ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

A1: Basis of preparation

Statement of compliance

Old Mutual plc ('the Company' or 'plc') is a company incorporated in England and Wales and is the ultimate Parent Company of the Group companies. Plc Head Office collectively refers to the plc Parent Company and the other centre companies of the Group, which typically own and manage the Group's interests across the Group.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group') and equity account the Group's interest in associates and joint ventures (other than those held by life assurance funds which are accounted for as investments at fair value through profit or loss). The Parent Company financial statements present information about the Company as a separate entity and not about the Group.

Both the Parent Company financial statements and the Group financial statements have been prepared and approved by the directors in accordance with IFRS as adopted by the EU. On publishing the Parent Company financial statements here together with the Group financial statements, the Company is taking advantage of the exemption in section 408 of the Companies Act 2006 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies adopted by the Company and Group, unless otherwise stated, have been applied consistently to all periods presented in these consolidated financial statements.

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value or modified historic cost: derivative financial instruments, financial assets and liabilities designated as fair value through profit or loss or as available-for-sale, owner-occupied property and investment property, cash-settled share-based payments, pension scheme assets and insurance and investment contract liabilities. Assets and disposal groups held for sale and distribution are stated at the lower of the carrying amount prior to disposal and the fair value less costs to sell.

The Parent Company financial statements are prepared in accordance with these accounting policies, other than for investments in subsidiary undertakings and associates, which are stated at cost less impairments in accordance with IAS 27.

The Company and Group financial statements have been prepared on the going concern basis which the directors believe to be appropriate having taken into consideration the points as set out in the Directors Report in the section headed Going Concern.

Judgements made by the directors in the applications of these accounting policies that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are discussed in note A3.

Assets and liabilities classified as held for sale and distribution and discontinued operations

In anticipation of the execution of the Group's managed separation strategy through distribution of Old Mutual Wealth shares and the planned subsequent distribution of a significant portion of the Group's stake in Nedbank (resulting in the probable loss of control of these businesses), the Group's interests in the assets and liabilities of these businesses have been classified as held for distribution in the consolidated statement of financial position at 31 December 2017. Consistent with the requirements of accounting standards, the comparative information in the consolidated statement of financial position has not been re-presented for businesses classified as held for distribution. In addition, these businesses have been presented as discontinued operations in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2017. Consistent with the requirements of accounting standards, comparative information in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2016.

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

Accounting policy elections
The following significant accounting policy elections have been made by the Group:

Property and equipment	– Land and buildings are stated at revalued amounts. Revaluation surpluses are recognised through other comprehensive income.
Investment in venture capital divisions and investment-linked insurance funds	– In venture capital divisions and investment-linked insurance funds, the Group has elected to carry associate and joint-venture entities at fair value through profit or loss.
Financial instruments	– The Group has elected to designate certain fixed-rate financial assets and liabilities at fair value through profit or loss to reduce an accounting mismatch. – Regular way purchases or sales of financial assets are recognised and derecognised using trade date accounting.
Investment properties	– The Group has elected to recognise all investment properties at fair value, with changes in fair value being recognised in profit or loss for the year.
Investments in subsidiaries, associate companies and joint arrangements	– The Group has elected to recognise these investments at cost in the Company financial statements.

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 for the year. 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 hedged net investments, is recognised in profit or loss. Cumulative translation gains and losses up to 1 January 2004, being the effective date of the Group's conversion to IFRS, were reset to zero.

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

	Year ended 31 December 2017		Year ended 31 December 2016	
	Income statement (average rate)	**Statement of financial position (closing rate)**	Income statement (average rate)	Statement of financial position (closing rate)
Rand	**17.1493**	**16.7565**	19.9305	16.9551
US dollars	**1.2884**	**1.3524**	1.3558	1.2345
Euro	**1.1407**	**1.1249**	1.2251	1.1705

A2: Significant corporate activity and business changes during the year
This has been included in the Annual Reporting Accounts and is not considered to be an accounting policy.

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. This requires assumptions and predictions of future events and actions. There have been no significant methodology changes to the critical accounting estimates and judgements that the Group applied at 31 December 2016. The significant accounting policies are described in the relevant notes.

In the current year, the Group applied significant judgement determining whether Nedbank and Old Mutual Wealth should be classified as discontinued operations and as assets and liabilities held for sale and distribution. However, these classifications did not have any valuation impact on the underlying assets and liabilities. Refer to note A4 for more information.

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

A3: Critical accounting estimates and judgements

The key areas of the Group's business that typically require such estimates and the relevant accounting policies and notes are as follows:

Area	Policy Note
Valuation of financial assets and liabilities	A8
Loans and advances	A8
Life assurance contract provisions	A9
Intangible assets and goodwill	A10
Investments in subsidiaries and associated undertakings and joint ventures	A13
Tax	A14

Critical accounting estimates and judgements – Provisions for impairment of loans and advances

Allowances for loan impairment represent management's estimate of the losses incurred in the loans and advances portfolios at the reporting date.

The Group assesses its loan portfolios for impairment at each reporting date. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Group makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cashflows from a portfolio of loans before the decrease can be allocated to an individual loan in that portfolio. Estimates are made of the duration between the occurrence of a loss event and the identification of a loss on an individual basis. 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 potential future 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.

Within portfolios, which comprise large numbers of small homogeneous 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. These statistical analyses use, as primary inputs, the extent to which accounts in the portfolio are in arrears and historical information on the eventual losses encountered from such delinquent portfolios. There are many such models in use, each tailored to a product, line of business or client category.

Judgement and knowledge are needed in selecting the statistical methods to be used when the models are developed or revised. The impairment allowance reflected in the financial statements for these portfolios is considered to be reasonable and supportable.

For larger exposures impairment allowances are calculated on an individual basis and all relevant considerations that have a bearing on the expected future cashflows are taken into account. For example, the business prospects for the client, the realisable value of collateral, the Group's position relative to other claimants, the reliability of client information and the likely cost and duration of the workout process. The level of the impairment allowance is the difference between the value of the discounted expected future cashflows (discounted at the loan's original effective-interest-rate) and its carrying amount. Subjective judgements are made in the calculation of future cashflows. Furthermore, judgements change with time as new information becomes available or as workout strategies evolve, resulting in frequent revisions to the impairment allowance as individual decisions are taken. Changes in these estimates would result in a change in the allowances and have a direct impact on the impairments charge.

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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Critical accounting estimates and judgements – Policyholder liabilities

Emerging Markets Financial Soundness Valuation discount rate

The calculation of the Group's South African life assurance contract liabilities is sensitive to the discount rate used to value the liabilities. The methodology applied by the Group requires discount rates to be set according to the South African professional guidance note (SAP 104). In line with these principles, the reference rate is selected as the Bond Exchange of South Africa (BESA) bond 10-year yield.

The reference rate was relatively volatile over 2017, ranging from 8.5% to 9.8% (2016: 8.6% to 10.0%). At 31 December 2017, the reference discount rate was 9.0% (2016: 9.1%). The volatile interest rate environment continued to have a negligible impact on the operating profit for the South African life assurance businesses during 2017, given the continuance of the hedging program and discretionary margins put in place to mitigate these impacts.

The Group estimates that a 1% reduction in the reference discount rate would result in an increase in insurance contract liabilities and a decrease in profit after tax as at 31 December 2017 of £9 million (2016: £3 million), allowing for the mitigating impacts of the hedging programme and discretionary margins in place.

This is due to further management actions to reduce the impact of volatile interest rates on profit in 2017.

Emerging Markets discretionary reserves

Technical provisions in South Africa are determined as the aggregate of:

- Best estimate liabilities, with assumptions allowing for the best estimate of future experience and a market-consistent valuation of financial options and guarantees
- Compulsory margins, prescribed in terms of the Long Term Insurance Act, 1998 and South African professional actuarial guidance note (SAP 104) as explicit changes to actuarial assumptions that increase the level of technical provisions held, and
- Discretionary margins, permitted by the Long Term Insurance Act, 1998 and SAP 104, to allow for the uncertainty inherent in estimates of future experience after considering available options of managing that experience over time, or to defer the release of profits consistent with policy design or company practice.

