# Appendix I

## Old Mutual plc Economic Capital at 31 December 2007

The Old Mutual Group Economic Capital position (based on a target ‘A’ rating) as at 31 December 2007 is £4.6 billion. This compares favourably with the Available Financial Resources (AFR) of the Group of £7.9 billion and represents a solvency margin of 73%. The total diversification benefit, allowing for diversification both between and within regional businesses, is 39%.

This is the second time that Old Mutual has disclosed its Economic Capital position. In the first disclosure, as at 31 December 2006, Economic Capital stood at £4.1 billion. The corresponding AFR of the Group was £7.1 billion, giving an economic surplus of 73%.

## Methodology

Old Mutual defines its Economic Capital requirement as the value of assets required to ensure that it can meet in full its obligations to policyholders and senior creditors at a 99.93% confidence level, which is the probability placed on a target A-rated bond not defaulting in the next year. Old Mutual has adopted a one-year Value-at-Risk approach, which is common market practice and is consistent with current Solvency II proposals.

The Old Mutual approach is to examine the impact of possible risk events on its economic balance sheet, by performing a number of stress tests (or “shocks”), where each shock has been calibrated to a 99.93% confidence level. A number of the more material risks (for example, interest rate risk and equity risk) are typically assessed using stochastic modelling, based on simulations obtained from an Economic Scenario Generator. Less material risks, and in particular, non-economic risks are modelled deterministically.

The calculated capital requirements for each risk are then combined using a correlation matrix to reflect the fact that all of the risks are not expected to occur simultaneously (i.e. are not perfectly correlated). The assumed correlations between each pair of risks are those that may occur under stressed scenarios, which may differ, typically adversely, from those that are exhibited under more normal conditions.

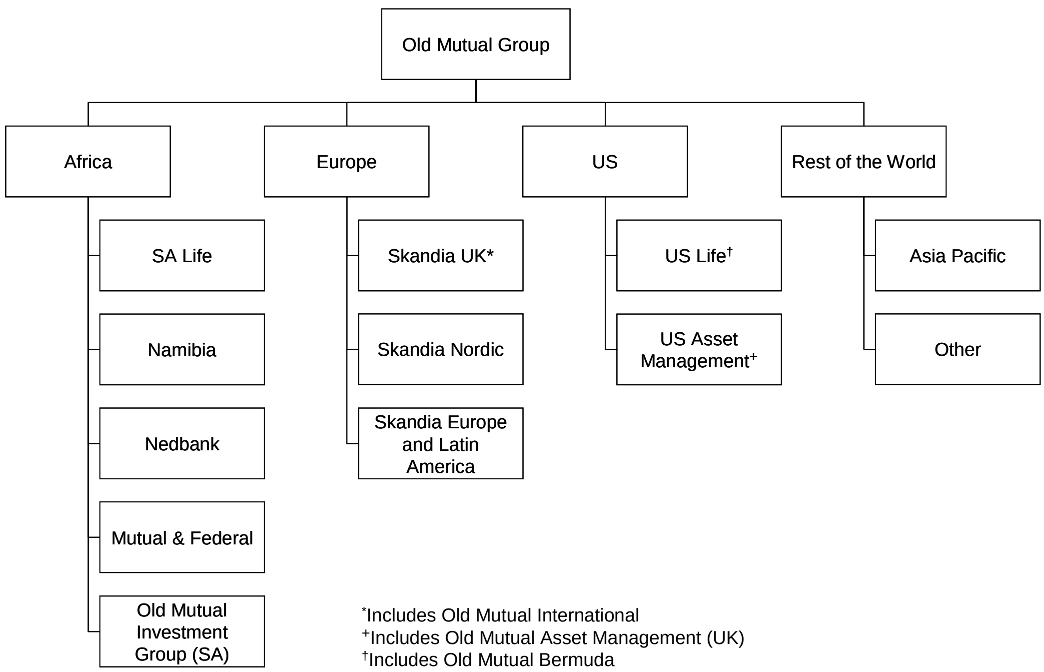
## Available Financial Resources (“AFR”)

The Group’s AFR is defined as the value of assets held by the Group in excess of its economic liabilities, and which could be used over the coming year to meet its Economic Capital requirements. In principal, for banking, general insurance and asset management business, AFR is the initial Net Asset Value. For life business, AFR is the initial embedded value of the business.

For the purpose of assessing the Group’s capital strength, cross-shareholdings between business units are unwound to remove ‘double-counting’ and to understand the capitalisation of each, in isolation, relative to its risk exposure.

## Old Mutual companies included in the result

The following businesses are included in Old Mutual’s Group Economic Capital figures.




