goodwill impairment	**-**	**-**	**-**	**-**
	(2)	**(120)**	**(1)**	**(123)**

Year ended 31 December 2011	Emerging Markets	Old Mutual Wealth	USAM	Total £m
Amortisation of acquired PVIF	-	(90)	-	(90)
Amortisation of acquired deferred costs and revenue	-	13	-	13
Amortisation of other acquired intangible assets	(2)	(50)	(8)	(60)
Goodwill impairment	-	-	(264)	(264)
	(2)	(127)	(272)	(401)

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

(Loss)/profit on acquisition/disposal of subsidiaries, associated undertakings and strategic investments is analysed below:

		£m
	Year ended 31 December 2012	Year ended 31 December 2011
Emerging Markets	**(15)**	249
Old Mutual Wealth	**(25)**	-
Long-Term Savings	**(40)**	249
USAM	**(16)**	2
(Loss)/profit on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	**(56)**	251

On 20 November 2012, the Emerging Markets segment recognised a profit of £3 million on the acquisition of a strategic investment Curo Fund Services (Pty) Ltd.

During the year ended 31 December 2012 the Group incurred expenses of £18 million as initial costs regarding Zimbabwean Indiginisation and Economic Empowerment Schemes. These costs are directly related to the acquisition of the Zimbabwean business. Further detail has been provided in note A2.

On 31 August 2012, Old Mutual Wealth completed the sale of its Finnish branch at a loss of £27 million. A profit of £2 million was recognised on the sale of Skandia Services AG (Switzerland) on 30 June 2012.

On 13 April 2012 USAM disposed of Old Mutual Capital, Inc, a subsidiary, at a profit of £12 million. On 15 May 2012 USAM disposed of Dwight Asset Management Company LLC, a fixed income affiliate, at a profit of £7 million. On 11 October 2012 the Group announced that it has finalised agreements to sell 5 USAM affiliates at a loss of £32 million. A £3 million loss has been recognised during the year ended 31 December 2012 in relation to disposals of subsidiaries by USAM in previous periods. On 30 December 2011, USAM disposed of Lincluden Management Ltd, a subsidiary, at a profit of £2 million.

In preparing the consolidated financial statements for the year ended 31 December 2011 the Emerging Markets segment included the South African and Namibian businesses but excluded all other African businesses. This was consistent with prior periods. Following a period of greater political and currency stability in Zimbabwe and an expectation that the Group would be able to extract benefits from its Zimbabwean business it was consolidated for the first time for the year ended 31 December 2011 together with operations in Kenya, Malawi, Swaziland and Nigeria. The Group recognised a gain of £249 million on acquisition of these businesses for the year ended 31 December 2011.

(d) Short-term fluctuations in investment return

Profit before tax, as disclosed in the IFRS income statement, includes actual investment returns earned on the shareholder assets of the Group's life assurance and general insurance businesses. Adjusted operating profit is stated after recalculating shareholder asset investment returns based on a long-term investment return rate. The difference between the actual and the long-term investment returns is referred to the short-term fluctuation in investment return.

Long-term rates of return are based on achieved rates of return appropriate to the underlying asset base, adjusted for current inflation expectations, default assumptions, costs of investment management and consensus economic investment forecasts. The underlying rates are principally derived with reference to 10-year government bond rates, cash and money market rates, and an explicit equity risk premium for South African businesses The rates set out below reflect the weighting of investments in underlying cash, money market and equity assets. The long-term rates of return are reviewed frequently by the Board, usually annually, for appropriateness. The review of the long-term rates of return seeks to ensure that the returns credited to adjusted operating profit are consistent with the actual returns expected to be earned over the long-term.

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

		%
Long-term investment rates	**Year ended 31 December 2012**	Year ended 31 December 2011
Emerging Markets	**9.0**	9.0
Old Mutual Wealth	**1.5-2.0**	2.0-2.1
M&F	**8.6**	9.0

Notes to the consolidated financial statements

For the year ended 31 December 2012

C: Other key performance information continued

C1: Operating profit adjusting items continued

Analysis of short-term fluctuations in investment return

Year ended 31 December 2012	**Emerging Markets**	**Old Mutual Wealth[1]**	**Long-Term Savings**	**M&F**	**Other**	**Total**
						£m
Actual shareholder investment return	**81**	**65**	**146**	**34**	**34**	**214**
Less: Long-term investment return	**124**	**67**	**191**	**47**	**54**	**292**
Short-term fluctuations in investment return	**(43)**	**(2)**	**(45)**	**(13)**	**(20)**	**(78)**

Year ended 31 December 2011	Emerging Markets	Old Mutual Wealth[1]	Long-Term Savings	M&F	Other	Total
						£m
Actual shareholder investment return	14	66	80	26	6	112
Less: Long-term investment return	112	80	192	54	37	283
Short-term fluctuations in investment return	(98)	(14)	(112)	(28)	(31)	(171)

[1] Old Mutual Wealth long-term investment return includes £59 million (2011: £65 million) in respect of income tax attributable to policyholder returns.

(e) Investment return adjustment for Group equity and debt instruments held in policyholder funds

Adjusted operating profit includes investment returns on policyholder investments in Group equity and debt instruments held by the Group's life funds. These include investments in the Company's ordinary shares, and the subordinated liabilities and ordinary securities of Nedbank. These investment returns are eliminated within the consolidated income statement in arriving at profit before tax in the IFRS income statement, but are included in adjusted operating profit. During the year ended 31 December 2012 the investment return adjustment increased adjusted operating profit by £113 million (2011: increase £71 million).

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

Dividends declared to the holders of the Group's perpetual preferred callable securities were £42 million for the year ended 31 December 2012 (2011: £44 million). These are recognised in finance costs on an accruals basis for the purpose of determining adjusted operating profit. In the IFRS financial statements this cost is recognised in equity.

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

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

In accordance with IFRS requirements the cost of these schemes is disclosed as being attributable to non-controlling interests. However, this is treated as a compensation expense in determining adjusted operating profit. The loss recognised in the year ended 31 December 2012 was £8 million (2011: loss £6 million).

The Group has issued put options in equities in the affiliates to senior employees as part of its US affiliate incentive schemes. The impact of revaluing these instruments is recognised in accordance with IFRS, but excluded from adjusted operating profit. At 31 December 2012 these instruments were revalued, the impact of which was a profit of £13 million (2011: profit £10 million).

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

The narrowing of credit spread of the Group's debt instruments in the market price has resulted in losses in the year ended 31 December 2012 of £54 million in Other operating segments and £1 million in Nedbank (2011: gains of £27 million and losses of £4 million respectively) being recorded in the Group's income statement for those instruments that are recorded at fair value.

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

On 1 August 2012 the Group redeemed £388 million of the £500 million senior bond due in 2016 at a cash consideration of £459 million. The £71 million excess over the nominal value reflects the price of the respective debt instrument prior to expiration.

C2: Earnings and earnings per share

(a) Basic and diluted earnings per share

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

	£m	
	Year ended 31 December 2012	Year ended 31 December 2011
Profit for the financial period attributable to equity holders of the parent from continuing operations	**609**	469
Profit for the financial period attributable to equity holders of the parent from discontinued operations	**564**	198
Profit for the financial period attributable to equity holders of the parent	**1,173**	667
Dividends declared to holders of perpetual preferred callable securities	**(32)**	(32)
Profit attributable to ordinary equity holders	**1,141**	635

Total dividends declared to holders of perpetual preferred callable securities of £32 million in 2012 (2011: £32 million) are stated net of tax credits of £10 million (2011: £12 million).

	Millions	
	Year ended 31 December 2012	Year ended 31 December 2011
Weighted average number of ordinary shares in issue	**5,096**	5,502
Shares held in charitable foundations	**(6)**	(6)
Shares held in ESOP trusts	**(61)**	(61)
Adjusted weighted average number of ordinary shares	**5,029**	5,435
Shares held in life funds	**(181)**	(201)
Shares held in Black Economic Empowerment trusts	**(261)**	(299)
Weighted average number of ordinary shares	**4,587**	4,935
Basic earnings per ordinary share (pence)	**24.9**	12.9

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.

	Year ended 31 December 2012	Year ended 31 December 2011
Profit attributable to ordinary equity holders (£m)	**1,141**	635
Dilution effect on profit relating to share options issued by subsidiaries (£m)	**(10)**	(8)
Diluted profit attributable to ordinary equity holders (£m)	**1,131**	627
Weighted average number of ordinary shares (millions)	**4,587**	4,935
Adjustments for share options held by ESOP trusts (millions)	**53**	133
Adjustments for shares held in Black Economic Empowerment trusts (millions)	**261**	299
	4,901	5,367
Diluted earnings per ordinary share (pence)	**23.1**	11.7

(b) Adjusted operating earnings per ordinary share

The reconciliation of profit/(loss) for the financial period to adjusted operating profit after tax attributable to ordinary equity holders is as follows:

	£m	
	Year ended 31 December 2012	Year ended 31 December 2011 (restated)
Profit for the financial period attributable to equity holders of the parent	**1,173**	667
Adjusting items	**459**	329
Tax on adjusting items	**(44)**	(108)
Non-core operations	**(165)**	184
Profit from discontinued operations	**(564)**	(198)
Non-controlling interest on adjusting items	**(17)**	(19)
Adjusted operating profit after tax attributable to ordinary equity holders	**842**	855
Adjusted weighted average number of ordinary shares (millions)	**4,818**	4,756
Adjusted operating earnings per ordinary share (pence)	**17.5**	18.0

Notes to the consolidated financial statements

For the year ended 31 December 2012

C: Other key performance information continued

C2: Earnings per share continued

(c) Headline earnings per share

In accordance with the JSE Limited (JSE) listing requirements, the Group is required to calculate a 'headline earnings per share' (HEPS), determined by reference to the South African Institute of Chartered Accountants' circular 3/2009 'Headline Earnings'. The table below sets out a reconciliation of basic earnings per ordinary share and HEPS in accordance with that circular. Disclosure of HEPS is not a requirement of IFRS, but it is a commonly used measure of earnings in South Africa.

				£m
	Year ended 31 December 2012		Year ended 31 December 2011	
	Gross	**Net**	Gross	Net
Profit for the financial period attributable to equity holders of the parent	**1,173**	**1,173**	667	667
Dividends declared to holders of perpetual preferred callable securities	**(32)**	**(32)**	(32)	(32)
Profit attributable to ordinary equity holders	**1,141**	**1,141**	635	635
Adjustments:				
Impairments of goodwill and intangible assets	**-**	**-**	264	264
(Profit)/loss on acquisition/disposal of subsidiaries, associated undertakings and strategic investments	**(183)**	**(173)**	(222)	(228)
Realised gains (including impairments) on available-for-sale financial assets	**(21)**	**(21)**	(144)	(144)
Exchange differences realised on disposal	**(350)**	**(350)**	-	-
Headline earnings	**587**	**597**	533	527
Weighted average number of ordinary shares	**4,587**	**4,587**	4,935	4,935
Diluted weighted average number of ordinary shares	**4,901**	**4,901**	5,367	5,367
Headline earnings per share (pence)	**12.8**	**13.0**	10.8	10.7
Diluted headline earnings per share (pence)	**11.8**	**12.0**	9.8	9.7

C3: Dividends

		£m
	Year ended 31 December 2012	Year ended 31 December 2011
2010 Final dividend paid – 2.9p per 10p share	**-**	145
2011 Interim dividend paid – 1.5p per 10p share	**-**	76
2011 Final dividend paid - 3.5p per 10p share	**178**	-
Special dividend - 18.0p per 10p share	**915**	-
2012 Interim dividend paid – 1.75p per 11 3/7p share	**79**	**-**
Dividends to ordinary equity holders	**1,172**	221
Dividends declared to holders of perpetual preferred callable securities	**42**	44
Dividend payments for the period	**1,214**	265

Final and interim 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.

Following the disposal of Nordic a special dividend of 18.0 pence per 10p share was recommended by the directors and a seven for eight share consolidation proposed, with the consolidation approved at the Company's general meeting on 14 March 2012. The special dividend was paid on 7 June 2012. Further details of the disposal of the Nordic business unit have been provided in notes A2 and H1.