Discretionary margins are held as either implicit or explicit margins. Explicit discretionary margins are derived as conscious changes to assumptions used to project future experience to increase technical provisions. Implicit discretionary margins arise where the method used to calculate overall technical provisions results in liabilities that are greater than the sum of best estimate liabilities and compulsory margins.

Explicit discretionary margins of R8,021 million (£479 million) (1.4% of total technical provisions) were held at 31 December 2017 (2016: R7,823 million (£461 million), 1.5% of total technical provisions). This consisted largely of:

- Margins held for Mass Foundation Cluster protection business, which allow for the uncertainty related to mortality experience in South Africa, as well as future lapse experience and future investment returns, and to ensure that profit is released appropriately over the term of the policies
- Margins to allow for the uncertainty inherent in the assumptions used to value financial options and guarantees, implied volatility assumptions in particular, which are difficult to hedge due to the short term nature of the equity option market in South Africa
- Margins on non-profit annuities, due to the inability to fully match assets to liabilities as a result of the limited availability of long-dated bonds, and to provide for longevity risk, and
- Margins for the uncertainty inherent in future economic assumptions used to calculate, mainly protection product liabilities, in the Retail Affluent and Mass Foundation Cluster businesses. Although interest rate hedging is used to manage interest rate risk on these products, the volatility of bond yields in South Africa means that it is difficult to maintain appropriate hedging positions without incurring significant trading costs. The discretionary margin therefore caters for the residual uncertainty present after allowing for the hedge programme that is in place.

Old Mutual Bermuda guarantees

Old Mutual Bermuda no longer owns any underlying policies or manages any policyholder funds. The Guaranteed Minimum Accumulation Benefits (GMAB) risk on the remaining active variable annuity contracts is to be retained until the last GMAB policy with a Universal Guarantee Option (UGO) rider passes its 10-year anniversary, which will be no later than August 2018. All remaining business operations, subject to regulatory approvals, are expected to be substantially wound down by 31 December 2018.

Almost all of the remaining GMAB risk relates to policies sold with UGOs. Products sold with a Capital Guarantee Option (CGO) GMAB, a product predecessor to the UGO, hold less onerous guarantees and do not give rise to significant risk.

The GMAB UGOs guarantee policyholders a return of 120% of invested premiums and, subject to policyholder election, also a Highest Anniversary Value (HAV) guarantee. These guarantees crystallize on the 10-year anniversary of policies, the remainder of which will be reached in 2018. The market risk attached to the GUO guarantees, and relating to equity and foreign exchange downside risksis currently being managed by OTM quanto put options which covered circa 102% of the remaining equity and foreign exchange UGO GMAB exposures as at 31 December 2017. This slightly over-hedged position was mainly due to the higher than expected lapses in 2017.

GMAB reserves have decreased from £85 million ($104 million) at 31 December 2016 to £9 million ($12 million) at 31 December 2017, a decrease of £76 million ($92 million), mainly due to the expiration of GMAB guarantees and favourable equity and foreign exchange markets in 2017.

If the Group were to stress the underlying assets and liabilities, by adding 10% to the current level of volatility, it would increase the underlying assets by £2 million and increase the value of the liability by £1 million, which would result in a net profit for the Group of circa £1 million.

If the Group were to stress the underlying assets and liabilities, by decreasing the current level of volatility by 10%, it would decrease the underlying assets £2 million and decrease the value of the liability by £1 million, which would result in a net loss for the Group of £1 million.

Critical accounting estimates and judgements – Goodwill and intangible assets

Annual impairment testing of goodwill

In accordance with the requirements of IAS 36 'Impairment of Assets', goodwill is tested annually for impairment for each Cash Generating Units (CGU), by comparing the carrying amount of each CGU to its recoverable amount, being the higher of that CGU's value in use or fair value less costs to sell. The appropriateness of the CGUs is evaluated on an annual basis. An impairment charge is recognised when the recoverable amount is less than the carrying value.

Emerging Market's CGU's generate revenue through their life assurance, asset management, property & casualty and banking businesses in several regions, but principally in Africa and Latin America.

Determination of Cash Generating Units

At 30 June 2017, the change in the operating structure prompted the separation of the previously reported single Old Mutual Southern and East Africa (OMSEA) CGU into two CGUs for Southern Africa and East Africa. The composition of the East African CGU includes the former Old Mutual Kenya and the recently acquired business interests in UAP and Faulu. The goodwill balance of £114 million of the OMSEA CGU at 31 December 2016 was allocated in its entirety to the East African CGU, which is primarily located in Kenya, on the basis that it related to the acquisitions of UAP and Faulu within that region.

At 31 December 2017, in light of managed separation and the monitoring of the performance of the business, the management of Emerging Markets reconsidered the appropriateness of its CGU's and based on evidence concluded the lowest attributable CGU's should be based on individual countries. The South African CGU have been further allocated into five CGU's being Retail, Mass Foundation, Corporate, Investment and OM Insure, on which basis management have performed goodwill impairment testing.

Therefore, the results of the goodwill testing performed are not directly comparable on a year on year basis.

Value in Use models

In the performance of goodwill impairment testing the Emerging Markets used a discounted cash flow model, which incorporated planned business performance and a risk adjusted discounted rate.

Impairment losses recognised during H1 2017

An impairment charge of £69 million was recognised in the Emerging Markets segment at 30 June 2017. This impairment of goodwill was principally the result of changes in the CGU definition following the simplification of the Rest of Africa businesses' operating structure. Weaker performance in the East Africa businesses than was anticipated at the time of the previous impairment review also had a minor impact. The following key assumptions were used in the goodwill impairment test performed at 30 June 2017 which included a risk adjusted long-term discount rate of 17.00% and cash flows in year 1 to 3 of 70.0% of the planned business performance; growth in cash flows of 13.0% for years 4 and five and terminal growth rate of 8.5%.

The result of using the above assumptions resulted in the Group recognising an impairment of £69 million in profit or loss relating to the East African CGU. The impairment of goodwill has been allocated to equity holders of the parent (£42 million) and non-controlling interests (£27 million).

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Impairment losses recognised during H1 2017
A goodwill impairment charge of £16 million has been recognised in 2017 following further impairment reviews in H2 2017. This was recognised in relation to the Aiva business in Uruguay. This impairment was reflective of the challenging business environment in the country.

Apart for the goodwill impairment losses for East Africa and Uruguay, no other goodwill impairment losses have been recognised in profit or loss for the year ended 31 December 2017.

The following key assumptions have been used in the performance of goodwill impairment testing for the year ended 31 December 2017:

		Cash flows		
	Discount rate	Year 1 -3 (business plan)	Year 4 -5 growth rate	Terminal growth rates
Uruguay	14.35%	100%	3.75%	1.88%
Columbia Mexico	14.35%	100%	5.73%	2.87%
East Africa	17.00%	85%	13.00%	8.50%
Namibia	18.56%	100%	8.00%	4.00%
OM Insure	13.06%	100%	4.80%	2.40%
Investment segment	13.06%	100%	4.80%	2.40%
Corporate segment	13.06%	100%	4.80%	2.40%
Mass Foundation segment	13.06%	100%	4.80%	2.40%

Sensitivities and headroom analysis
The aggregated results of the goodwill testing indicated total headroom of £2,976 million at 31 December 2017. Excluding the results of goodwill impairment testing for the Uruguay CGU, a 1% increase in the discount rate on any of the CGUs' identified would not result in any goodwill impairment being recognised.