*Includes Old Mutual International
+Includes Old Mutual Asset Management (UK)
†Includes Old Mutual Bermuda

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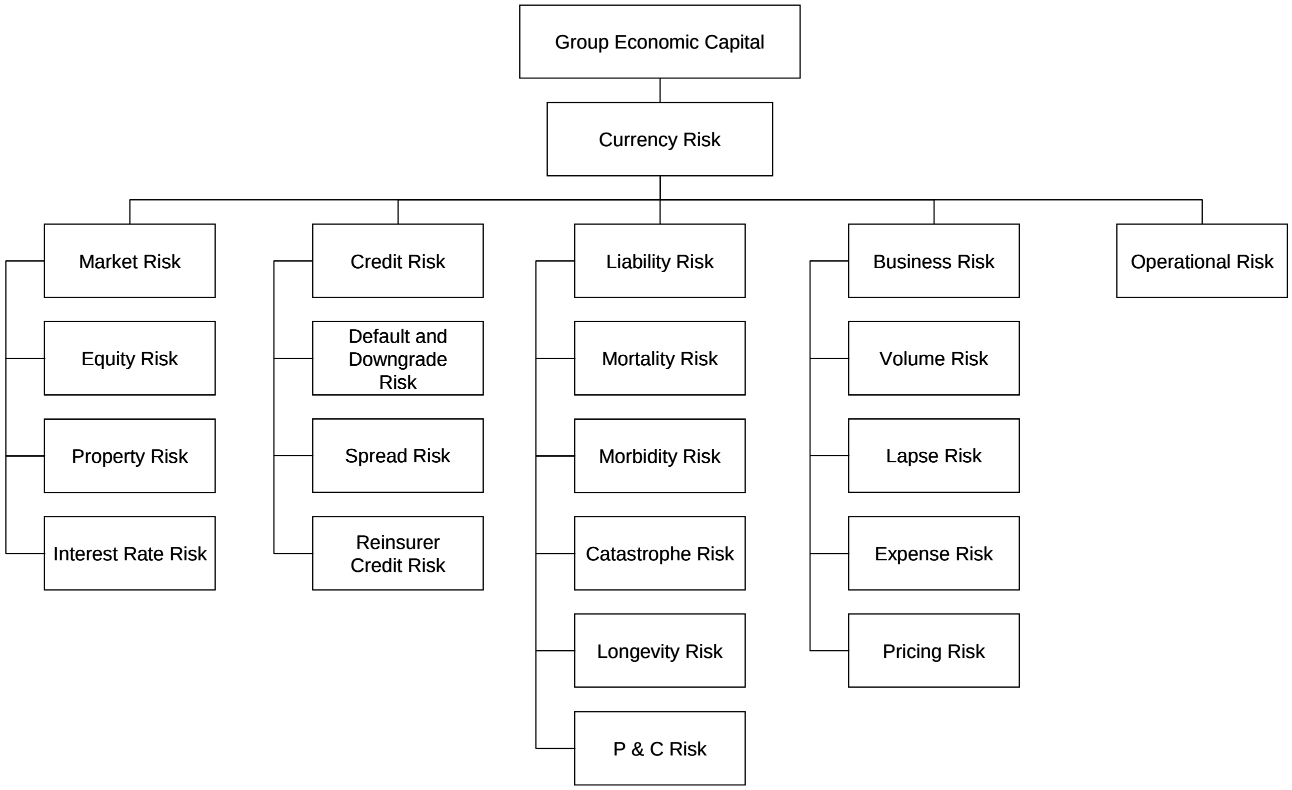
### Risk Types

The Economic Capital requirement has been calculated through a detailed process of identifying, quantifying and aggregating the impact of risks across the Group's principal business units. Risks are classified into six categories – Market, Credit, Liability, Business, Operational, and Currency.

Nedbank has a different risk classification, based on Basel II, so these risks have been reclassified for inclusion within Old Mutual's aggregated Group results. The diagram below shows the breakdown of sub-risks by key risk category.




Definitions for each of the key risk categories are as follows:

### Market Risk

This captures the worst case value change over the one-year time period as a result of changes in specified financial risk factors (for example, equity and real estate returns, and yield curve shifts), where the changes are applied to policyholder liabilities, assets backing these liabilities and the assets not directly backing these liabilities.

### Credit Risk

This captures the worst case value change over the one-year time period as a result of credit defaults, rating changes and spread moves, where the changes are applied to fixed interest holdings and receivables of the company.

### Liability Risk

This captures the worst case value change over the one-year time period as a result of fluctuations in current insurance claims experience and revisions to estimates of future insurance claims experience.

For life insurance, this relates to the fluctuations in the incidence of mortality, longevity, morbidity and insured accident and disability events.

For general insurance, this relates to the adequacy of existing reserves to meet claims arising from elapsed exposure periods, and of earned premiums over the scenario period to meet claims arising from that period of exposure (including claims arising from catastrophes).