A final dividend of 5.25 pence (or its equivalent in other applicable currencies) per ordinary share in the Company has been recommended by the directors. The dividend will be paid on 31 May 2013 to shareholders on the register at the close of business on 26 April 2013. The dividend will absorb an estimated £233 million of shareholders' funds. The Company is not planning to offer a scrip dividend alternative.

In March and November 2012, £22 million and £20 million respectively were declared and paid to holders of perpetual preferred callable securities (March 2011: £22 million; November 2011: £22 million).

D: Other income statement notes

D1: Income tax expense

(a) Analysis of total income tax expense

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Current tax		
United Kingdom	**18**	22
Africa	**513**	390
United States	**4**	(2)
Europe	**30**	20
Secondary Tax on Companies (STC)	**23**	14
Prior year adjustments	**5**	(7)
Total current tax	**593**	437
Deferred tax		
Origination and reversal of temporary differences	**(121)**	(204)
Changes in tax rates/bases	**2**	(8)
Recognition of deferred tax assets	**(2)**	-
Total deferred tax	**(121)**	(212)
Total income tax expense	**472**	225

(b) Reconciliation of total income tax expense

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Profit before tax	**1,395**	994
Tax at standard rate of 24.5% (2011: 26.5%)	**342**	263
Different tax rate or basis on overseas operations	**19**	57
Untaxed and low taxed income	**(58)**	(166)
Disallowable expenses	**48**	93
Net movement on deferred tax assets not recognised	**48**	5
Effect on deferred tax of changes in tax rates	**2**	(8)
STC	**20**	19
Income tax attributable to policyholder returns	**59**	(28)
Other	**(8)**	(10)
Total income tax expense	**472**	225

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

	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m
Preferred perpetual callable securities	**(10)**	(12)
Other	**5**	-
Income tax credit – continuing operations	**(5)**	(12)
Fair value gains	**1**	2
Shadow accounting	**-**	(4)
Income tax expense/(credit) – discontinued operations	**1**	(2)
Income tax credit relating to components of other comprehensive income	**(4)**	(14)

Notes to the consolidated financial statements

For the year ended 31 December 2012

D: Other income statement notes continued

D1: Income tax expense continued

(d) Reconciliation of income tax expense in the IFRS income statement to income tax on adjusted operating profit

	Year ended 31 December 2012	Year ended 31 December 2011
	£m	
Income tax expense	**472**	225
Goodwill impairment and impact of acquisition accounting	**51**	35
Profit on disposal of subsidiaries, associates and strategic investments	**(10)**	6
Short-term fluctuations in investment return	**7**	75
Income tax attributable to policyholders returns	**(75)**	9
Tax on dividends declared to holders of perpetual preferred callable securities recognised in equity	**(10)**	(12)
Fair value gains and losses on Group debt instruments	**-**	2
US Asset Management equity plans	**6**	2
Tax on non-core operations	**-**	(1)
Income tax on adjusted operating profit	**441**	341

E: Financial assets and liabilities

E1: Borrowed funds

£m

	Notes	**Group excluding Nedbank**	**Nedbank**	**At 31 December 2012 Group**	Group excluding Nedbank	Nedbank	At 31 December 2011 Group
Senior debt securities and term loans		**122**	**1,363**	**1,485**	507	1,355	1,862
Floating Rate Notes	E1(a)	**-**	**849**	**849**	-	844	844
Fixed Rate Notes	E1(b)	**122**	**514**	**636**	507	511	1,018
Mortgage Backed Securities	E1(d)	**-**	**131**	**131**	-	77	77
Subordinated debt securities (net of Group holdings)	E1(e)	**765**	**669**	**1,434**	876	841	1,717
Borrowed funds		**887**	**2,163**	**3,050**	1,383	2,273	3,656
Other issues treated as equity for accounting purposes							
US$750 million cumulative preference securities[1]	F2(b)(ii)	**-**			458		
€495 million perpetual preferred callable securities[2]		**334**			338		
£348 million perpetual preferred callable securities[2]		**348**			350		
Total: Book value		**1,569**			2,529		
Nominal value of the above		**1,590**			2,666		

[1] On 24 September 2012, the Group repaid the US$750 million cumulative preference securities at their nominal value.

[2] On 4 December 2012, €5 million of the €500 million perpetual preferred callable securities were acquired and on 5 December 2012, £2 million of the £350 million preferred callable securities were acquired, both via open market repurchase.

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

£m

	Group excluding Nedbank	**Nedbank**	**At 31 December 2012 Group**	Group excluding Nedbank	Nedbank	At 31 December 2011 Group
Less than 1 year	**-**	**522**	**522**	272	512	784
Greater than 1 year and less than 5 years	**340**	**1,820**	**2,160**	898	1,936	2,834
Greater than 5 years	**500**	**314**	**814**	998	556	1,554
Total	**840**	**2,656**	**3,496**	2,168	3,004	5,172

Senior notes

(a) Floating Rate Notes

	Maturity date	At 31 December 2012 £m	At 31 December 2011 £m
Nedbank			
R1,690 million unsecured senior debt at JIBAR + 1.50%	Repaid	**-**	119
R1,044 million unsecured senior debt at JIBAR + 2.20%	September 2015	**76**	84
R1,750 million unsecured senior debt at inflation linked (3.90% real yield)	March 2013	**151**	158
R98 million unsecured senior debt at inflation linked (3.80% real yield)	March 2013	**8**	9
R1,552 million unsecured senior debt at JIBAR + 1.48%	April 2013	**114**	125
R1,027 million unsecured senior debt at JIBAR + 1.75%	April 2015	**76**	83
R80 million unsecured senior debt at JIBAR + 2.15%	April 2020	**6**	6
R988 million unsecured senior debt at JIBAR + 1.05%	March 2014	**71**	79
R677 million unsecured senior debt at JIBAR + 1.25%	March 2016	**49**	54
R500 million unsecured senior debt at JIBAR + 1.00%	April 2014	**33**	40
R1,075 million unsecured senior debt at JIBAR + 0.94%	October 2014	**79**	87
R1,297 million unsecured senior debt at JIBAR + 1.00%	February 2015	**95**	-
R405 million unsecured senior debt at JIBAR + 1.30%	February 2017	**30**	-
R250 million unsecured senior debt at JIBAR + 1.00%	August 2015	**18**	-
R786 million unsecured senior debt at JIBAR + 1.31%	August 2017	**43**	-
Total floating rate notes		**849**	844

All floating rate notes are non-qualifying for the purposes of regulatory tiers of capital.

(b) Fixed Rate Notes

	Maturity date	At 31 December 2012 £m	At 31 December 2011 £m
Nedbank			
R450 million unsecured senior debt at 8.39%	March 2014	**33**	37
R478 million unsecured senior debt at 9.68%	April 2015	**35**	39
R3,244 million unsecured senior debt at 10.55%	September 2015	**242**	265
R1,137 million unsecured senior debt at 9.36%	March 2016	**85**	93
R1,273 million unsecured senior debt at 11.39%	September 2019	**102**	63
R660 million unsecured senior debt at zero coupon	October 2024	**17**	14
		514	511
Group excluding Nedbank			
£112 million eurobond at 7.125%[1]	October 2016	**112**	496
US$16 million secured senior debt at 5.23%[2]	August 2014	**10**	11
		122	507
Total fixed rate notes		**636**	1,018

[1] On 1 August 2012 £388m of the £500m senior bond was redeemed via open market tender.

[2] On 1 December 2012 $0.5m of the $16.5m senior bond was repaid.

All fixed rate notes are non-qualifying for the purposes of regulatory tiers of capital.

(c) Revolving credit facilities and irrevocable letters of credit

The Group has access to a £1,200 million five-year multi-currency revolving credit facility (agreed in April 2011). At 31 December 2012, none of this facility was drawn down and there were no irrevocable letters of credit in issue against this facility. At 31 December 2011 the facility was undrawn but letters of credit were held against the facility in relation to the sale of US Life.

Notes to the consolidated financial statements

For the year ended 31 December 2012

E: Financial assets and liabilities continued

E1: Borrowed funds continued

(d) Mortgage backed securities - Nedbank

	Tier	Maturity date	**At 31 December 2012** £m	At 31 December 2011 £m
Nedbank				
R1.4 billion (class A2A) at 11.817%	Tier 2	Repaid	**-**	67
R98 million (class B note) at 12.067%	Tier 2	Repaid	**-**	6
R76 million (class C note) at 13.317%	Tier 2	Repaid	**-**	4
R480 (class A1) million at JIBAR + 1.10%	Tier 2	25 October 2039	**32**	-
R336 million (class A2) at JIBAR + 1.25%	Tier 2	25 October 2039	**25**	-
R900 million (class A3) at JIBAR + 1.54%	Tier 2	25 October 2039	**66**	-
R110 (class B) million at JIBAR + 1.90%	Tier 2	25 October 2039	**8**	-
Total mortgage backed securities			**131**	77

(e) Subordinated debt securities (net of Group holdings)

	Tier	First call date	Maturity date	**At 31 December 2012** £m	At 31 December 2011 £m
Nedbank					
R300 million (3 month JIBAR + 2.50%)	Non-core Tier 1	December 2013	December 2013	**11**	12
R1,265 million (JIBAR plus 4.75%)	Non-core Tier 1	November 2018	November 2018	**93**	102
R650 million (9.03%)	Tier 2	Repaid	Repaid	**-**	54
R500 million (3 month JIBAR plus 0.45%)	Tier 2	Repaid	Repaid	**-**	40
R500 million (3 month JIBAR plus 0.70%)	Tier 2	Repaid	Repaid	**-**	40
R120 million (10.38%)	Tier 2	Repaid	Repaid	**-**	10
R1.8 billion (9.84%)	Tier 2	September 2013	September 2018	**137**	153
R1.7 billion (8.90%)	Tier 2	February 2014	February 2019	**132**	144
R1.0 billion (10.54%)	Tier 2	September 2015	September 2020	**81**	87
R2.0 billion (JIBAR plus 0.47%)	Tier 2	July 2017	July 2022	**146**	161
R487 million (15.05%)	Tier 2	November 2018	November 2018	**43**	42
US$100 million (3 month USD LIBOR)	Tier 2 Secondary	March 2017	March 2022	**62**	65
				705	910
Less: banking subordinated debt securities held by other Group companies				**(36)**	(69)
Banking subordinated securities (net of Group holdings)				**669**	841
Group excluding Nedbank					
€200 million (4.50% to January 2012 and 6 month EURIBOR plus 0.96 thereafter)[1]	Lower Tier 2	Repaid	Repaid	**-**	166
R3.0 billion (8.92% to October 2015, 3 month JIBAR plus 1.59% thereafter)	Lower Tier 2	October 2015	October 2020	**218**	239
£500 million (8.00%)[2]	Lower Tier 2	-	June 2021	**547**	471
				765	876
Total subordinated debt securities				**1,434**	1,717

[1] The principal and coupon on the bond were swapped at issue equally into sterling and US$ with coupons of 6 month GBP LIBOR plus 0.34% and 6 month USD LIBOR plus 0.31% respectively. During 2011 a €550 million partial repayment, together with settlements of associated currency swaps, was made. On 18 January 2012 the remaining €200 million was repaid on the first call date.

[2] The principal and coupon on the bond were initially swapped into floating rate Swedish kroner, at 3 month STIBOR plus 5.46%. Following the Nordic sale, £375 million of the coupon is now swapped into floating rate sterling at 6 month GBP LIBOR plus 4.15% and £125 million of principal and coupon is swapped into US dollars at 6 month USD LIBOR plus 5.49%.