The following sensitivities on inputs used in the goodwill impairment testing have indicate that:

- A 1% increase in the discount rate would decrease headroom by £416 million; and
- A 1% decrease in the discount rate would increase headroom by £509 million.

Impairment losses recognised during 2016
A goodwill impairment charge of £64 million for the year ended 31 December 2016 was recognised for the OMSEA CGU.The following key assumptions were used in the performance of goodwill testing for the year ended 31 December 2016:

		Cash flows		
	Discount rate	Year 1 -3 (business plan)	Year 4 -5 growth rate	Terminal growth rates
Latin America	14.90%	100%	17.00%	1.50%
Old Mutual Southern and East Africa	22.30%	100%	18.00%	4.50%
Old Mutual South Africa	14.30%	100%	7.50%	2.40%

Impairment testing relating to the assets held for sale and distribution
At 31 December 2017, no impairment losses have been recognised for the Nedbank and Old Mutual Wealth businesses, which have been classified and presented as discontinued operations in the consolidated income statement and as held for distribution in the consolidated statement of financial position in terms of the requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. Impairment losses are determined as the deficit between fair value less cost to distribute of each business and the carrying value of each business at 31 December 2017.

The fair value less cost to distribute of Nedbank was determined by reference to its quoted market price and the ZAR/GBP foreign exchange rate as at 31 December 2017. At 31 December 2017, the fair value less cost to distribute exceeded the carrying value of Nedbank and the Group therefore concluded that goodwill and other intangible assets related to the Nedbank are not impaired. The fair value less cost to distribute of Old Mutual Wealth is not observable in a quoted active market and accordingly it has been determined by reference to external broker valuation reports and an internal valuation performed for goodwill impairment testing. As such, the conclusion of this matter has required significant judgement and the use of estimates.

At 31 December 2017, the Group has concluded that the fair value less costs to distribute exceeded the carrying value of Old Mutual Wealth and therefore no impairment losses of goodwill and other intangible assets have been recognised.

In addition, no other impairments for property, plant and equipment, investment properties or other intangible assets have been recognised as a result of classifying these businesses as held for distribution.

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

Critical accounting estimates and judgements – Investments in subsidiaries, associated undertakings and joint arrangements

The Group has applied the following key judgements in the application of the requirements of the consolidation set of standards (IFRS 10 'Consolidated Financial Statements' and IFRS 11 'Joint Arrangements'):

Consolidation of investment funds and securitisation vehicles

The Group acts as a fund manager to a number of investment funds. In determining whether the Group controls such a fund, it will focus on an assessment of the aggregate economic interests of the Group (comprising any carried interests and expected management fees) and the investor's rights to remove the fund manager. This general assessment is supplemented by an assessment of third-party rights in the investment funds, with regards to their practical ability to allow the Group not to control the fund. The Group assesses, on an annual basis, such interests to determine if the fund will be consolidated. The non-controlling interests in investment funds consolidated by the Group are classified as third-party interests in consolidated funds, a financial liability, in the consolidated statement of financial position. These interests are classified at fair value through profit or loss and measured at fair value, which is equal to the bid value of the number of units of the investment funds' scheme not owned by the Group. Any investments held in Old Mutual plc shares are treated as treasury shares and are eliminated as a direct decrease in the value of equity and the value of investment and securities.

The Group has sponsored certain asset backed financing (securitisation) vehicles under its securitisation programme which are run according to pre-determined criteria that are part of the initial design of the vehicles. The Group is exposed to variability of returns from the vehicles through its holding of junior debt securities in the vehicles. It has concluded that it controls these vehicles and therefore has consolidated these asset backed financing vehicles.

Structured entities

The Group is required to make judgements on what constitutes a structured entity. Accounting standards define a structured entity as an entity designed so that its activities are not governed by way of voting rights. In assessing whether the Group has power over such investees in which it has an economic interest, the Group considers numerous factors. These factors may include the purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee and the size of its exposure to the variability of returns of the investee. The Group has evaluated all exposures and has concluded that all investments in investment funds as well as certain securitisation vehicles and other funding vehicles represent investments in structured entities. Information on structured entities is included in note I3.

Accounting for the investment in Zimbabwe

Following recent political developments in Zimbabwe, the current macro-economic situation remains fluid, and the market reaction remains volatile. The current risks for our Zimbabwean businesses include the shortage of US dollars, uncertainty of the current levels and growth of equity markets and property prices and reputational issues arising from the postponement of all bonus declarations in light of the current market uncertainty.

The Group has total assets and total liabilities of £2,280 million (2016: £1,778million) and £1,859 million (2016: £1,456 million) respectively in the Zimbabwean business of which £69 million (2016: £26 million) are listed financial assets at fair value. In addition the Group has £1,090 million (2016: £785 million) of policyholder liabilities which are backed by primarily investment and securities held by the Group.

The Group has concluded on the following key judgements in the preparation of the Group financial statements: the control and functional currency of the Zimbabwean businesses and the fair value of locally listed financial assets and liabilities.

The Group has concluded that it will consolidate the Zimbabwean businesses as it still has the ability to exercise control. The functional currency of the Zimbabwean businesses, consistent with prior years, is US Dollars. This is evidenced by trade in Zimbabwe being principally conducted in US dollar and that all major goods and services are priced in US Dollar.

The fair value of any financial assets or liabilities was based on the unadjusted quoted prices as the Group believes the traded prices represent fair value in an active and orderly market. The Group has evidenced this through the reviewing the volume and value of trades conducted on the Zimbabwe Stock Exchange (ZSE).

The value of the ZSE index was 144.53 at 31 December 2016, 195.97 at 30 June 2017 and 323.98 at 31 December 2017. Subsequent to year end the ZSE index was 294.55 at 28 February 2018.The ZSE index provides the underlying context of the investment returns earned by the Zimbabwean business.

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Critical accounting estimates and judgements – Income tax

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

The Group is subject to income taxes in numerous jurisdictions and the calculation of the Group's tax charge and worldwide provisions for income tax necessarily involves a degree of estimation and judgement. At any given time the Group typically has a number of open tax returns with various tax authorities and engages in active dialogue to resolve this. Taxation provisions relating to these open items are recognised based on the Group's estimate of the most likely outcome, after taking into account external advice where appropriate. Where the final tax outcome of these matters is different from the amounts that were initially recorded such differences will impact profit or loss, current and deferred income tax assets and liabilities in the period such determination is made.

A4: Discontinued operations and disposal groups held for sale

The Group announced at its preliminary results announcement in 2016, and in various subsequent updates, that the long-term interests of its shareholders and other stakeholders would be best served by a managed separation of the Group into its four constituent businesses:

- Emerging Markets, the South African incorporated emerging markets financial services business with a focus on Africa;
- Nedbank Limited (Nedbank), the South African incorporated retail and corporate bank with a significant presence in Africa;
- Old Mutual Wealth, the UK incorporated wealth and asset management business; and
- OM Asset Management plc (OMAM), the US incorporated asset management business.

As described in note A2, the disposal of the majority of the Group's shareholding in OMAM was completed on 18 November 2017 and managed separation of the other businesses is planned to be achieved through the execution of the following remaining steps:

- the distribution of the Old Mutual Wealth shares to existing Old Mutual shareholders and the listing of Old Mutual Wealth, which it is intended will incorporate a secondary public offering. Old Mutual Wealth will have a premium listing on the LSE and a secondary listing on the JSE.
- the creation of a new South African holding company, Old Mutual Limited (OML), which will acquire Old Mutual plc (consisting primarily of Emerging Markets and Nedbank pursuant to a scheme of arrangement under UK law).
- the distribution of the OML shares to existing Old Mutual plc shareholders and the listing of OML. OML will be primary listed on the JSE with a standard listing on the LSE and secondary listings on the ZSE, NSX and MSE.
- after the listing of OML and a period thereafter to allow for the share register to settle, OML anticipates unbundling (in terms of SA law) to its shareholders a significant portion of its shareholding in Nedbank, whilst retaining a strategic minority interest. Nedbank is primary listed on the JSE and secondary listed on the NSX.