### Business Risk

This is the fundamental risk associated with 'being in business'. It captures the worst case value change over the one-year time period due to fluctuations in volume, margin, expenses and lapse experience (including only non-market related lapses).

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### Operational Risk

This captures the worst case value change over the one-year time period due to the occurrence of unexpected one-off events (internal or external) in relation to people, processes or systems. Examples include systems failure, process errors, control failures, fraud, litigation, staffing issues, regulatory breach and external disruption. Old Mutual has adopted a bottom-up scenario analysis through its business units to assess the capital to be held to mitigate this risk.

### Group Currency Risk

We test the solvency of each region separately to the same Group standard, in order to ensure solvency on a standalone basis per region. In addition, we recognise the risk that exchange rates move adversely should capital be transferred across the Group. The Group diversification benefit is reduced accordingly to allow for this.

### Liquidity Risk

This reflects the risk that Old Mutual does not have sufficient cash flow available to meet its financial obligations as they fall due. Group and business unit treasury teams monitor and control liquidity risk within the Old Mutual Group. An Economic Capital requirement is not calculated to meet this risk, since Old Mutual believes that holding capital is not an effective and efficient way to manage liquidity risk.

### Limitations

Old Mutual recognises that the risks captured within an Economic Capital framework cannot capture all possible risks that may occur over the following 12 month period. In particular, the risk of capital loss owing to decisions yet to be taken, e.g. strategic risks, cannot realistically be modelled.

Our Economic Capital model is becoming increasingly robust. During the last year we have carried out a thorough review of risk coverage, assumptions and governance processes.

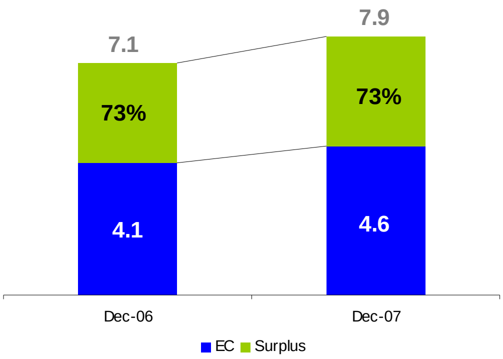
The results continue to show that a substantial margin exists between the Group AFR and Economic Capital requirement, supporting the view that the Group is strongly capitalised on an economic basis.

### Group Results

Old Mutual's Group Economic Capital requirement as at 31 December 2007 is £4.6 billion. The corresponding AFR of the Group was £7.9 billion, giving an economic surplus of 73%.

As at 31 December 2006, Old Mutual's Group Economic Capital stood at £4.1 billion, when the AFR of the Group was £7.1 billion – also giving an economic surplus of 73%.

The progression of these financial results is as follows:



(£ billions)

Economic Capital has increased from 2006 to 2007 largely due to enhanced recognition of the underlying risk profile, updates in assumptions and revised methodology.

AFR has increased largely due to an increase in retained earnings.

The results confirm that the Group is strongly capitalised on an economic basis. A comfortable surplus also exists within each of our South African, US and European regions, meaning that the Group is not reliant for its economic solvency on the need to transfer capital between geographies.

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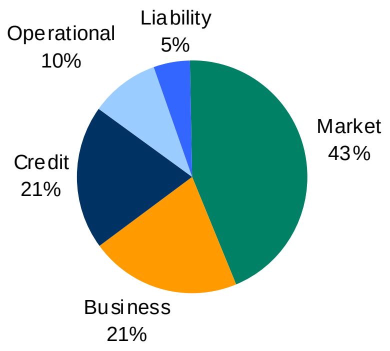
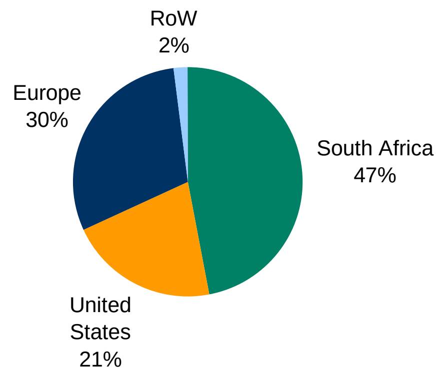
The Economic Capital requirement is split as follows:

**Group EC (pre-diversified) split by risk type**




**Group EC (pre-diversified) split by region**




Market risk represents the largest element of group Economic Capital split by risk type. This includes the impact of both assets backing policyholder liabilities and shareholder assets. Liability risks constitute relatively little of the Group Economic Capital since they are relatively weakly correlated with other risks. The mix of other risks is well spread.

The pre-diversified Economic Capital split by region remains broadly unchanged from the 2006 position.