F: Other statement of financial position notes
F1: Provisions

£m

Year ended 31 December 2012	Client compensation	Liability for long service leave	Restructuring	Provision for donations	Other	Total
Balance at beginning of the year	**43**	**47**	**37**	**78**	**62**	**267**
Unused amounts reversed	**-**	**-**	**(1)**	**-**	**(4)**	**(5)**
Charge to income statement	**7**	**30**	**7**	**-**	**15**	**59**
Utilised during the year	**(22)**	**(26)**	**(14)**	**7**	**(9)**	**(64)**
Foreign exchange and other movements	**(6)**	**(2)**	**8**	**(7)**	**15**	**8**
Transfer to non-current assets held for sale	**-**	**-**	**-**	**-**	**-**	**-**
	22	**49**	**37**	**78**	**79**	**265**
Post employment benefits					**(2)**	**(2)**
Balance at end of the year	**22**	**49**	**37**	**78**	**77**	**263**

£m

Year ended 31 December 2011	Client compensation	Liability for long service leave	Restructuring	Provision for donations	Other	Total
Balance at beginning of the year	39	57	34	89	92	311
Unused amounts reversed	-	(1)	-	-	(14)	(15)
Charge to income statement	-	33	11	-	14	58
Utilised during the year	(3)	(30)	(7)	-	(3)	(43)
Foreign exchange and other movements	7	(8)	(1)	(11)	(18)	(31)
Transfer to non-current assets held for sale	-	(4)	-	-	(9)	(13)
	43	47	37	78	62	267
Post employment benefits					2	2
Balance at end of the year	43	47	37	78	64	269

Provisions in relation to client compensation were £22 million (2011: £43 million), primarily relating to ongoing resolution of claims related to mis-selling of guarantee contracts in Old Mutual Wealth. £Nil million (2011: £1 million) is estimated to be payable after more than one year.

The liability for long service leave of £49 million (2011: £47 million) relates to provision for staff payments for long serving employees, all of which is estimated to be payable in less than one year.

Provisions in relation to restructuring were £37 million (2011: £37 million), primarily in respect of ongoing restructuring of the Old Mutual Wealth Management business.

The provision for donations is held by Long-Term Savings in respect of commitments made by the South African business to the future funding of charitable donations. The funds were made available on the closure of the Group's unclaimed shares trusts which were set up as part of the demutualisation in 1999 and closed in 2006. £78 million (2011: £78 million) estimated to be payable after more than one year.

Other provisions include provisions for long-term staff benefits and legal fees.

Where material, provisions are discounted at discount rates specific to the risks inherent in the liability. The timing and final amounts of payments in respect of some of the provisions, particularly those in respect of litigation claims and similar actions against the Group, are uncertain and could result in adjustments to the amounts recorded. Of the total provisions recorded above, £127 million (2011: £129 million) is estimated to be payable after more than one year.

Notes to the consolidated financial statements

For the year ended 31 December 2012

F: Other statement of financial position notes continued

F2: Non-controlling interests

(a) Income statement

(i) Ordinary shares

The non-controlling interests share 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% of the ordinary equity. The principal subsidiaries where a non-controlling interest exists is the Group's banking business in South Africa, Nedbank. For the year ended 31 December 2012 the non-controlling interests attributable to ordinary shares was £264 million (2011: £238 million).

(ii) Preferred securities

	£m	
	At 31 December 2012	At 31 December 2011
R2,000 million non-cumulative preference shares	**12**	14
R773 million non-cumulative preference shares	**5**	5
R355 million non-cumulative preference shares	**2**	2
US$750 million cumulative preferred securities	**27**	37
R363 million non-cumulative preference shares	**3**	3
R92 million non-cumulative preference shares	**1**	1
Non-controlling interests – preferred securities	**50**	62

(iii) Non-controlling interests - adjusted operating profit

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

	£m	
Reconciliation of non-controlling interests' share of profit for the financial year	**Year ended 31 December 2012**	Year ended 31 December 2011
The non-controlling interests share is analysed as follows:		
Non-controlling interests – ordinary shares	**264**	238
Short-term fluctuations in investment return	**-**	1
Income attributable to Black Economic Empowerment trusts of listed subsidiaries	**25**	22
Fair value gains on Group debt instruments	**-**	1
Income attributable to US Asset Management non-controlling interests	**(8)**	(5)
Non-controlling interests share of adjusted operating profit	**281**	257

The Group uses revised weighted average effective ownership interests when calculating the non-controllable interest applicable to the adjusted operating profit of its South Africa banking business. This reflects the legal ownership of this business following the implementation for Black Economic Empowerment (BEE) schemes in 2005. In accordance with IFRS accounting rules the shares issued for BEE purposes are deemed to be, in substance, options. Therefore the effective ownership interest of the minorities reflected in arriving at profit after tax in the consolidated income statement is lower than that applied in arriving at adjusted operating profit after tax. In 2012 the increase in adjusted operating profit attributable to non-controlling interests as a result of this was £25 million (2011: £22 million).

(b) Statement of financial position

(i) Ordinary shares

	£m	
Reconciliation of movements in non-controlling interests	**At 31 December 2012**	At 31 December 2011
Balance at beginning of the year	**1,652**	1,763
Non-controlling interests' share of profit	**264**	238
Non-controlling interests' share of dividends paid	**(119)**	(100)
Net disposal of interests	**20**	61
Foreign exchange and other movements	**(125)**	(310)
Balance at end of the year	**1,692**	1,652

(ii) Preferred securities

	At 31 December 2012 £m	At 31 December 2011 £m
Nedbank		
R2,000 million non-cumulative preference shares[1]	**140**	140
R773 million non-cumulative preference shares[2]	**71**	71
R355 million non-cumulative preference shares[3]	**25**	25
R363 million non-cumulative preference shares[4]	**29**	29
R92 million non-cumulative preference shares[5]	**8**	8
	273	273
Group excluding Nedbank		
US$750 million cumulative preferred securities[6]	**-**	458
Unamortised issue costs	**-**	(13)
Total in issue at 31 December	**273**	718

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

1 200 million R10 preference shares issued by Nedbank Limited (Nedbank), the Group's banking subsidiary. These shares are non-redeemable and non-cumulative and pay a cash dividend equivalent to 75% of the prime overdraft interest rate of Nedbank. Preference shareholders are only entitled to vote during periods when a dividend or any part of it remains unpaid after the due date for payment or when resolutions are proposed that directly affect any rights attaching to the shares or the rights of the holders. Preference shareholders will be entitled to receive their dividends in priority to any payment of dividends made in respect of any other class of Nedbank's shares.

2 77.3 million R10 preference shares issued at R10.68 per share by Nedbank on the same terms as the securities described in (1) above.

3 35 million R10 preference shares issued in 16 April 2007 at R10.27 per share by Nedbank on the same terms as the securities described in (1) above.

4 36.3 million R10 preference shares issued by Nedbank in seven instalments between September 2009 and December 2009 on the same terms as the securities described in (1) above.

5 9.2 million R10 preference shares issued by Nedbank on 11 March 2010 on the same terms as the securities described in (1) above.

6 US$750 million guaranteed cumulative perpetual preference securities issued on 19 May 2003 by Old Mutual Capital Funding L.P., a subsidiary of the Group. The securities are perpetual, but may be redeemed at the discretion of the Group from 22 December 2008. On 24 September 2012, the Group repaid the US$750 million cumulative preference securities at their nominal value.

G: Other notes
G1: Contingent liabilities

	At 31 December 2012	At 31 December 2011
		£m
Guarantees and assets pledged as collateral security	**2,521**	2,251
Irrevocable letters of credit	**177**	193
Secured lending	**492**	515
Other contingent liabilities	**57**	72

The Group, through its South African banking business, has pledged debt securities amounting to £1,203 million (2011: £1,196 million) as collateral for deposits received under re-purchase agreements. These amounts represent assets that have been transferred but do not qualify for derecognition under IAS 39. These transactions are entered into under terms and conditions that are standard industry practice to securities borrowing and lending activities.

Contingent liabilities – tax

The Revenue authorities in the principal jurisdictions in which the Group operates (South Africa and the United Kingdom) routinely review historic transactions undertaken and tax law interpretations made by the Group. The financial statements accordingly include provisions that reflect the Group's assessment of liabilities which might reasonably be expected to materialise.

Nedbank structured financing

Historically the Group's South African banking business entered into structured-finance transactions with third parties using their tax bases. In 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 rested in the first instance with the Group It would only be in limited cases, for example, where the credit quality of a client became doubtful, or where the client specifically contracted out of the repricing of additional taxes, that the recovery from a client could be less than the liability arising on assessment, in which case provisions would be raised.

Nedbank litigation

There are a number of legal or potential claims against Nedbank and its subsidiary companies, the outcome of which cannot at present be foreseen. The largest of these potential actions is a claim in the High Court for R1.3 billion against Nedbank by certain shareholders in Pinnacle Point Group Limited, alleging that Nedbank had a legal duty of care to them arising from a share swap transaction. During 2011 further actions were instituted against Nedbank by other stakeholders relating to this same issue. In early 2013 one of the claims by one of the shareholders, Property Promotions and Management (Pty) Ltd, for an amount of R147 million was dismissed by the North Gauteng High Court in Pretoria. Nedbank and its legal advisers remain of the opinion that the remaining claims are ambitious, and that the remaining claimants will have great difficulty succeeding.

Nedbank Securitisations

The Group through Nedbank uses securitisation primarily as a funding diversification tool and to add flexibility in mitigating structural liquidity risk. Nedbank currently has two active traditional securitisation transactions:

- Synthesis Funding Limited (Synthesis), an asset- backed commercial paper (ABCP) programme launched in 2004; and
- GreenHouse Funding (Pty) Limited, Series 1 (GreenHouse), a residential mortgage-backed securitisation programme launched in December 2007 restructured in November 2012.

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

Within GreenHouse Series 1, R2.0 billion of home loans originated by Nedbank, was securitised in 2007. The notes issued to finance the purchase of the home loan portfolio were assigned credit ratings by both Fitch and Moody's and listed on JSE Limited. During 2010 Fitch placed the GreenHouse notes on rating watch negative as a result of changes in its rating criteria for SA RMBS transactions. On 22 May 2012 Fitch affirmed the rating of the notes, with a stable outlook, and withdrew the rating of the subordinated loan

GreenHouse was restructured and refinanced on 19 November 2012 as a static amortising structure. The proceeds from the refinance of this transaction, through the issuance of new notes and subordinated loans, was utilised to repay the R1.3 billion existing notes and subordinated loans upon their scheduled maturity, and to acquire additional home loans of approximately R795 million. The newly issued senior notes, which have been rated by Fitch and listed on the JSE Limited, were placed with third party investors and the junior notes and subordinated loans retained by the Group. The home loans transferred to GreenHouse have continued to be recognised as financial assets. GreenHouse will direct all capital repayments received on the home loan portfolio to the noteholders.

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

	Carrying amount of assets		Associated liabilities	
At 31 December	**2012**	2011	**2012**	2011
Loans and advances to customers				
Residential mortgage loans**	**96**	116	**161**	132
Other financial assets				
Corporate and bank paper	**155**	116	-	-
Other securities	**189**	199	-	-
Commercial paper	**-**	-	**345**	320
Total	**440**	431	**506**	452

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

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

** The balance at 31 December 2012 represents residential mortgages ceded to GreenHouse at 31 December 2012. It excludes funds of approximately £58 million held in a warehouse facility available for transfer once the remaining acquired residential mortgages have been ceded.

G2: Events after the reporting date

In January 2013, the Group completed the acquisition of a majority stake ownership in AIVA Business Platforms (AIVA), a Uruguay-based strategic distribution business. The Group will consolidate the financial results of AIVA in its 2013 consolidated financial statements.

Notes to the consolidated financial statements

For the year ended 31 December 2012

H: Discontinued operations and disposal groups held for sale

H1: Discontinued operations

The results of the Group's Swedish, Danish and Norwegian life businesses, collectively Nordic, and United States life business, US Life, are shown as discontinued operations in these financial statements. The disposal of Nordic was completed on 21 March 2012 following shareholder and regulatory approval, and has been reported up until that date. The disposal of US Life was completed on 7 April 2011 following regulatory approval, and has been reported up until that date. Further detail is provided in note A2.