Nedbank and Old Mutual Wealth comprised two of the Groups reported segments. In anticipation of the execution of the Group's managed separation strategy through distribution of Old Mutual Wealth shares and the planned subsequent distribution of a significant portion of the Group's stake in Nedbank (resulting in the probable loss of control of these businesses), the Group's entire interests in the assets and liabilities of these businesses have been classified as held for distribution in the consolidated statement of financial position at 31 December 2017. In addition, these businesses have been presented as discontinued operations in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2017, as required by IFRS. Comparative information have been re-presented accordingly.

This judgement was done based on the facts and circumstances which existed at 31 December 2017 when the Directors made a formal assessment of whether the businesses should be classified as held for distribution. It was determined that although a number of minor internal reorganisations remained to be implemented, as at 31 December 2017, the businesses in their current state could have been distributed. The Directors considered that it was highly probable that the Nedbank and Old Mutual Wealth business would be distributed within a period of twelve months based on interactions with South African and UK regulators, positive interactions with the relevant tax authorities and interactions with the South African government. The Directors have also taken into account the likelihood of the Court approval of the scheme in concluding that the businesses should be classified as held for distribution.

Note that following the planned distribution of Nedbank shares, the Group will revalue its residual associate interest at the market value prevailing at the time and will commence equity accounting of its interest as a continuing operation from that date.

A4: Discontinued operations and disposal groups held for sale continued

The phased reduction of the Group's majority stake in OMAM began in 2016. In addition, on 31 May 2016, the Group sold its interest in Rogge Global Partners Limited (Rogge). These two businesses comprised one of the Group's reported segments, Institutional Asset Management (IAM). As a consequence of the plans to dispose of these businesses, IAM was classified as held for sale in the consolidated statement of financial position at 31 December 2016. In addition IAM was presented as a discontinued operation in the consolidated income statement, consolidated statement of comprehensive income and consolidated statement of cash flows for the year ended 31 December 2016, as required by IFRS. From 18 November 2017, the Group's remaining 0.0008% stake in OMAM was accounted at fair value within investments and securities. More information about the accounting treatment following each tranche of the sell down of the Groups stake in OMAM can be found in note B1.

Further information on discontinued operations is provided in note A4.1 and further information on assets and liabilities classified as held for sale and distribution is provided in note A4.2. Due to the material contribution of Nedbank and Old Mutual Wealth to the Group's consolidated financial statements, the Group elected to present disclosures of certain material assets and liabilities classified as held for distribution within the respective notes that they relate to. Information on other held for sale assets and liabilities have been included in note A4.2.2.

A5: Liquidity analysis of the consolidated statement of financial position

The Group's consolidated statement of financial position is in order of liquidity as is permitted by IAS 1 'Presentation of Financial Statements'. In order to satisfy the requirements of IAS 1, the following analysis is given to describe how the consolidated statement of financial position lines are categorised between current and non-current balances, applying the principles laid out in IAS 1.

The following consolidated statement of financial position captions are generally classified as current – cash and cash equivalents, non-current assets held for sale, current tax receivable, third-party interests in the consolidation of funds, current tax payable, liabilities under acceptances and non-current liabilities held for sale. The following balances are generally classified as non-current – goodwill and other intangible assets, mandatory reserve deposits with central banks, property, plant and equipment, investment property, deferred tax assets, investments in associated undertakings and joint ventures, deferred acquisition costs, deposits held with reinsurers, provisions, deferred revenue and deferred tax liabilities.

The following balances include both current and non-current portions – reinsurers' shares of life assurance and property & casualty business policyholder liabilities, loans and advances, investments and securities, other assets, derivative financial assets and liabilities, life assurance and property & casualty policyholder liabilities, borrowed funds, amounts owed to bank depositors and other liabilities. The split between the current and non-current portions for these assets and liabilities is given either by way of a footnote to the relevant note to the accounts or by way of a maturity analysis (in respect of major financial liability captions).

A6: Standards, amendments to standards, and interpretations adopted in the 2017 annual financial statements

The following amendments to the accounting standards, issued by the IASB and endorsed by the EU, have been adopted by the Group from 1 January 2017 with no material impact on the Group's consolidated results, financial position or disclosures:

- Amendments to IAS 12 'Income Taxes', recognition of deferred tax assets for unrealised losses, effective for annual periods beginning on or after 1 January 2017
- Amendments to IAS 7 'Statement of Cash Flows', disclosure initiative, effective for annual periods beginning on or after 1 January 2017; and
- Amendments to IFRS 12 'Disclosure of Interests in other entities' (part of Improvements to IFRS 2014 to 2016 Cycle).

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

A7: Future standards, amendments to standards and interpretations not early-adopted in the 2017 annual financial statements

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group:

- IFRS 9: 'Financial Instruments'
- IFRS 15: 'Revenue from Contracts with Customers'
- IFRS 16: 'Leases'
- IFRS 17: 'Insurance Contracts'

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

One of the Group's associate investments, ETI, held by its' 55% percent subsidiary, Nedbank, will report results for the year ended 31 December 2017 subsequent to the release of the Group's audited consolidated financial statements. As allowed by IAS 28, the Group uses ETI's most recent public information (the quarter ended 30 September 2017) to determine its share of ETI's earnings. As ETI's most recent public information does not include the transitional impact of IFRS 9 and IFRS 15, the Group's disclosure of the transitional impact of these standards excludes our share of ETI's transitional impact.

IFRS 9 'Financial Instruments'

IFRS 9: 'Financial Instruments' (IFRS 9) was issued in July 2014 and will replace IAS 39: Financial Instruments: Recognition and Measurement. The standard is effective and will be implemented by the Group from 1 January 2018. The final version of this standard incorporates amendments to the classification and measurement, hedge accounting guidance, as well as the accounting requirements for the impairment of financial assets measured at amortised cost and fair value through other comprehensive income. IFRS 7's enhanced disclosure requirements, as a result of the adoption if IFRS 9, will result in improved credit risk disclosures and increased transparency with respect to impairment judgements and estimates.

The business that is most impacted by the implementation of IFRS 9 is Nedbank, which has been classified as held for distribution at 31 December 2017.

As permitted by the transitional provisions of IFRS 9, the Group has elected not to restate comparative figures. Any adjustments to the carrying amount of financial assets and financial liabilities at the date of transition will be recognised in the opening retained earnings and other reserves at 1 January 2018. The Group has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9. Furthermore, on the adoption of IFRS 9, the Group has adopted the amendment to IFRS 9 'Prepayment Features with Negative Compensation'.

Classification and measurement

Financial assets are classified based on (i) the business model within which the financial assets are held and managed and (ii) the contractual cash flow characteristics of the financial assets, whether the cash flows represent 'solely payments of principal and interest'.

Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold those assets for the purpose of collecting contractual cashflows and those cashflows comprise solely payments of principal and interest ('hold to collect' business model).

Financial assets are measured at fair value through other comprehensive income (FVOCI) if they are held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets and those contractual cashflows comprise solely payments of principal and interest ('hold to collect and sell' business model'). Movements in the carrying amount of these financial assets should be taken through other comprehensive income (OCI), except for impairment gains or losses, interest revenue and foreign exchange gains or losses, which are recognised in profit or loss. Where the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The remaining financial assets are measured at fair value through profit or loss (FVTPL). All derivative instruments that are either financial assets or financial liabilities will continue to be classified as held for trading and measured at fair value through profit or loss.

The accounting for financial liabilities is largely unchanged, except for financial liabilities designated at FVTPL. Changes in the fair value of these financial liabilities that are attributable to the Group's own credit risk are recognised in OCI. Where the financial liability is derecognised, the cumulative gain or loss previously recognised in OCI is not reclassified from equity to profit or loss. However, it may be reclassified within equity.