### Diversification benefit

Old Mutual benefits from the diversification of its Group business segments and the territories in which it operates. Consequently the Group Economic Capital requirement is lower than the sum of the standalone Economic Capital requirements of the separate business units.

This diversification benefit of 39% as at 31 December 2007 arises since risks in different business units are highly unlikely to crystallise at exactly the same time and because of the benefit of operating in diverse territories. If the diversification benefit had been defined as only diversification across but not within business units, the resultant figure would have been 17% as at 31 December 2007.

### Ongoing developments

Old Mutual continues to refine its Economic Capital methodology in line with emerging best practice, and looks for ways to make enhancements to its models in order to further improve the robustness of the results being produced. The stress tests applied in calculating Economic Capital are regularly reviewed and revised if necessary.

The European Commission is continuing to develop its Solvency II framework for insurance companies and Old Mutual monitors developments in line with emerging Solvency II practice. Significant developments are fed back into Old Mutual's Economic Capital models, and Old Mutual continues to prepare for Solvency II.

### How does Old Mutual use Economic Capital

Old Mutual is increasingly using Economic Capital in a number of ways to inform business decisions and actions.

Economic Capital plays a significant role in risk monitoring and control in the Group, providing the key measurement tool used in Old Mutual's developing risk appetite framework. The risk appetite framework will set targets and monitor risk exposures for capital at risk, earnings at risk, cash flow at risk and operational risk at both business unit and group level.

Old Mutual uses Economic Capital to measure and monitor performance of business units allowing for risk and the cost of Economic Capital required to support that risk. The 2009-2011 business plans will contain both projected Economic Capital and risk-adjusted performance targets for each business unit for the first time.

Old Mutual is currently making good progress in implementing a market-consistent methodology for the calculation of its Embedded Value for the year ending 31st December 2008. As part of the revised methodology, Economic Capital will form an input into the required capital and non-hedgeable risk components of the market-consistent Embedded Value.

Economic Capital is also playing an increasingly important role in risk-based pricing across the Group, with a number of examples where Economic Capital is one measure on which metrics for new product development and pricing are based.

Business units within the Group have also started considering Economic Capital in decisions around reinsurance retention levels.

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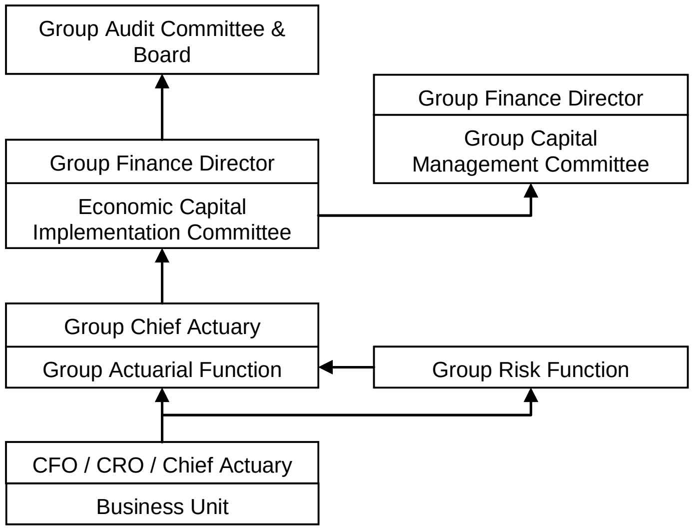
## Governance

Economic Capital at Old Mutual is measured, monitored and reported under a rigorous governance process involving senior executives as well as the Board. The diagram overleaf shows the sign-off process for the setting of Group Economic Capital policy and assumptions and the production of results.




The Group Economic Capital methodology provides a framework to establish a common yardstick for measuring and managing risk and capital. This methodology is intended as a foundation, based on which each business unit has its own methodology, consistent with the Group framework.

The Chief Financial Officer of each business unit and at Group level, with assistance from the Chief Risk Officer and Chief Actuary as appropriate, has responsibility for the ownership and sign-off of Economic Capital requirements.

The Group Actuarial function is responsible for recommending assumption changes to the Economic Capital Implementation Committee[1], reviewing and challenging business unit submissions and producing the aggregated Group result and associated reports. The Group result is signed off by the Economic Capital Implementation Committee and ultimately the Group Audit Committee and Board. The Group Risk function is responsible for agreeing the methodology for assessing operational risk and reviewing business unit operational risk assessments. The Group Actuarial and Group Risk functions also advise the Economic Capital Implementation Committee in setting policy for the Group.

Economic Capital results are also reported to the Group Capital Management Committee, chaired by the Group Finance Director.

[1] *The committee is chaired by the Group Finance Director, and including the Group Risk Director, Group Chief Actuary and business unit CFOs as members*