(a) Income statement from discontinued operations

£m

	Year ended 31 December 2012			Year ended 31 December 2011		
	Nordic	**US Life**	**Total**	Nordic	US Life	Total
Revenue	**842**	**-**	**842**	(421)	342	(79)
Expenses	**(866)**	**-**	**(866)**	541	(330)	211
Profit before tax from discontinued operations	**(24)**	**-**	**(24)**	120	12	132
Profit/(loss) on disposal	**239**	**-**	**239**	-	(29)	(29)
Realised available-for-sale investment gains and exchange differences on disposal	**350**	**-**	**350**	-	133	133
Profit before tax	**565**	**-**	**565**	120	116	236
Income tax (charge)/credit	**(1)**	**-**	**(1)**	(52)	14	(38)
Profit from discontinued operations after tax	**564**	**-**	**564**	68	130	198

(b) Statement of comprehensive income from discontinued operations

£m

	Year ended 31 December 2012			Year ended 31 December 2011		
	Nordic	**US Life**	**Total**	Nordic	US Life	Total
Profit from discontinued operations after tax	**564**	**-**	**564**	68	130	198
Other comprehensive income for the financial period						
Fair value gains/(losses)						
Available-for-sale investments						
Fair value gains	**4**	**-**	**4**	3	48	51
Recycled to the income statement	**-**	**-**	**-**	-	(5)	(5)
Realised on disposal	**-**	**-**	**-**	-	(157)	(157)
Exchange differences realised on disposal	**(350)**	**-**	**(350)**	-	24	24
Shadow accounting	**-**	**-**	**-**	-	(43)	(43)
Currency translation differences/exchange differences on translating foreign operations	**2**	**-**	**2**	(43)	-	(43)
Other movements	**(3)**	**-**	**(3)**	10	-	10
Aggregate tax on transfers from equity	**(1)**	**-**	**(1)**	(1)	3	2
Total other comprehensive (loss)/income from discontinued operations	**(348)**	**-**	**(348)**	(31)	(130)	(161)
Total comprehensive income for the financial period from discontinued operations	**216**	**-**	**216**	37	-	37
Attributable to						
Equity holders of the parent	**216**	**-**	**216**	37	-	37

Profit before tax from the Nordic discontinued operation includes trading revenues and expenses up to the completion date, 21 March 2012. Also included in the expenses is an impairment of brand assets of £35 million.

Profit on disposal of the Nordic business is calculated after taking into account the net sales proceeds of £2,095 million, net assets of the business of £1,744 million and net investment currency hedge losses of £112 million, previously included in equity translation reserves.

Cumulative foreign exchange translation gains of £350 million, previously included in equity translation reserves, are realised on the disposal of the Nordic business.

(c) Net cash flows from discontinued operations

						£m
	Year ended 31 December 2012			Year ended 31 December 2011		
	Nordic	**US Life**	**Total**	Nordic	US Life	Total
Operating activities	**(8)**	**-**	**(8)**	1,609	2	1,611
Investing activities	**(121)**	**-**	**(121)**	(1,411)	146	(1,265)
Net cash flows from discontinuing operations	**(129)**	**-**	**(129)**	198	148	346

H2: Disposal groups held for sale

At 31 December 2011 the assets and liabilities of the Group's Nordic business were shown as held for sale in the financial statements, being £20,960 million and £19,289 million respectively. At 31 December 2011 the assets and liabilities of the Group's Finnish branch were also shown as held for sale in the financial statements, being £1,156 million and £1,119 million respectively. The disposals of both of these businesses were completed during the year and therefore no assets or liabilities are shown as held for sale at 31 December 2012.

In addition to the disposal groups held for sale, the Group also had additional non-current assets for sale of £42 million (2011: £22 million) and non-current liabilities of £3 million (2011: £9 million).

Adjusted Group MCEV by line of business

At 31 December 2012

	Notes	At 31 December 2012	£m At 31 December 2011
MCEV of the core covered business (Long-Term Savings)	B3	**5,740**	5,713
Adjusted net worth[1]		**2,284**	2,204
Value of in-force business		**3,456**	3,509
MCEV of the non-core covered business (Bermuda)	B3	**625**	66
Adjusted net worth		**680**	187
Value of in-force business		**(55)**	(121)
MCEV of the discontinued covered business (Nordic)[2]	B3	**-**	1,433
Adjusted net worth		**-**	285
Value of in-force business		**-**	1,148
Adjusted net worth of asset management and other businesses		**1,772**	1,955
Emerging Markets		**444**	499
Old Mutual Wealth		**225**	179
US Asset Management		**1,103**	1,270
Nordic[2]		**-**	7
Value of the banking business		**3,574**	3,286
Nedbank (market value)		**3,527**	2,935
Emerging Markets (adjusted net worth)		**47**	29
Nordic (adjusted net worth)[2]		**-**	322
Value of the general insurance business			
Mutual & Federal (adjusted net worth)		**261**	294
Net other business[3]		**45**	175
Adjustment for present value of Black Economic Empowerment scheme deferred consideration		**245**	270
Adjustment for value of own shares in ESOP schemes[4]		**126**	117
Market value of perpetual preferred securities[5]		**-**	(465)
Market value of perpetual preferred callable securities		**(686)**	(605)
Market value of subordinated debt		**(921)**	(1,445)
Adjusted Group MCEV		**10,781**	10,794
Adjusted Group MCEV per share (pence)		**220.3**	194.1
Number of shares in issue at the end of the financial period less treasury shares – millions[6]		**4,893**	5,562

[1] Adjusted net worth is after the elimination of inter-company loans.

[2] The sale of the Nordic business unit was completed on 21 March 2012.

[3] Includes any other business that is not included within the main lines of business, largely Old Mutual parent company IFRS equity net of Group adjustments, consolidation adjustments in respect of intercompany transactions and debt and Bermuda asset management.

[4] Includes adjustment for value of excess own shares in employee share scheme trusts.

[5] On 24 September 2012, the Group repaid the US$750 million cumulative preference securities at their nominal value.

[6] The Group cancelled 239 million treasury shares on 13 January 2012. As part of the disposal of the Nordic business unit, a seven for eight share consolidation was proposed and approved. For adjusted Group MCEV per share, the weighted average number of shares is effective from 23 April 2012.

Adjusted operating Group MCEV statement of earnings

For the year ended 31 December 2012

	Notes	Year ended 31 December 2012	Year ended 31 December 2011
			£m
Long-Term Savings			
Covered business	B2	**454**	714
Asset management and other business		**125**	123
Banking		**15**	15
		594	852
Nedbank			
Banking		**828**	755
Mutual & Federal			
General insurance		**43**	89
US Asset Management			
Asset management		**91**	67
Other operating segments			
Finance costs[1]		**(148)**	(155)
Corporate costs[2]		**(40)**	(43)
Other shareholders' income/(expenses)		**-**	(18)
Adjusted operating Group MCEV earnings before tax from core operations		**1,368**	1,547

[1] This includes interest payable from Old Mutual plc to non-core operations of £18 million for the year ended 31 December 2012 (December 2011: £27 million).

[2] Central costs of £14 million are allocated to the covered business and provisioned in the VIF (December 2011: £14 million). Hence net corporate costs under MCEV of £40 million (December 2011: £43 million) differ from the IFRS amount of £54 million (December 2011: £57 million).

Significant corporate activities and business changes

Disposal of Nordic business

As previously reported, the Group had agreed at 31 December 2011 to dispose of its life assurance, asset management and banking operations in Sweden, Denmark and Norway to Skandia Liv. Following final regulatory approval, on 8 March 2012 and subsequent shareholder approval, the sale was completed on 21 March 2012. The MCEV earnings of the Nordic business have been categorised as discontinued within the MCEV results and the comparative information has been restated where applicable to reflect this. Nordic has been treated as non-modelled for 2012 reporting purposes with earnings for the period to 21 March 2012 reported on an IFRS basis.

The transaction has resulted in an uplift of £201 million to the adjusted Group MCEV, based on the differences between the purchase price of £2,118 million, the removal of the MCEV balances for the Nordic business unit (VIF: £1,148 million, ANW: £286 million and other non-covered business: £330 million) and further IFRS adjustments of £153 million.

Reporting of Retail Europe within Old Mutual Wealth

On 24 January 2012 the Group announced that it will combine its Old Mutual Wealth Continental Europe business (France and Italy) with the Skandia Retail Europe business unit (Germany, Austria, Poland and Switzerland), for reporting purposes only. As a result the Retail Europe segment is reported as part of the Old Mutual Wealth segment for the year ended 31 December 2012. The comparative information for the year ended 31 December 2011 has been reclassified where applicable to reflect this.

Further, in September 2012, the Group announced the merger of the Skandia businesses (Skandia UK, Skandia International, Old Mutual Global Investors and the Skandia European businesses outside of the Nordic region) into a single business called Old Mutual Wealth.

Bermuda capital resources and requirements

The Bermuda Monetary Authority (BMA) enacted its new Class E Prudential rules in December 2011. In July 2012, it was agreed with the BMA that the Bermuda business should now directly hold capital resources comparable to those we expect to be required under Solvency II, as calculated by the Group's existing internal capital model, which were previously held centrally. The capital requirements have been kept constant since July 2012.

In order to address the increased capital requirements, an injection of £352 million into Old Mutual Bermuda was made on 23rd July 2012, comprising of £154 million plc loan notes, the transfer of ownership of seed capital in the US asset management business of £161 million and an injection of £37 million cash to purchase US treasuries.

Adjusted operating Group MCEV earnings per share

For the year ended 31 December 2012

Year ended 31 December 2012	Notes	Core continuing operations	Non-core continuing operations	Discontinued operations	Total £m
Adjusted operating Group MCEV earnings before tax		**1,368**	**99**	**28**	**1,495**
Covered business	B2	**454**	**99**	**18**	**571**
Other business		**914**	**-**	**10**	**924**
Tax on adjusted operating Group MCEV earnings		**(376)**	**-**	**(3)**	**(379)**
Covered business	B2	**(118)**	**-**	**-**	**(118)**
Other business		**(258)**	**-**	**(3)**	**(261)**
Adjusted operating Group MCEV earnings after tax		**992**	**99**	**25**	**1,116**
Non-controlling interests					
Ordinary shares		**(277)**	**-**	**-**	**(277)**
Preferred securities		**(50)**	**-**	**-**	**(50)**
Adjusted operating MCEV earnings after tax attributable to equity holders		**665**	**99**	**25**	**789**
Adjusted operating Group MCEV earnings per share[1]		**13.2**	**2.0**	**0.5**	**15.7**
Adjusted weighted average number of shares – millions					**5,029**

Year ended 31 December 2011	Notes	Core continuing operations	Non-core continuing operations	Discontinued operations	Total £m
Adjusted operating Group MCEV earnings before tax		1,547	48	173	1,768
Covered business	B2	714	48	156	918
Other business		833	-	17	850
Tax on adjusted operating Group MCEV earnings		(364)	(1)	(31)	(396)
Covered business	B2	(162)	(1)	(28)	(191)
Other business		(202)	-	(3)	(205)
Adjusted operating Group MCEV earnings after tax		1,183	47	142	1,372
Non-controlling interests					
Ordinary shares		(255)	-	-	(255)
Preferred securities		(62)	-	-	(62)
Adjusted operating MCEV earnings after tax attributable to equity holders		866	47	142	1,055
Adjusted operating Group MCEV earnings per share[1]		15.9	0.9	2.6	19.4
Adjusted weighted average number of shares – millions					5,435

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

Group market consistent embedded value statement of earnings

For the year ended 31 December 2012

£m

	Notes	**Year ended 31 December 2012**	Year ended 31 December 2011
Adjusted operating Group MCEV earnings before tax from core operations		**1,368**	1,547
Adjusted operating Group MCEV earnings before tax from Bermuda non-core operations		**99**	48
Adjusted operating Group MCEV earnings before tax from continuing operations[1]		**1,467**	1,595
Adjusting items from continuing operations	C2	**486**	(437)
Total Group MCEV earnings before tax from continuing operations		**1,953**	1,158
Income tax attributable to shareholders		**(490)**	(168)
Total Group MCEV earnings after tax from continuing operations		**1,463**	990
Total Group MCEV earnings after tax from discontinued operations		**600**	(15)
MCEV earnings after tax from discontinued operations[2]		**6**	(15)
Group MCEV uplift from sale of Nordic		**201**	-
Other Group adjustments related to the Nordic disposal[3]		**393**	-
Total Group MCEV earnings after tax for the financial year		**2,063**	975
Total Group MCEV earnings for the financial period attributable to:			
Equity holders of the parent		**1,749**	674
Non-controlling interests			
Ordinary shares		**264**	239
Preferred securities		**50**	62
Total Group MCEV earnings after tax for the financial year		**2,063**	975
Basic total Group MCEV earnings per ordinary share (pence)		**36.7**	13.1
Weighted average number of shares – millions		**4,768**	5,136

[1] For long-term business and general insurance businesses, adjusted operating Group MCEV earnings are based on long-term and short-term investment returns respectively, include investment returns on life fund investments in Group equity and debt instruments, and are stated net of income tax attributable to policyholder returns. For the US asset management business it includes compensation costs in respect of certain long-term incentive schemes defined as non-controlling interests in accordance with IFRS. For all businesses, adjusted operating MCEV earnings exclude goodwill impairment, the impact of acquisition accounting, option revaluations related to long-term incentive schemes, the impact of closure of unclaimed shares trusts, profit/(loss) on acquisition/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 instruments.