For equity investments that are neither held for trading nor contingent consideration, the Group may irrevocably elect to present subsequent changes in fair value of these equity investments in other comprehensive income (OCI). Where the equity investment is derecognised, the cumulative gain or loss previously recognised in OCI is not reclassified from equity to profit or loss. However, it may be reclassified within equity. Alternatively where the Group does not make the aforementioned election, fair value changes are recognised in profit or loss. This election is made on an investment by investment basis.

On the initial application of IFRS 9, an entity may revoke its previous designation of financial assets and financial liabilities measured at fair value through profit or loss (fair value option) with the loans being reclassified into amortised cost or FVOCI depending on the entity's business model for the asset.

Impairments

Impairments in terms of IFRS 9 will be determined based on an expected credit loss (ECL) model rather than the current incurred loss model required by IAS 39. The Group will be required to recognise an allowance for either 12-month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

The measurement of ECLs reflects a probability-weighted outcome, the time value of money and the entity's best available forward-looking information. The aforementioned probability-weighted outcome must consider the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is low.

The ECL model applies to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments as well as financial guarantee contracts.

The IFRS 9 impairment implementation progressed during 2017. The following were the main areas of focus for 2017:

- Finalisation of the IFRS 9 impairment model methodology
- Implementation of an IT framework facilitating efficient model execution and management
- Development, build and testing of IFRS 9 impairment models with respect to a substantial portion of the Group's portfolios, leveraging off the aforementioned IT framework; and
- Documentation and implementation of the relevant control environment and related governance processes.

Transitional impact

The implementation of the IFRS 9 ECL requirements increases balance sheet impairments, predominantly in loans and advances, at 1 January 2018 by approximately £244 million with reserves decreasing by approximately £176 million on an after-tax basis. The following areas will continue to receive attention as the implementation of IFRS 9 progresses during the 2018 financial reporting period:

- The embedding of the IT framework into the operations of the business
- Further refinement of certain models
- the documentation; implementation of the relevant control environment and related governance processes
- Finalisation of the reporting and disclosure framework, and completion of the supporting business rules; and
- Observing local and international industry trends with respect to IFRS 9 adoption.

The majority of the impact of the adoption of IFRS 9 ECL requirements will be in Nedbank, which is the Group's 55% owned subsidiary. Nedbank has reported that they are expecting increases in balance sheet impairments at 1 January 2018 by approximately £190 million with reserves decreasing by approximately £137 million on an after-tax basis.

The impact on reserves of the new impairment requirements is management's best estimate and this could change when the financial statements are presented for the year ending 31 December 2018.

The Group has implemented the following classification and measurement changes on adoption of IFRS 9:

- Revocation of the fair value through profit or loss designation for certain loans and advances, amounts owed to depositors and long-term debt instruments to facilitate the implementation of macro fair-value hedge accounting of interest rate risk and hedge accounting of inflation risk. It is anticipated that the aforementioned changes will reduce accounting volatility experienced with respect to fair value through profit or loss accounting;
- Classified certain debt instruments as Fair Value through Profit or loss in order to eliminate or significantly reduce an accounting mismatch;
- Reclassified certain loans from amortised cost including the IFRS 9 ECL impact above to FVOCI and FVTPL due to the Group's business models for the affected portfolios; and
- Reviewed the effective interest rate calculation for certain loans based on the additional guidance provided in IFRS 9.

The current estimates of the impact of the implementation of the IFRS 9 classification and measurement requirements decreases reserves at 1 January 2018 by approximately £27 million, £12 million of which relating to the businesses classified as held for distribution and £15 million relating to the continuing businesses.

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Ongoing work is continuing in the group to finalise the implementation of classification and measurement. Therefore, these estimates are based on current information available and accounting policies, assumptions, judgements and estimation techniques which will be regularly reviewed and assessed during the year in preparation for the financial statements for the year ending 31 December 2018.

The impact of the adoption in the standards is not expected to result in the capital ratios of the businesses being below their statutory minimum.

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' (IFRS 15)replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with clients, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments. The standard is effective and will be implemented by the Group from 1 January 2018. The Group has applied the standard retrospectively with the cumulative effect of initial application recognised in opening retained earnings at 1 January 2018 and accordingly the Group will not restate comparative figures.

The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the client. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

Nedbank performed an assessment to determine the impact of the new standard on the Group's statement of financial position and performance, which has to date resulted in the measurement of the Group's customer loyalty programmes being reviewed.

Nedbank has concluded that loyalty points awarded to clients represent consideration payable to our customer's customer in terms of IFRS 15's guidance. IFRS 15 requires revenue to be decreased by the amount expected to be payable to customers, which is recognised as a liability until payment is affected. The liability for the amount expected to be paid to customers under the loyalty programme increases by approximately £18 million on transition and £13 million on an after-tax basis.

Based on a high level evaluation by the other businesses the Group has assessed that there should be no material impacts on the adoption of the standard although this work, principally in the asset management business, is ongoing.

IFRS 16 'Leases'

IFRS 16 'Leases' (IFRS 16) was issued in January 2016 and replaces IAS 17 Leases and its related interpretations for reporting periods beginning on or after 1 January 2019. All of the Group's businesses will be impacted by the adoption of IFRS 16.

The Group as lessee: IFRS 16 introduces a 'right of use' model whereby the lessee recognises a right-of-use asset and an associated financial obligation to make lease payments for all leases with a term of more than 12 months. The asset will be amortised over the lease term and the financial liability measured at amortised cost with interest recognised in profit or loss using the effective interest rate method.

The Group as lessor: IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify and account for its leases as operating leases or finance leases.

The Group is in the process of assessing the impact of IFRS 16 and which transitional approach it will follow.

IFRS 17 'Insurance Contracts'

The IASB issued IFRS 17 'Insurance Contracts' (IFRS 17) in May 2017 as a replacement for IFRS 4 Insurance Contracts. The adoption of this standard will primarily impact the Emerging Markets and Old Mutual Wealth businesses.

The new IFRS 17 standard is effective for reporting periods beginning on or after 1 January 2021. The new rules will affect the financial statements and key performance indicators of all entities in the Group that issue insurance contracts or investment contracts with discretionary participation features.

The Group will commence assessing the impact of IFRS 17 during 2018.

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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A8: Accounting policies on financial assets and liabilities

The Group is exposed to financial risk through its financial assets (investments and loans), financial liabilities (investment contracts, customer deposits and borrowings), reinsurance assets and insurance liabilities. The key focus of financial risk management for the Group is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance and banking operations. The most important components of financial risk are credit risk, market risk (arising from changes in equity, bond prices, interest and foreign exchange rates) and liquidity risk.

(a) Recognition and derecognition

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

The Group derecognises a financial asset when, and only when:

- The contractual rights to the cash flows arising from the financial assets have expired or been forfeited by the Group; or
- It transfers the financial asset including substantially all the risks and rewards of ownership of the asset; or
- It transfers the financial asset and neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control.

A financial liability is derecognised when, and only when the liability is extinguished. That is when the obligation specified in the contract is discharged, assigned, cancelled or has expired.

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

All purchases and sales of financial assets that require delivery within the timeframe established by regulation or market convention ('regular way' purchases and sales) are recognised at trade date, which is the date that the Group commits to purchase or sell the asset. Loans and receivables are recognised (at fair value plus attributable transaction costs) when cash is advanced to borrowers.

(b) Initial measurement

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

(c) Derivative financial instruments

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

Changes in the fair value of derivatives not designated as hedges for hedge accounting purposes are recognised in profit or loss and are included in investment return or finance costs as appropriate.