[2] For Nordic, these are composed of earnings before tax of £28 million (December 2011: £173 million), adjusting items of £(20) million (December 2011: £(161) million) and tax of £(2) million (December 2011: £(27) million).

[3] Included in Other Group adjustments related to the Nordic disposal, is £350 million related to the realisation of foreign exchange reserve on disposal. This was previously included in equity translation reserves.

Reconciliation of movements in Group and Adjusted Group MCEV (after tax)

£m

		Year ended 31 December 2012			Year ended 31 December 2011		
	Notes	**Covered business MCEV**	**Non-covered business IFRS**	**Total Group MCEV**	Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Opening Group MCEV		**7,212**	**2,516**	**9,728**	7,515	2,386	9,901
Adjusted operating MCEV earnings	B4	**453**	**336**	**789**	727	328	1,055
Non-operating MCEV earnings		**473**	**487**	**960**	(331)	(50)	(381)
Total Group MCEV earnings		**926**	**823**	**1,749**	396	278	674
Other movements in IFRS net equity	C3	**(1,773)**	**(512)**	**(2,285)**	(699)	(148)	(847)
Closing Group MCEV		**6,365**	**2,827**	**9,192**	7,212	2,516	9,728
Adjustments to bring Group investments to market value	B1	**-**	**1,589**	**1,589**	-	1,066	1,066
Adjusted Group MCEV		**6,365**	**4,416**	**10,781**	7,212	3,582	10,794

Notes to the MCEV basis supplementary information

For the year ended 31 December 2012

A: MCEV policies

A1: Basis of preparation

The Market Consistent Embedded Value methodology (referred to herein and in the supplementary statements on pages 88 to 111 as 'MCEV') adopts the Market Consistent Embedded Value Principles (Copyright © Stichting CFO Forum Foundation 2008) issued in June 2008 and updated in October 2009 by the CFO Forum ('the Principles') as the basis for the methodology used in preparing the supplementary information.

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

The Principles have been materially complied with for all businesses at 31 December 2012. The detailed methodology and assumptions made in presenting this supplementary information are set out in notes A2 and A3.

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

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

A2: Methodology

(a) Introduction

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

The MCEV consists of the sum of the following components:

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

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

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

(b) Coverage

Covered business includes, where material, any contracts that are regarded by local insurance supervisors as long-term life assurance business, and other business, where material, directly related to such long-term life assurance business where the profits are included in the IFRS long-term business profits in the primary financial statements. For the life businesses in Kenya, Malawi, Nigeria, Swaziland, and Zimbabwe, and where the covered business is not material, the treatment within this supplementary information is the same as in the primary financial statements (i.e. expected future profits for this business is not capitalised for MCEV reporting purposes).

For December 2011 comparatives, the covered business does not include any business written in Skandia Liv, a mutual life insurance company then part of the Group.

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

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

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

(c) Free surplus

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

(d) Required capital

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

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

Economic capital for the covered business is based upon Old Mutual's own internal assessment of risks inherent in the underlying business. It measures capital requirements on a basis consistent with a 99.93% confidence level over a one-year time horizon.

For Emerging Markets and Old Mutual Wealth capital determined with reference to internal management objectives is the most onerous and is the capital measure used, whilst for Nordic the regulatory capital requirement was the most onerous in 31 December 2011 comparatives. For Bermuda the required capital is equal to regulatory capital, which is a change from December 2011, where internal capital (i.e. the adjusted net worth) was used.

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

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

£m

		At 31 December 2012			At 31 December 2011		
	Notes	**Required capital (a)**	**Regulatory capital (b)**	**Ratio (a/b)**	Required capital (a)	Regulatory capital (b)	Ratio (a/b)
Emerging Markets	B3	**1,312**	**923**	**1.4**	1,368	1,012	1.4
Old Mutual Wealth[1]	B3	**294**	**212**	**1.4**	314	241	1.3
Bermuda[2]	B3	**433**	**433**	**1.0**	187	77	2.4
Nordic	B3	**n/a**	**n/a**	**n/a**	127	127	1.0
Total		**2,039**	**1,568**	**1.3**	1,996	1,457	1.4

[1] Local regulators within many of the Old Mutual Wealth countries allow intangible assets to be included as admissible regulatory capital. In such cases the required capital reported for MCEV is net of these items, although each of the countries continues to be sufficiently capitalised on the local solvency basis. Skandia Leben in Germany is permitted under local regulations to include the unallocated policyholder profit sharing liability as admissible capital.

[2] During December 2011, the BMA insurance (Prudential Standards) (Class E Solvency Requirements) Rules 2011 were formally signed into Bermudan law. The regulations allow for a transition period for the new capital requirement (50% for financial year 2011). The required capital calculated on this statutory basis was approximately £77 million at 31 December 2011. In July 2012 it was agreed with the BMA that Bermuda business should hold capital resources of £433 million, comparable to those expected to be required under Solvency II, as calculated by the Group's existing internal capital model. The capital requirement is held at a fixed amount between statutory filing dates and the July 2012 requirement has therefore been kept constant for 31 December 2012.

(e) Value of in-force covered business

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

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

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

(f) Present value of future profits

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

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

A: MCEV policies continued

A2: Methodology continued

(g) Financial options and guarantees

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

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

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

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

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

In determining the time value of financial options and guarantees an appropriate number of simulations are run to ensure that a reasonable degree of convergence of results has been obtained.

Europe

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

Emerging Markets

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

As required by the applicable Actuarial Society of South Africa guidance note, the time value of the financial options and guarantees included in the statutory reserves in the Emerging Markets businesses as at 31 December 2012 has been valued using a risk-neutral market consistent asset model, and is referred to as the 'Investment Guarantee Reserve' (IGR). This reserve includes a discretionary margin as defined by local guidelines to allow for the sensitivity of the reserve to market movements, including interest rates, equity levels and the volatility implicit in the pricing of derivative instruments in these markets. This discretionary margin is valued in the VIF.

Bermuda

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

(h) Frictional costs of required capital

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

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

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

(i) Cost of residual non-hedgeable risks

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

For Bermuda, in addition to the allowance for residual non-hedgeable risks, CNHR includes an allowance for hedge ineffectiveness risk and credit spread risk, which are not modelled in the PVFP or TVOG calculations.

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

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

The residual non-hedgeable risk capital measure is determined using an internal capital model based on appropriate shock scenarios consistent with a 99.5% confidence level over a one-year time horizon, using the same approach when calculating economic capital at a 99.93% confidence level. The internal capital model makes allowance for certain management actions, such as reductions in bonus rates, where deemed appropriate. The residual non-hedgeable risk capital makes an allowance for non-linearities between financial and non-hedgeable risks.

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

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

A cost of capital charge of 2.0% has been applied to residual symmetric and asymmetric non-hedgeable capital at a business unit level over the life of the contracts. This rate is derived by considering a market based view of required return on equity for the covered business, and then deducting risk-free investment returns, frictional costs and an allowance for franchise value. This translates into an equivalent cost of capital rate of approximately 2.4% being applied to the Group diversified capital required in respect of such non-hedgeable risks.

(j) Participating business

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

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

(k) Valuation of assets and treatment of unrealised losses

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

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

(l) Asset mix

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

(m) Consolidation adjustments

The MCEV result split by business unit takes account of both sides of any loan arrangements between Group companies, with the Group effect included in net other business.

(n) Look through principle

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

(o) Taxation

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

Notes to the MCEV basis supplementary information

For the year ended 31 December 2012

A: MCEV policies continued

A2: Methodology continued

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

United Kingdom

The Emergency Budget that was held in June 2010 stated that the UK's mainstream corporation tax rate would be reduced from its current level of 28% down to 24% in annual 1% steps. Following that, there were further announcements for additional reductions (down to 22%), and accelerations of these reductions. The reduction to 25%, effective from April 2012, has been allowed for in the December 2011 results. The December 2012 results allow for an additional 1% reduction to 24%, effective from April 2012 and the further 1% reduction to 23%, effective from April 2013. This additional 2% reduction amounts to £8million in the December 2012 results. The impact of the remaining reduction from 23% down to 21%, applicable from April 2014, is expected to be £7 million.

South Africa

A new dividend withholding tax system (replacing the current Secondary Tax on Companies (STC) system) was introduced in South Africa effective from 1 April 2012. This was reflected in the results at 31 December 2011, i.e. no allowance was made for future dividend withholding tax in the MCEV, with the exception of dividend witholding tax on the remittance of dividends to Old Mutual plc, as the actual level of taxation would depend on the legal status of each shareholder.

Allowance has now been made for dividend withholding tax on dividends earned in the policyholder funds as well as allowing for the increase in capital gains tax in policyholder funds.The average effective tax rate remains unchanged at 28%.

(p) Value of debt

Senior and subordinated debt securities are marked to market value (for IFRS reporting, debt is valued at either book value or fair value).

The IFRS value of total debt is £1,570 million (31 December 2011: £2,539 million) and MCEV value is £1,607million (31 December 2011: £2,515 million). $750m perpetual preferred securities were repaid in 2012.

Where either the principal or the coupon of the debt security has been swapped into an alternate currency, the mark to market value of these derivative instruments of £96 million (31 December 2011: £86 million) has not been included in the value of debt; however, it is included in the Net Other Business value of £45 million (31 December 2011: £175 million) (Adjusted Group MCEV by line of business). Further information relating to the debt securities can be found in Note E1 in the Notes to the Consolidated Financial Statements.

(q) New business and renewals

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

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

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

VNB is calculated as follows:

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

New business margins are disclosed as:

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

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

(r) Analysis of MCEV earnings

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

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

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

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

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

The anticipated expected existing business contribution for the 12 months following the year ended 31 December 2012 (at the reference rate as well as in excess of the reference rate) is provided to assist users of the MCEV supplementary information in forecasting operating MCEV earnings. Note that for comparability against current year earnings, the average exchange rates over 2012 are used. Therefore the expected existing business contribution for the financial year ending 31 December 2013 ultimately reflected in the 2013 financial statements may differ from these results.

(s) Group MCEV presentation

Presentation of Group MCEV consists of the covered business under the MCEV methodology and the non-covered business valued as the unadjusted IFRS net asset value, with the exception of US Asset Management that is valued at IFRS NAV, allowing for the value of the loan note held with Old Mutual plc. A mark to market adjustment is not performed for external borrowings and other items not on a mark to market basis under IFRS relating to non-covered business.

A3: Assumptions

Non-economic assumptions

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

These assumptions are based on the covered business being part of a going concern, although favourable changes in maintenance expenses such as productivity improvements are generally not included beyond what has been achieved by the end of the reporting period, apart from certain development expenses (described below). Expense assumptions for run-off businesses consider cost reductions in future in line with management actions that would be taken as in-force volumes decrease.

Notes to the MCEV basis supplementary information
For the year ended 31 December 2012

A: MCEV policies continued

A3: Assumptions continued

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

- All expected maintenance expense overruns affecting the covered business are allowed for in the calculations.
- The MCEV makes provision for future development costs and one-off expenses relating to covered business that are known with sufficient certainty, based on three year business plans. The provision is reduced to the extent that projects have associated benefits that are directly quantifiable and are considered to emerge within a reasonable timeframe (e.g. over the business plan period).
- Unallocated Group holding company expenses have been included to the extent that they are allocated to the covered business. The table below shows the future expenses attributable to the long-term business. The allocation of these expenses is based on the proportion that the management expenses incurred by the covered businesses bears to the total management expenses incurred by the Group.