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

(d) Hedge accounting

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

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

The Group's criteria in accordance with reporting standards for a qualifying hedging instrument to be accounted for as a hedge include:

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

(d) Hedge accounting continued

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

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges or hedges of a net investment in a foreign operation, and that prove to be highly effective in relation to the hedged risk, are recognised in other comprehensive income. Any ineffective portion of changes in the fair value of the derivative is recognised in profit or loss.

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

For hedges of a net investment in a foreign operation, any cumulative gains or losses in equity are recognised in profit or loss on disposal of the foreign operation. The Group does not apply significant cash flow or fair value hedging.

(e) Embedded derivatives

Certain derivatives embedded in financial and non-financial instruments, such as the conversion option in a convertible bond, are treated as separate derivatives and recognised as such on a standalone basis, when a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in profit or loss. If it is not possible to determine the fair value of the embedded derivative, the entire hybrid instrument is categorised as fair value through profit or loss and measured at fair value.

(f) Offsetting financial instruments and related income

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

Income and expense items are offset only to the extent that their related instruments have been offset in the consolidated statement of financial position, with the exception of those relating to hedges, which are disclosed in accordance with profit or loss effect of the hedged item.

(g) Interest income and expense

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

Interest income and expense on financial instruments carried at fair value through profit or loss are presented as part of interest income or expense.

(h) Non-interest revenue

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

Fees and commission income

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

Other income

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

(i) Financial assets

Non-derivative financial assets are recorded as held-for-trading, designated as fair value through profit or loss, loans and receivables, held-to-maturity or available-for-sale. An analysis of the Group's consolidated statement of financial position, showing the categorisation of financial assets, together with financial liabilities is set out in note E1.

(j) Classification of financial instruments

Held-for-trading financial assets

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

Financial assets designated as fair value through profit or loss

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

All financial assets carried at fair value through profit or loss, whether held-for-trading or designated, are initially recognised at fair value and subsequently remeasured at fair value based on bid prices quoted in active markets. If such price information is not available for these instruments, the Group uses other valuation techniques, including internal models, to measure these instruments. These techniques use market observable inputs where available, derived from similar assets and liabilities in similar and active markets, from recent transaction prices for comparable items or from other observable market data. For positions where observable reference data are not available for some or all parameters, the Group estimates the non-market observable inputs used in its valuation models. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market-related rate at the reporting date for an instrument with similar terms and conditions.

Fair values of certain financial instruments, such as over-the-counter (OTC) derivative instruments, are determined using pricing models that consider, among other factors, contractual and market prices, correlations, yield curves, credit spreads, and volatility factors.

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

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

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(j) Classification of financial instruments

Loans and receivables

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

Held-to-maturity financial assets

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

Available-for-sale financial assets

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

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

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

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

Financial liabilities (other than investment contracts and derivatives)

Non-derivative financial liabilities, including borrowed funds, amounts owed to depositors and liabilities under acceptances are recorded as held-for-trading, designated as fair value through profit or loss or as financial liabilities at amortised cost.

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

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

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

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

If the Group purchases its own debt, it is removed from the consolidated statement of financial position and the difference between the carrying amount of a liability and the consideration paid is recognised in profit or loss and are included in finance costs.

(k) Reclassifications of financial assets

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

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

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

(l) Sale and repurchase agreements and lending of securities

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

Securities lent to counterparties are retained in the financial statements and any interest earned recognised in profit or loss using the effective interest method.

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

(m) Parent Company investments in subsidiary undertakings and associates

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

(n) Impairments of financial assets

Indicators of impairment

A provision for impairment is established if there is objective evidence that the Group will not be able to recover all amounts relating to the financial asset. Observable data that could come to the attention of the Group that could lead to a provision for impairment to be made include:

- Significant financial difficulty of the counterparty
- A breach of contract, such as a default or delinquency in interest or principal payments
- The Group, for economic or legal reasons relating to the counterparty's financial difficulty, grants to the counterparty a concession that the Group would not otherwise consider
- It becoming probable that the counterparty will enter bankruptcy or other financial reorganisation
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets, including:
  - adverse changes in the payment status of counterparties in the group of financial assets; or
  - national or local economic conditions that correlate with defaults on the assets in the group of financial assets.

In addition, for an available-for-sale financial asset, a significant or prolonged decline in the fair value below its cost is also objective evidence of impairment.

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Financial assets at amortised cost

The amount of the impairment of a financial asset held at amortised cost is the difference between the carrying amount and the recoverable amount, being the value of expected cash flows, including amounts recoverable from guarantees and collateral, discounted based on the effective interest rate at initial recognition. In estimating future expected cash flows the Group looks at the contractual cash flows of the assets and adjusts these contractual cash flows for historical loss experience of assets with similar credit risks, with this adjusted to reflect any additional conditions that are expected to arise or to account for those which no longer exist. This is done to predict inherent losses which exist in the asset as at the reporting date but have not been reported.

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

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

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

Available-for-sale financial assets

The amount of the impairment loss of an available-for-sale financial asset is the cumulative loss that has been recognised in other comprehensive income, being the difference between the acquisition cost and the asset's current fair value, less any impairment loss on that asset previously recognised in profit or loss. For available-for-sale debt securities, fair value is determined as the present value of expected future cash flows discounted at the current market rate of interest.

All such impairments are recognised in profit or loss. The reversal of an impairment allowance in respect of a debt instrument categorised as available-for-sale is credited to profit or loss, the release in respect of an equity instrument categorised as available-for-sale is credited to the available-for-sale reserve within equity.

A9: Insurance and investment contracts

Life assurance

Classification of contracts

Life assurance contracts are categorised into insurance contracts, contracts with a discretionary participation feature or investment contracts, in accordance with the classification criteria set out in the paragraphs below.

For the Group's unit-linked assurance business, contracts are separated into an insurance component and an investment component (known as unbundling) and each unbundled component is accounted for separately in accordance with the accounting policy for that component. The treatment of these types of contracts as separate components, (unbundling), only occurs when there is a small or insignificant of insurance risk in the contract. Other kinds of contracts are considered and categorised as a whole.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is risk other than financial risk. Contracts accounted for as insurance contracts include life assurance contracts and savings contracts providing more than an insignificant amount of life assurance protection.

Financial risks are the risks of a possible future change in one or more of an interest rate, security price, security index, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or other variable, provided, in the case of a non-financial variable, that the variable is not specific to a party to the contract.

Contracts with discretionary participating features are those under which the policyholder holds a contractual right to receive additional payments as a supplement to guaranteed minimum payments. These additional payments, the amount and timing of which is at the Group's discretion, represent a significant portion of the total contractual payments. These are contractually based on (i) the performance of a specified pool of contracts or a specified type of contract, (ii) realised and/or unrealised investment returns on a specified pool of assets held by the Group or (iii) the profit or loss of the Group. Investment contracts with discretionary participating features, which have no life assurance protection in the policy terms, are accounted for in the same manner as insurance contracts.

Contracts under which the transfer of insurance risk to the Group from the policyholder is not significant (or there is no transfer of insurance risk) and where there is no discretionary participation are classified as investment contracts. Such contracts include unit-linked savings and/or investment contracts sold without life assurance protection and are classified as financial instruments.

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

Outward reinsurance premiums are recognised when due for payment.

Amounts received under investment contracts, other than those with a discretionary participating feature and unit-linked assurance contracts are not recorded through profit or loss, except for fee income and investment income attributable to those contracts, but are accounted for directly through the consolidated statement of financial position as an adjustment to investment contract liabilities.

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

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

Reinsurance recoveries in profit or loss are recognised in profit or loss in the same period as the related claim.

Amounts paid under investment contracts other than those with a discretionary participating feature and unit-linked assurance contracts are recorded as reductions of the investment contract liabilities.

Insurance contract liabilities
Insurance contract liabilities for African businesses are computed using a gross premium valuation method. Provisions in respect of African business are made in accordance with the Financial Soundness Valuation basis as set out in the guidelines issued by the Actuarial Society of South Africa in Standard of Actuarial Practice (SAP) 104 (2012). Under these guidelines, provisions are valued using realistic expectations of future experience, with margins for prudence and deferral of profit emergence.