In line with legislation in Germany, a specified proportion of miscellaneous profits is shared with policyholders. The revenue on in-force business can be reduced by various expense items incurred in any year. As such, in the 31 December 2011 VIF calculation, Skandia Leben (Germany) made allowance for the acquisition expenses in relation to the new business written over the next three years when setting the best estimate assumptions for the profit to be shared with policyholders in future years. As the business has been placed in run-off during 2012, acquisition expenses have not been incorporated into profit sharing assumptions as at 31 December 2012.

Proportion of Group holding company expenses attributable to long-term business %

	At 31 December 2012	At 31 December 2011
Emerging Markets	**18**	17
Old Mutual Wealth	**9**	8
Bermuda[1]	**n/a**	n/a
Nordic	**n/a**	3
Total	**27**	28

[1] Based on materiality, no Group holding expenses are allocated to Bermuda.

Economic assumptions

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

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

(a) Risk free reference rates and inflation

The risk free reference rates, reinvestment rates and discount rates are determined with reference to the swap yield curve appropriate to the currency of the cash flows. For Europe the swap yield curve is obtained from Bloomberg. For Bermuda the swap yield curve is sourced from a third party market consistent asset model that is used to generate the economic scenarios that are required to value the time value of financial options and guarantees. For Emerging Markets the swap yield curve is sourced internally (using market data provided by the Bond Exchange of South Africa) and it is checked for reasonability relative to the Bloomberg swap yield curve.

At 31 December 2012, no adjustments are made to swap yields to allow for liquidity premiums or credit risk premiums, apart from a liquidity premium adjustment to OMLAC(SA)'s Immediate Annuity business and Fixed Bond businesses. A liquidity premium adjustment is applied to OMLAC(SA)'s Fixed Bond business as OMLAC(SA) holds a portfolio of non-government bonds which have a market yield in excess of the risk free rate and the duration of the asset portfolio and the liability duration are a good match (meaning the asset portfolio is held to maturity). Cash flows on this product are also predictable and the company has adequate liquidity to withstand a substantial increase in lapses at all durations without having to sell bonds which further strengthens the case for applying a liquidity premium.

It is the directors' view that a proportion of non-government bond spreads at 31 December 2012 is attributable to a liquidity premium rather than only to credit and default allowances and that returns in excess of swap rates can be achieved, rather than entire spreads being lost to worsening default experience. For OMLAC(SA)'s Immediate Annuity business the currency, credit quality and duration of the actual bond portfolios were considered and adjusted risk free reference rates were derived at 31 December 2012 by adding 50bps of liquidity premium for this business (2011: 50bps) to the swap rates used for setting investment return and discounting assumptions. For OMLAC(SA)'s Fixed Bond products 45 bps of liquidity premium was added to the swap rates (2011: 50bps). These adjustments reflect the liquidity premium component in non-government bond spreads over swap rates that is expected to be earned on the portfolios. In deriving the liquidity premia at 31 December 2012, we compared the yields of similar durations on South African government bonds and bonds issues by state-owned enterprises.

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

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

Expense inflation rates have been derived by comparing real rates of return against nominal risk free rates for each territory, with adjustments for higher business unit specific inflation where applicable.

Risk free reference spot yields (excluding any applicable liquidity adjustments)

					%
	GBP	**EUR**	**USD**	**ZAR**	**SEK**
At 31 December 2012					
1 year	0.7	0.3	0.3	5.1	n/a
5 years	1.0	0.8	0.9	6.0	n/a
10 years	1.9	1.6	1.9	7.1	n/a
20 years	2.9	2.2	2.8	7.5	n/a
At 31 December 2011					
1 year	1.4	1.4	0.7	5.7	2.1
5 years	1.6	1.7	1.2	7.1	2.3
10 years	2.4	2.4	2.1	8.1	2.5
20 years	3.0	2.7	2.6	8.1	2.1

(b) Volatilities and correlations

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

Apart from the risk free reference yields specified above, other key economic assumptions for the calibration of economic scenarios include the implied volatilities for each asset class and correlations of investment returns between different asset classes. For Bermuda, implied volatilities and correlations are determined for each global equity and bond index modelled.

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

(c) Exchange rates

All MCEV figures are calculated in local currency and translated to GBP using the appropriate exchange rates as detailed in Note A1 of the Consolidated Financial Statements.

(d) Expected asset returns in excess of the risk free reference rates

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

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

- The equity risk premium is 3.7% for Africa (2011: 3.5%) and 3% for Europe.
- The cash return equals the one year risk free reference rate for all regions.
- The property risk premium is 1.5% in Africa and 2% in Europe.
- Returns on corporate bonds reference actual yields from assets held.
- No risk premium is assumed for Bermuda's Variable Annuity policyholder asset portfolios.

Notes to the MCEV basis supplementary information

For the year ended 31 December 2012

B: Segment information

B1: Components of Group MCEV and Adjusted Group MCEV

	Notes	At 31 December 2012 £m	At 31 December 2011 £m
Adjusted net worth attributable to ordinary equity holders of the parent		**5,791**	5,193
Equity		**7,833**	8,488
Adjustment to IFRS net asset value	C4	**(1,360)**	(2,607)
Adjustment to remove perpetual preferred callable securities		**(682)**	(688)
Value of in-force business	B3	**3,401**	4,535
Present value of future profits		**3,946**	5,248
Additional time value of financial options and guarantees		**(53)**	(136)
Frictional costs		**(221)**	(243)
Cost of residual non-hedgeable risks		**(271)**	(334)
Group MCEV		**9,192**	9,728
Adjustments to bring Group investments to market value			
Adjustment to bring listed subsidiary (Nedbank) to market value		**1,255**	655
Adjustment for value of own shares in ESOP schemes[1]		**126**	117
Adjustment for present value of Black Economic Empowerment scheme deferred consideration		**245**	270
Adjustment to bring external debt to market value		**(37)**	24
Adjusted Group MCEV		**10,781**	10,794
Group MCEV value per share (pence)		**187.9**	174.9
Adjusted Group MCEV per share (pence)		**220.3**	194.1
Number of shares in issue at the end of the financial period less treasury shares – millions		**4,893**	5,562
Return on Group MCEV (ROEV) per annum from core operations		**6.8%**	8.8%
Return on Group MCEV (ROEV) per annum from continuing non-core operations		**1.0%**	0.5%
Return on Group MCEV (ROEV) per annum from discontinued operations		**0.3%**	1.4%
Return on Group MCEV (ROEV[2]) per annum		**8.1%**	10.7%

[1] Includes adjustment for value of excess own shares in employee share scheme trusts. The movement in value between 31 December 2011 and 31 December 2012 is the net effect of the increase in the Old Mutual plc share price, the reduction in excess own shares following employee share grants during the period and the reduction in overall shares held due to exercises of rights to take delivery of, or net settle, share grants during the financial period.

[2] The ROEV is calculated as the adjusted operating Group MCEV earnings after tax and non-controlling interests of £789 million (December 2011: £1,055 million) divided by the opening Group MCEV.

B: Segment information continued

B2: Adjusted operating MCEV earnings for the covered business

£m

Year ended 31 December 2012	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Adjusted operating Group MCEV earnings before tax	**571**	**454**	**459**	**(5)**	**99**	**18**
Tax on adjusted operating Group MCEV earnings	**(118)**	**(118)**	**(131)**	**13**	**-**	**-**
Adjusted operating Group MCEV earnings after tax	**453**	**336**	**328**	**8**	**99**	**18**

£m

Year ended 31 December 2011	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Adjusted operating Group MCEV earnings before tax	918	714	468	246	48	156
Tax on adjusted operating Group MCEV earnings	(191)	(162)	(119)	(43)	(1)	(28)
Adjusted operating Group MCEV earnings after tax	727	552	349	203	47	128

B3: Components of MCEV of the covered business

£m

At 31 December 2012	Total covered business	Core covered business	Emerging Markets[1]	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Adjusted net worth	**2,964**	**2,284**	**1,818**	**466**	**680**	**-**
Free surplus	**925**	**678**	**506**	**172**	**247**	**-**
Required capital	**2,039**	**1,606**	**1,312**	**294**	**433**	**-**
Value of in-force	**3,401**	**3,456**	**1,478**	**1,978**	**(55)**	**-**
Present value of future profits	**3,946**	**3,950**	**1,828**	**2,122**	**(4)**	**-**
Additional time value of financial options and guarantees	**(53)**	**(14)**	**-**	**(14)**	**(39)**	**-**
Frictional costs	**(221)**	**(220)**	**(207)**	**(13)**	**(1)**	**-**
Cost of residual non-hedgeable risks	**(271)**	**(260)**	**(143)**	**(117)**	**(11)**	**-**
MCEV	**6,365**	**5,740**	**3,296**	**2,444**	**625**	**-**

£m

At 31 December 2011	Total covered business	Core covered business	Emerging Markets[1]	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Adjusted net worth	2,676	2,204	1,768	436	187	285
Free surplus	680	522	400	122	-	158
Required capital	1,996	1,682	1,368	314	187	127
Value of in-force	4,536	3,509	1,399	2,110	(121)	1,148
Present value of future profits	5,248	4,001	1,740	2,261	36	1,211
Additional time value of financial options and guarantees	(136)	(14)	-	(14)	(122)	-
Frictional costs	(243)	(236)	(218)	(18)	(2)	(5)
Cost of residual non-hedgeable risks	(333)	(242)	(123)	(119)	(33)	(58)
MCEV	7,212	5,713	3,167	2,546	66	1,433

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

Notes to the MCEV basis supplementary information

For the year ended 31 December 2012

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

£m

Total covered business	Year ended 31 December 2012					Year ended 31 December 2011				
	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV	**680**	**1,996**	**2,676**	**4,536**	**7,212**	507	2,844	3,351	4,164	7,515
New business value	**(293)**	**163**	**(130)**	**327**	**197**	(444)	187	(257)	490	233
Expected existing business contribution (reference rate)	**20**	**71**	**91**	**156**	**247**	17	65	82	179	261
Expected existing business contribution (in excess of reference rate)	**3**	**29**	**32**	**49**	**81**	7	34	41	87	128
Transfers from VIF and required capital to free surplus	**695**	**(216)**	**479**	**(479)**	**-**	943	(236)	707	(707)	-
Experience variances	**(14)**	**17**	**3**	**6**	**9**	10	30	40	111	151
Assumption changes	**34**	**(7)**	**27**	**7**	**34**	23	4	27	1	28
Other operating variance	**(26)**	**18**	**(8)**	**(107)**	**(115)**	188	(205)	(17)	(57)	(74)
Operating MCEV earnings	**419**	**75**	**494**	**(41)**	**453**	744	(121)	623	104	727
Economic variances	**258**	**3**	**261**	**259**	**520**	(221)	(22)	(243)	(214)	(457)
Other non-operating variance	**(284)**	**240**	**(44)**	**(3)**	**(47)**	32	1	33	93	126
Total MCEV earnings	**393**	**318**	**711**	**215**	**926**	555	(142)	413	(17)	396
Closing adjustments	**(148)**	**(275)**	**(423)**	**(1,350)**	**(1,773)**	(382)	(706)	(1,088)	389	(699)
Capital and dividend flows	**26**	**(3)**	**23**	**1**	**24**	(243)	55	(188)	-	(188)
Foreign exchange variance	**(54)**	**(145)**	**(199)**	**(139)**	**(338)**	(75)	(312)	(387)	(306)	(693)
MCEV of sold business	**(120)**	**(127)**	**(247)**	**(1,212)**	**(1,459)**	(64)	(449)	(513)	695	182
Closing MCEV	**925**	**2,039**	**2,964**	**3,401**	**6,365**	680	1,996	2,676	4,536	7,212
Return on MCEV (RoEV)% per annum					**6.3%**					9.7%

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

£m

	Year ended 31 December 2012			Year ended 31 December 2011		
	Adjusted net worth	Value of in-force	MCEV	Adjusted net worth	Value of in-force	MCEV
Experience Variances	**3**	**6**	**9**	40	111	151
Persistency	**51**	**10**	**61**	20	84	104
Risk	**52**	**-**	**52**	43	4	47
Expenses	**(91)**	**11**	**(80)**	(44)	13	(31)
Other	**(9)**	**(15)**	**(24)**	21	10	31
Assumption changes	**27**	**7**	**34**	27	1	28
Persistency	**12**	**(25)**	**(13)**	21	40	61
Risk	**13**	**37**	**50**	-	8	8
Expenses	**12**	**(3)**	**9**	(7)	(99)	(106)
Other	**(10)**	**(2)**	**(12)**	13	52	65

£m

	Year ended 31 December 2013				
	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	**17**	**55**	**72**	**143**	**215**
Expected existing business contribution (in excess of reference rate)	**5**	**25**	**30**	**45**	**75**

B5: Analysis per business unit

£m

	Year ended 31 December 2012					
	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Opening MCEV	7,212	5,713	3,167	2,546	66	1,433
New business value	197	197	135	62	-	-
Expected existing business contribution (reference rate)	247	239	193	46	8	-
Expected existing business contribution (in excess of reference rate)	81	55	32	23	26	-
Experience variances	9	(48)	(29)	(19)	39	18
Assumption changes	34	5	34	(29)	29	-
Other operating variance	(115)	(112)	(37)	(75)	(3)	-
Operating MCEV earnings	453	336	328	8	99	18
Economic variances	520	403	281	122	117	-
Other non-operating variance	(47)	(29)	(26)	(3)	-	(18)
Total MCEV earnings	926	710	583	127	216	-
Closing adjustments	(1,773)	(683)	(454)	(229)	343	(1,433)
Capital and dividend flows	24	(336)	(147)	(189)	360	-
Foreign exchange variance	(338)	(322)	(307)	(15)	(17)	1
MCEV of acquired/sold business	(1,459)	(25)	-	(25)	-	(1,434)
Closing MCEV	6,365	5,740	3,296	2,444	625	-
Return on MCEV (RoEV)% per annum	6.3%	5.9%	10.7%	0.3%	154.0%	1.3%

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV. This is calculated in local currency, apart from total covered and core covered business, which are calculated in sterling. Discontinued covered business relates to Nordic.

Transfers from VIF and required capital to free surplus

£m

Year ended 31 December 2012	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Transfer from value of in-force	(479)	(540)	(220)	(320)	61	-
Transfer from required capital	(216)	(190)	(153)	(37)	(26)	-
Transfer to free surplus	695	730	373	357	(35)	-

£m

Year ended 31 December 2012	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Experience variances	9	(48)	(29)	(19)	39	18
Persistency	61	22	(1)	23	39	-
Risk	52	52	46	6	-	-
Expenses	(80)	(82)	(41)	(41)	2	-
Other	(24)	(40)	(33)	(7)	(2)	18
Assumption changes	34	5	34	(29)	29	-
Persistency	(13)	(32)	(6)	(26)	19	-
Risk	50	50	49	1	-	-
Expenses	9	(11)	(9)	(2)	20	-
Other	(12)	(2)	-	(2)	(10)	-

Notes to the MCEV basis supplementary information

For the year ended 31 December 2012

B5: Analysis per business unit

£m

	Year ended 31 December 2011					
	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Opening MCEV	7,515	5,913	3,313	2,600	287	1,315
New business value	233	177	99	78	-	56
Expected existing business contribution (reference rate)	261	211	174	37	8	42
Expected existing business contribution (in excess of reference rate)	128	57	30	27	38	33
Experience variances	151	130	102	28	24	(3)
Assumption changes	28	40	6	34	(8)	(4)
Other operating variance	(74)	(63)	(62)	(1)	(15)	4
Operating MCEV earnings	727	552	349	203	47	128
Economic variances	(457)	(7)	32	(39)	(261)	(189)
Other non-operating variance	126	89	93	(4)	-	37
Total MCEV earnings	396	634	474	160	(214)	(24)
Closing adjustments	(699)	(834)	(620)	(214)	(7)	142
Capital and dividend flows	(188)	(177)	12	(189)	-	(11)
Foreign exchange variance	(693)	(657)	(632)	(25)	(7)	(29)
MCEV of acquired/sold business	182	-	-	-	-	182
Closing MCEV	7,212	5,713	3,167	2,546	66	1,433
Return on MCEV (RoEV)% per annum	9.7%	9.3%	11.9%	7.8%	17.0%	8.5%

Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV. This is calculated in local currency, apart from total covered and core covered business, which are calculated in sterling. Discontinued covered business RoEV relates to Nordic.

Transfers from VIF and required capital to free surplus

£m

Year ended 31 December 2011	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Transfer from value of in-force	(707)	(569)	(209)	(360)	(9)	(129)
Transfer from required capital	(236)	(179)	(150)	(29)	(57)	-
Transfer to free surplus	943	748	359	389	66	129

£m

Year ended 31 December 2011	Total covered business	Core covered business	Emerging Markets	Old Mutual Wealth	Non-core covered business	Discontinued covered business
Experience Variances	151	130	102	28	24	(3)
Persistency	104	79	56	23	22	3
Risk	47	46	38	8	-	1
Expenses	(31)	(24)	(9)	(15)	3	(10)
Other	31	29	17	12	(1)	3
Assumption changes	28	40	6	34	(8)	(4)
Persistency	61	47	55	(8)	20	(6)
Risk	8	8	-	8	-	-
Expenses	(106)	(80)	(49)	(31)	(26)	-
Other	65	65	-	65	(2)	2

Results highlights

Core covered business

- Strong value of new business growth in Emerging Markets due to good volumes and an improvement in the mix of business leading to higher margins.
- A significant portion of expense losses include one-off non-development costs of £(44) million incurred in Emerging Markets and Old Mutual Wealth.
- Favourable equity and bond market performance has led to positive economic variances in Emerging Markets and Old Mutual Wealth.
- The 10% depreciation of the Rand against Sterling over 2012 has led to foreign exchange translation losses in MCEV closing adjustments.
- A significant portion of the continental European business has now closed to new business, with resulting changes to expense, lapse and profit sharing assumptions (German PHP business) reducing the MCEV now recognised for these businesses.

Non-core covered business (Old Mutual Bermuda)

- Very favourable persistency experience on the Bermuda Variable Annuity book of business, leading to positive assumption changes.
- Capital has been transferred to Old Mutual Bermuda to meet the enhanced capital requirements of the Bermuda Monetary Authority (BMA).
- The expiration of the 5-year guarantees, higher than expected lapses, lapse assumption changes and favourable market performance has led to a significant reduction in Variable Annuity guarantee reserves.

New business

Emerging Markets: VNB increased by 36% due to higher volumes and margins (mix of business, repricing of certain products and favourable assumption changes), partially offset by the Rand depreciation over 2012. There have been strong recurring premium sales in Mass Foundation Cluster and single premium annuity sales in Corporate Segment. However, covered single premium savings sales in Retail Affluent and Corporate Segment have lagged in 2012 although non-covered single premium savings sales have improved significantly.

Old Mutual Wealth: Following the cessation of significant parts of uneconomic product lines as a result of business restructuring initiatives, there have been lower covered sales in the UK. International sales were affected by regulatory changes that were overcome in the fourth quarter of 2012.

Transfers from the value of in-force business

Old Mutual Wealth: Lower expected transfers in 2012 are mainly as a result of the run-off of closed books and the sale of the Finnish business.

Non-core covered (Old Mutual Bermuda): The large negative expected transfer in 2012 is a result of the anticipated loss in fee income from the significant number of Variable Annuity surrenders post the 5-year guarantee top-up point and the anticipated amortisation of Deferred Acquisition Costs resulting from the business run-off.

Experience variances and operating assumption changes

Emerging Markets: Positive risk experience from Retail Affluent and Mass Foundation Cluster products continued in 2012, with positive assumption changes of £49 million reflecting some of this experience. Other experience losses mainly relate to higher than anticipated taxation in 2012. Experience variances also include an investment of £18 million in the development of our franchise in African countries and Mexico, as well as the development cost of new strategic capabilities, and also expenses of a one off nature (including IT project expenditure) of £28 million.

Old Mutual Wealth: The positive persistency experience is mainly a result of a lower than anticipated number of surrenders in the UK Legacy savings business in the run-up to the Retail Distribution Review (RDR). Negative persistency assumption changes relate mainly to a reduction in anticipated lapses on protection products at later durations of £(11) million and the anticipated increase in surrenders of products in Germany and Austria of £(7)million, consistent with recent experience. Expense losses include one-off restructuring costs of £16 million as well as investments of £19 million in development initiatives in Platform and International businesses.

Non-core covered (Old Mutual Bermuda): Positive persistency profits reflect better than expected 5-year anniversary surrender experience on Variable Annuity products. Non-Hong Kong Universal Guarantee Option (UGO) business experienced a 79% surrender rate and the Hong Kong UGO business experienced a 63% lapse rate since these businesses entered the top-up period. In light of this experience, surrender assumptions have been increased for policies that are yet to reach their 5-year anniversary (£20 million impact). Positive expense assumption changes of £19 million reflect reduced aggregate expenses needed to meet the remaining obligations of the business. Other assumption changes of £(10) million mainly driven by a reduction in rebate income as underlying client portfolios reach sub-scale levels.

Discontinued (Nordic): Experience variances reflect accrued IFRS profits during the year prior to the sale of the business.

Other operating variances

Emerging Markets: Other operating variances mainly reflect the impact of a management decision to utilise the future profit stream arising from unclaimed benefits to fund an advisor training academy, and to enhance the surrender values on old generation reversionary bonus policies.

Old Mutual Wealth: Other operating variances include the £(73) million impact of the management action to place the German and Austrian businesses into run-off. Setting expense assumptions on a run-off basis for these businesses reduced MCEV by £(26) million and a change in profit sharing assumptions for the German PHP business reduced MCEV by £(47)million. Variances also include the release of development provisions of £17 million (change in methodology to recognise project benefits as well as costs where benefits are directly quantifiable and emerge within a reasonable timeframe) and CNHR modelling changes.

Economic variances

Emerging Markets: Significant positive economic variances have emerged from better than expected investment returns (favourable equity, bond and credit market performance), together with the reduction in the swap yield curve, which has increased the VIF.

Notes to the MCEV basis supplementary information

For the year ended 31 December 2012

Old Mutual Wealth: Significantly positive economic variances have emerged from better than expected policyholder fund performance over 2012 due to better than expected equity and bond market returns.

Non-core covered (Old Mutual Bermuda): The positive variance resulting in significantly lower Variable Annuity guarantee reserves, is mainly due to positive equity market performance, and reduced volatilities, partially offset by lower short-to-medium term interest rates.

Other non-operating variances

Emerging Markets: Other non-operating variances consist mainly of modelling changes to incorporate the new South African dividend withholding tax regime, and higher capital gains tax, in the calculation of policyholder investment returns in MCEV models.

Closing adjustments

Emerging Markets: Capital and dividend flows include the net impact of dividends paid of £(130) million, the purchase of Africa operations from Old Mutual plc of £(92) million, the transfer of net asset value of the Zimbabwe and Namibian holding companies from non-covered business of £135 million and the Zimbabwe indigenisation costs of £(34) million. The negative foreign exchange variance reflects the 10% depreciation of the rand over the period (GBP/ZAR exchange rate increased from 12.56 at 31 December 2011 to 13.77 at 31 December 2012).

Old Mutual Wealth: Closing adjustments include the impact of the sale of the Finnish business £(25) million.

Non-core covered (Old Mutual Bermuda): The positive capital and dividend flows of £360 million, include £352 million relating to the transfer of capital to this business (in the form of additional Old Mutual plc loan notes and other assets) to enable it to meet the new enhanced capital requirements of the Bermuda Monetary Authority (BMA).

C: Other key performance information

C1: Value of new business (after tax)

The tables below set out the regional analysis of the value of new business (VNB) after tax. New business profitability is measured by both the ratio of the VNB to the present value of new business premiums (PVNBP) as well as to the annual premium equivalent (APE), and shown under PVNBP margin and APE margin below. APE is calculated as recurring premiums plus 10% of single premiums. Old Mutual Bermuda is excluded from the tables below as it is closed to new business.