Provisions for investment contracts with a discretionary participating feature are also computed using the gross premium valuation method in accordance with the Financial Soundness Valuation basis. Surplus allocated to policyholders but not yet distributed related to these contracts is included as part of life assurance policyholder liabilities as discretionary margins.

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

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

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

The Group performs liability adequacy testing at a business unit level on its insurance liabilities to ensure that the carrying amount of its liabilities (less related deferred acquisition costs and intangible assets) is sufficient in view of estimated future cash flows. When performing the liability adequacy test, the Group discounts all contractual cash flows and compares this amount to the carrying value of the liability at discount rates appropriate to the business in question. Where a shortfall is identified, an additional provision is made by increasing the liability held. The provision assumptions and estimation techniques are periodically reviewed, with any changes in estimates reflected in profit or loss as they occur.

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

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

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

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Investment contract liabilities
Investment contract liabilities in respect of the Group's business other than unit-linked business are recorded at amortised cost unless they are designated at fair value through profit or loss in order to eliminate or significantly reduce a measurement or recognition inconsistency, for example where the corresponding assets are recorded at fair value through profit or loss.

Investment contract liabilities in respect of the Group's unit-linked business are recorded at fair value. For such liabilities, including the deposit component of unbundled unit-linked assurance contracts, fair value is calculated as the account balance, which is the value of the units allocated to the policyholder, based on the bid price of the assets in the underlying fund (adjusted for tax).

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

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

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

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

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

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

Property & casualty
Contracts under which the Group accepts significant insurance risk from another party and which are not classified as life insurance are classified as property & casualty. All classes of property & casualty business are accounted for on an annual basis.

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

Claims on property & casualty
Claims incurred, which are recognised in profit or loss, comprise the settlement and handling costs of paid and outstanding claims arising during the year and adjustments to prior year claim provisions. Outstanding claims comprise claims incurred up to, but not paid, at the end of the accounting period, whether reported or not.

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

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

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

Acquisition costs on property & casualty

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

Reinsurance

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

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

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

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

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

A10: Goodwill and other intangible assets

Goodwill arises on the acquisition of a business and represents the premium of the amount paid over the fair value of identifiable assets and liabilities. Goodwill is not amortised but is subject to annual impairment reviews. Other intangible assets include those assets which were initially recognised on a business combination and software development costs relate to amounts recognised for in-house systems development.

(a) Goodwill and goodwill impairment

Goodwill arising on the acquisition of a subsidiary undertaking is recognised as an asset at the date that control is achieved (the acquisition date). Goodwill is measured as the excess of the fair value of the consideration paid over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed. If the net fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously-held equity interest (if any), this excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised, but is reviewed for impairment at least once annually. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On loss of control of a subsidiary undertaking, any attributable goodwill is included in the determination of any profit or loss on disposal. On disposal of a business, where goodwill on acquisition is allocated to the entire cash-generating unit (CGU), goodwill is allocated to the disposal on a relative basis.

Goodwill is allocated to one or more CGUs, being the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

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(b) Present value of acquired in-force for insurance and investment contract business

The present value of acquired in-force for insurance and investment contract business is capitalised in the consolidated statement of financial position as an intangible asset.

The capitalised value is the present value of cash flows anticipated in the future from the relevant book of insurance and investment contract policies acquired at the date of the acquisition of a business. This is calculated by performing a cash flow projection of the associated life assurance fund and book of in-force policies in order to estimate future after tax profits attributable to shareholders. The valuation is based on actuarial principles taking into account future premium income, mortality, disease and surrender probabilities, together with future costs and investment returns on the assets supporting the fund. These profits are discounted at a rate of return allowing for the risk of uncertainty of the future cash flows. The key assumptions impacting the valuation are discount rate, future investment returns and the rate at which policies discontinue.

The asset is amortised over the expected profit recognition period on a systematic basis over the anticipated lives of the related contracts.

The amortisation charge is stated net of any unwind in the discount rate used to calculate the asset.

The recoverable amount of the asset is re-calculated at each reporting date and any impairment losses recognised accordingly.

(c) Other intangible assets acquired as part of a business combination

Contractual banking and asset management customer relationships, relationships with distribution channels and similar intangible assets, acquired as a part of a business combination, are capitalised at their fair value, represented by the estimated net present value of the future cash flows from the relevant relationships acquired at the date of acquisition.

Brands and similar items acquired as part of a business combination are capitalised at their fair value based on a 'relief from royalty' valuation methodology.

Subsequent to initial recognition such acquired intangible assets, if not categorised as infinite life, are amortised on a straight-line basis over their estimated useful lives as set out below:

– Distribution channels	10 years
– Customer relationships	10 years
– Brands	15 – 20 years

The estimated useful life is re-evaluated annually.

Other intangible assets acquired in a business combination are impaired if the carrying value is greater than the net recoverable amount.

(d) Internally developed software

Internally developed software (software) is amortised over its estimated useful life, where applicable. Such assets are stated at cost less accumulated amortisation and impairment losses. Software is recognised in the consolidated statement of financial position if, and only if, it is probable that the relevant future economic benefits attributable to the software will flow to the Group and its cost can be measured reliably.

Costs incurred in the research phase are expensed in profit or loss whereas costs incurred in the development phase are capitalised subject to meeting specific criteria, set out in the relevant accounting guidance. The main criteria being that future economic benefits can be identified as a result of the development expenditure. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of the relevant software, which range between two and ten years, depending on the nature and use of the software.

(e) Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

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A11: Non-current assets held for sale and discontinued operations

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell.

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year of the date of classification.

A discontinued operation is defined as a component of an entity that either has been disposed of, or is classified as held for sale and:

- Represents a separate major line of business or geographical area of operations
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

When a non-current asset (or disposal group) ceases to be classified as held for sale, the individual assets and liabilities cease to be shown separately in the statement of financial position at the end of the year in which the classification changes. Comparatives are not restated. If the line of business was previously presented as a discontinued operation and subsequently ceases to be classified as held for sale in profit and loss and cash flows of the comparative period are restated to show that line of business as a continuing operation.

A12: Foreign currency transactions

The Group's presentation currency is pounds sterling (£). The functional currency of the Group's foreign operations is the currency of the primary economic environment in which these entities operate. The Parent Company functional currency is pounds sterling (£).

Transactions in foreign currencies are converted into the relevant functional currency at the rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at rates of exchange ruling at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates ruling at the dates the fair values were determined. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are converted into the functional currency at the rate of exchange ruling at the date of the initial recognition of the asset and liability and are not subsequently retranslated.

Exchange gains and losses on the translation and settlement during the period of foreign currency assets and liabilities are recognised in profit and loss. Exchange differences for non-monetary items are recognised in the consolidated statement of other comprehensive income when the changes in the fair value of the non-monetary item are recognised in the consolidated statement of other comprehensive income, and in profit and loss if the changes in fair value of the non-monetary item are recognised in profit and loss.

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A13: Group accounting

(a) Subsidiary undertakings

Subsidiary undertakings are those entities controlled by the, which may take the form of a corporation, trust, partnership or unincorporated entities, and where the substance of the relationship between the Group and the entity indicates that the entity is controlled by the Group.

The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the entity. Considerations in the assessment of control include:

- the purpose and design of the investee;
- what the relevant activities are and how decisions about those activities are made;
- whether the rights of the group give it the current ability to direct the relevant activities;
- whether the group is exposed, or has rights, to variable returns from its involvement with the investee; and
- whether the group has the ability to use its power over the investee to affect the amount of the investor's returns.

The group continually assess any changes to the facts and circumstances to determine whether such entities should be consolidated.