Year ended 31 December 2012 £m

	Annualised recurring premiums	**Single premiums**	**PVNBP**	**PVNBP capitalisation factors**[1]	**APE**	**VNB**	**PVNBP margin**	**APE margin**
Core covered business	**517**	**5,953**	**8,665**	**5.2**	**1,112**	**197**	**2.3%**	**18%**
Emerging Markets	**370**	**1,321**	**3,331**	**5.4**	**502**	**135**	**4.1%**	**27%**
Old Mutual Wealth	**147**	**4,632**	**5,334**	**4.8**	**610**	**62**	**1.2%**	**10%**
Discontinued covered business	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Total covered business	**517**	**5,953**	**8,665**	**5.2**	**1,112**	**197**	**2.3%**	**18%**

Year ended 31 December 2011 £m

	Annualised recurring premiums	Single premiums	PVNBP	PVNBP capitalisation factors[1]	APE	VNB	PVNBP margin	APE margin
Core covered business	569	6,211	9,113	5.1	1,189	177	1.9%	15%
Emerging Markets	363	1,441	3,295	5.1	506	99	3.0%	20%
Old Mutual Wealth	206	4,770	5,818	5.1	683	78	1.3%	11%
Discontinued covered business	153	753	1,347	3.9	229	56	4.2%	25%
Total covered business	722	6,964	10,460	4.8	1,418	233	2.2%	16%

[1] The PVNBP capitalisation factors are calculated as follows: (PVNBP – single premiums)/annualised recurring premiums.

The VNB for Old Mutual Wealth in December 2012 has been calculated after the reallocation of certain development costs from acquisition expenses to expense variances. If December 2011 VNB was calculated on the same basis, it would have been £85 million.

Additional new business written in the Group:

The value of new individual unit trust linked retirement annuities and pension fund asset management business written by the Emerging Markets long-term business of £1,093 million (2011: £884 million) is excluded as the profits on this business arise in the asset management business. The value of new business also excludes premium increases arising from indexation arrangements in respect of existing business, as these are already included in the value of in-force business.

The value of new institutional investment platform pensions business written in Old Mutual Wealth of £736 million (2011: £704 million) is excluded as this is more appropriately classified as unit trust business.

New business single premiums of £37 million (2011: £31 million), annualised recurring premiums of £17 million (2011: £14 million), and APE of £21 million (2011: £17 million), in respect of the life business in Kenya, Malawi, Nigeria, Swaziland, and Zimbabwe have been excluded from the above tables, as no value of new business and PVNBP calculations have been performed for these businesses.

Notes to the MCEV basis supplementary information
For the year ended 31 December 2012

C2: Adjustments applied in determining total Group MCEV earnings before tax

£m

	Year ended 31 December 2012			Year ended 31 December 2011		
	Covered business MCEV	**Non-covered business IFRS**	**Total Group MCEV**	Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Income/(expense)						
Goodwill impairment and amortisation of non-covered business acquired intangible assets and impact of acquisition accounting	**-**	**(7)**	**(7)**	-	(283)	(283)
Economic variances	**657**	**(25)**	**632**	(554)	(28)	(582)
Other non-operating variances	**(56)**	**-**	**(56)**	22	-	22
Acquired/divested business[1]	**-**	**(12)**	**(12)**	-	182	182
Other Group adjustments related to Nordic disposal	**(14)**	**414**	**400**	-	-	-
Adjusted Group MCEV uplift from sale of Nordic	**-**	**201**	**201**	-	-	-
Dividends declared to holders of perpetual preferred callable securities	**-**	**42**	**42**	-	44	44
Premium paid on early repayment of senior debt	**-**	**(71)**	**(71)**	-	-	-
Adjusting items relating to US Asset Management equity plans and non-controlling interests	**-**	**(5)**	**(5)**	-	(3)	(3)
Fair value (losses)/gains on Group debt instruments	**-**	**(57)**	**(57)**	-	22	22
Adjusting items	**587**	**480**	**1,067**	(532)	(66)	(598)
Adjusting items from continuing operations	**605**	**(119)**	**486**	(378)	(59)	(437)
Adjusting items from discontinued operations	**(18)**	**599**	**581**	(154)	(7)	(161)
Total MCEV adjusting items	**587**	**480**	**1,067**	(532)	(66)	(598)

[1] In December 2011, this related to the non-covered businesses in Kenya, Malawi, Nigeria, Swaziland and Zimbabwe that were included for the first time.

C3: Other movements in IFRS net equity impacting Group MCEV

£m

	Year ended 31 December 2012			Year ended 31 December 2011		
	Covered business MCEV	**Non-covered business IFRS**	**Total Group MCEV**	Covered business MCEV	Non-covered business IFRS	Total Group MCEV
Fair value movements[1]	**-**	**(328)**	**(328)**	-	24	24
Net investment hedge	**-**	**160**	**160**	-	28	28
Currency translation differences/exchange differences on translating foreign operations	**(338)**	**(677)**	**(1,015)**	(693)	(498)	(1,191)
Aggregate tax effects of items taken directly to or transferred from equity	**-**	**9**	**9**	-	11	11
Other movements[2]	**(1,459)**	**1,459**	**-**	182	128	310
Net income recognised directly into equity	**(1,797)**	**623**	**(1,174)**	(511)	(307)	(818)
Capital and dividend flows for the year[3]	**24**	**(1,238)**	**(1,214)**	(257)	(8)	(265)
Inclusion of other African life businesses	**-**	**-**	**-**	69	-	69
Net purchase of treasury shares	**-**	**8**	**8**	-	(17)	(17)
Shares issued in lieu of cash dividends	**-**	**-**	**-**	-	124	124
Other shares issued	**-**	**33**	**33**	-	10	10
Change in share based payment reserve	**-**	**62**	**62**	-	50	50
Other movements in net equity	**(1,773)**	**(512)**	**(2,285)**	(699)	(148)	(847)

[1] Included in the fair value movements is the realisation of foreign exchange reserve on the Nordic disposal of £(350) million and other fair value movements of £22 million.

[2] The December 2012 amount relates to the transfer of Nordic covered MCEV balance on disposal and the sale of Finnish branch in Old Mutual Wealth. December 2011 reflects movements in respect of the disposal of US Life.

[3] December 2012 capital and dividend flows from the covered business include the purchase of the Rest of Africa businesses by Emerging Markets from Old Mutual plc and the capital injection of £352 million into Old Mutual Bermuda. The special dividend of £915 million, paid on 7 June 2012 is included in non-covered business.

C: Other key performance information continued

C4: Reconciliation of MCEV adjusted net worth to IFRS net asset value for the covered business

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

At 31 December 2012	**Total covered business**	**Long Term Savings**	**Emerging Markets**	**Old Mutual Wealth**	**Bermuda**	**Nordic**
						£m
IFRS net asset value[1]	**4,288**	**3,580**	**1,275**	**2,305**	**708**	**-**
Adjustment to include long-term business on a statutory solvency basis	**(926)**	**(898)**	**187**	**(1,085)**	**(28)**	**-**
Inclusion of Group equity and debt instruments held in life funds[2]	**367**	**367**	**364**	**3**	**-**	**-**
Goodwill	**(765)**	**(765)**	**(8)**	**(757)**	**-**	**-**
Adjusted net worth attributable to ordinary equity holders of the parent	**2,964**	**2,284**	**1,818**	**466**	**680**	**-**

At 31 December 2011	Total covered business	Long Term Savings	Emerging Markets	Old Mutual Wealth	Bermuda	Nordic
						£m
IFRS net asset value[1]	5,214	3,744	1,230	2,514	201	1,269
Adjustment to include long-term business on a statutory solvency basis	(1,905)	(1,108)	182	(1,290)	(14)	(783)
Inclusion of Group equity and debt instruments held in life funds[2]	365	365	365	-	-	-
Goodwill	(998)	(797)	(9)	(788)	-	(201)
Adjusted net worth attributable to ordinary equity holders of the parent	2,676	2,204	1,768	436	187	285

[1] IFRS net asset value is after elimination of inter-company loans.
[2] A further £(36) million (2011: £(69) million) relates to the non-covered business. This brings the total adjustment to IFRS net asset value to £1,360 million (2011: £2,607 million).

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 shareholder funds. In South Africa, these values exclude items that are eliminated or shown separately on consolidation (such as Nedbank and inter-company loans). For some European countries the value reflected in the adjustment to include long-term business on a statutory solvency basis includes the value of the deferred acquisition cost asset, which is part of the equity.

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

- The excess of the IFRS amount of the deferred acquisition cost (DAC) and value of business acquired (VOBA) assets over the statutory levels included in the VIF with the exception of the Bermuda business where DAC is an admissible asset under local statutory basis.
- When projecting future profits on a statutory basis, the VIF includes the shareholders' value of unrealised capital gains. To the extent that assets in IFRS are valued at market and the market value is higher than the statutory book value, these profits have already been taken into account in the IFRS equity. For Bermuda business, VIF reflects the impact of amortising DAC allowed under the ANW at 31 December 2011. DAC has been completely written off at 31 December 2012.

Notes to the MCEV basis supplementary information

For the year ended 31 December 2012

D1: Sensitivity tests

The tables below show the sensitivity of the MCEV, value of in-force business at 31 December 2012 and the value of new business for the year ended 31 December 2012 to the following:

- **Economic assumptions 100 bps increase/decrease:** Increasing/decreasing all pre-tax investment and economic assumptions (projected investment returns and inflation) by 100 bps, with credited rates and discount rates changing commensurately.
- **Equity/property market value 10% increase/decrease:** Equity and property market value increasing/decreasing by 10%, with all pre-tax investment and economic assumptions unchanged.
- **10bps increase of liquidity spreads:** Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities, with credited rates and discount rates changing commensurately.
- **25% increase in equity/property and swaption implied volatilities:** 25% multiplicative increase in implied volatilities.
- **VNB 10% increase in acquisition expenses:** For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10%, with no corresponding increase in policy charges.
- **VNB on closing economic assumptions:** Value of new business calculated on economic assumptions at the end of reporting period.
- **NHR capital diversification:** Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business.
- **99.93% confidence level NHR capital:** Economic capital for residual non-hedgeable risks calculated assuming a 99.93% confidence level which is targeted by an internal economic capital model.

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

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

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

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

At 31 December 2011, Nordic was included in all sensitivities.

D1: Sensitivity tests continued

Sensitivity tests: MCEV

£m

	At 31 December 2012			At 31 December 2011		
	MCEV	**Value of in-force business**	**Value of new business**	MCEV	Value of in-force business	Value of new business
Central assumptions	**6,365**	**3,401**	**197**	7,212	4,536	233
MCEV, VIF & VNB given changes in:						
Economic assumption 100 bps increase	**6,253**	**3,285**	**180**	7,103	4,384	215
Economic assumption 100 bps decrease	**6,471**	**3,505**	**215**	7,315	4,673	250
Equity/property market value 10% increase	**6,647**	**3,632**	**206**	7,585	4,790	244
Equity/property market value 10% decrease	**6,169**	**3,248**	**192**	6,869	4,283	223
10bps increase of liquidity spreads	**6,374**	**3,410**	**198**	7,221	4,545	234
50bps contraction on corporate bond spreads	**6,380**	**3,402**	**197**	7,232	4,540	233
25% increase in equity/property implied volatilities	**6,311**	**3,358**	**197**	7,124	4,513	232
25% increase in swaption implied volatilities	**6,353**	**3,389**	**197**	7,198	4,521	233
10% decrease in discontinuance rates	**6,519**	**3,568**	**237**	7,405	4,749	280
10% decrease in maintenance expense	**6,580**	**3,616**	**216**	7,471	4,795	255
5% decrease in mortality/morbidity rates	**6,495**	**3,531**	**214**	7,333	4,657	247
5% decrease in annuitant mortality assumption	**6,358**	**3,394**	**197**	7,190	4,514	233
Minimum capital requirement	**6,421**	**3,457**	**202**	7,267	4,590	238
NHR capital diversification	**6,408**	**3,444**	**201**	7,282	4,606	239
99.93% confidence level NHR capital	**6,306**	**3,342**	**192**	7,155	4,478	227