The Group consolidates certain of its interests in open-ended investment companies, unit trusts, mutual funds and similar investment vehicles (collectively 'funds') in the event that the Group has power to govern the operations of a fund so as to obtain benefits from that fund, or for those auto pilot entities where the majority of benefits arising in a particular fund accrue to the Group. The latter condition is typically regarded as the case when the Group owns (through a Group subsidiary's direct investment in a fund) more than 50% of the shares or units in that fund.

The assets of consolidated funds are accounted for in accordance with the appropriate accounting policies for the assets in question. The amounts due to the balance of the investors in these funds are reported as a liability under the balance sheet caption 'Third-party interests in consolidated funds'. Such interests are not recorded as non-controlling interests as they meet the liability classification requirement set out in paragraph 18 of IAS 32, 'Financial Instruments: Presentation'. As stated in note A8, these liabilities are regarded as current, as they are repayable on demand, although it is not expected that they will be settled in a short time period.

The Group financial statements include the assets, liabilities and results of the Company and subsidiary undertakings. The results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal or control ceasing.

Intra-group balances and transactions, income and expenses and all profits and losses arising from intra-group transactions, are eliminated in preparing the Group financial statements. Unrealised losses are not eliminated to the extent that they provide evidence of impairment.

(b) Business combinations

Business combinations are accounted for using the purchase method. Business combinations are accounted for at the date that control is achieved (the acquisition date). The cost of a business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Where appropriate, the cost of acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with the relevant IFRS. Changes in the fair value of contingent consideration that have been classified as equity are not recognised.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 'Business Combinations' are recognised at their fair value at the date of acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Where provisional amounts were reported these are adjusted during the measurement period (see below). Additional assets or liabilities are recognised, to reflect any new information obtained about the facts and circumstances that existed as of the date of acquisition date that, if known, would have affected the amounts recognised as on that date.

The measurement period for initial accounting for a business combination is the period from the date of acquisition to the date the Group receives complete information about the facts and circumstances that existed as at the acquisition date, subject to a maximum period of one year.

Where a business combination is achieved in stages, the Group's previously-held interests in the acquired entity are remeasured to fair value at the date that control is achieved (the acquisition date) and the resulting gain or loss, if any, is recognised in profit and loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit and loss, where such treatment would be appropriate if the interest were disposed of.

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Non-controlling interests in the net assets of consolidated subsidiary undertakings are identified and recorded separately from the Group's equity. The interest of non-controlling shareholders is initially measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis for the initial measurement of the non-controlling interest is made on an acquisition-by-acquisition basis. Subsequent to acquisition, non-controlling interests comprise the amount attributed to such interests at initial recognition together with the non-controlling interest's share of changes in equity since the date of acquisition. The difference between the proceeds from the disposal of a subsidiary undertaking and its carrying amount as at the date of disposal, including the cumulative amount of any related exchange differences that are recognised in equity, is recognised in the Group profit and loss as the gain or loss on the disposal of the subsidiary undertaking.

Changes in the Group's interest in a subsidiary undertaking that do not result in a loss of control are accounted for as transactions with equity holders (as owners). Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised in equity and attributed to the Group. In accordance with the exemptions permitted under IFRS 1 'First-Time Adoption of International Financial Reporting Standards', business combinations that took place prior to 1 January 2004 have not been restated for either the provisions of the original (2003) or revised (2008) versions of IFRS 3 'Business Combinations'. In accordance with the transitional provisions of IFRS 3 'Business Combinations' (revised 2008) and corresponding provisions of IAS 27 'Separate and Consolidated Financial Statements' (revised 2008) business combinations that took place prior to 1 January 2009 have not been restated.

(c) Associates

An associate is an entity, including an unincorporated entity, over which the Group has significant influence but not control or joint control, through participation in the financial and operating policy decisions of the investee (and that is neither a subsidiary nor an investment in a joint venture). This is generally demonstrated by the Group holding in excess of 20%, but less than 50%, of the voting rights. All other factors, contractual or otherwise, are assessed in determining whether the group has the ability to exercise significant influence.

The results, assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of individual investments.

Where a Group enterprise transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Unrealised losses are eliminated in the same way but only to the extent that there is no evidence of impairment.

Investments in associates that are held with a view to subsequent resale are accounted for as non-current assets held for sale, and those held by policyholder life assurance funds are accounted for as financial assets fair valued through profit and loss.

(d) Joint Arrangements

A joint arrangement is a contractual arrangement of which two or more parties have joint control. Joint control exists when the decisions about the relevant activities require the unanimous consent of the parties sharing control. There are two types of joint arrangements:

Joint operations are those operations where the group has rights to the assets, and obligations for the liabilities, relating to the arrangement. The group will recognise its portion of the assets, liabilities, revenue and expenses.

Joint ventures are when the group have rights to the net assets of the arrangement. The group accounts for its interest using the equity method of accounting. The carrying amount of such investments is reduced to recognise any impairment in the value of the individual investments.

Where a group enterprise transacts with a joint arrangement of the group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant joint arrangement. Unrealised losses are eliminated in the same way but only to the extent that there is no evidence of impairment.

Investments in joint arrangements that are held with a view to subsequent resale are accounted for as non-current assets held for sale, and those held by policyholder life assurance funds are accounted for as financial assets fair valued through profit and loss.

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A14: Tax

(a) Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and includes any adjustment to income tax payable in respect of previous years.

(b) Deferred tax

Deferred taxation is provided using the temporary difference method. Temporary differences are differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred taxation provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities using tax rates enacted or substantively enacted at the reporting date in the specific jurisdiction. Deferred taxation is charged to profit or loss except to the extent that it relates to a transaction that is recognised directly in other comprehensive income, or a business combination that is an acquisition. The effect on deferred taxation of any changes in tax rates is recognised in profit or loss, except to the extent that it relates to items previously charged or credited directly to other comprehensive income. A deferred tax asset is recognised only to the extent that it is probable that future taxable income will be available, against which the unutilised tax losses and deductible temporary differences can be used. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefits will be realised.

In certain circumstances, as permitted by accounting guidance, deferred tax balances are not recognised. In particular where the liability relates to the initial recognition of goodwill, or transactions that are not a business combination and at the time of their occurrence affect neither accounting nor taxable profit. Note H7 includes further detail of circumstances in which the Group does not recognise temporary differences.

A15: Impairment (all assets other than goodwill, deferred tax assets and financial assets)

The Group assesses all assets (other than goodwill, deferred tax assets and financial assets) on an ongoing basis for indications of impairment or whether a previously recognised impairment loss should be reversed. If such indicators are found to exist, then detailed impairment testing is carried out. Impairments (where the carrying value of the asset exceeds its recoverable amount) and the reversal of previously recognised impairments are recognised in profit and loss.

A16: Property, plant and equipment

(a) Owned assets

Owner-occupied property is stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and accumulated impairment losses.

Plant and equipment, principally computer equipment, motor vehicles, fixtures and furniture, is stated at cost less accumulated depreciation and impairment losses.

(b) Subsequent expenditure

Subsequent expenditure is capitalised when it is measurable and will result in probable future economic benefits. Expenditure incurred to replace a separate component of an item of owner-occupied property, plant and equipment is capitalised to the cost of the item of owner-occupied property, plant and equipment and the component replaced is de-recognised. All other expenditure is recognised in profit and loss as an expense when incurred.

(c) Revaluation of owner-occupied property

Owner-occupied property is valued on the same basis as investment property.

When an individual property is revalued, any increase in its carrying amount (as a result of the revaluation) is transferred to a revaluation reserve, except to the extent that it reverses a revaluation decrease of the same property previously recognised as an expense in profit and loss.

When the value of an individual property is decreased as a result of a revaluation, the decrease is charged against any related credit balance in the revaluation reserve in respect of that property. However, to the extent that it exceeds any surplus, it is recognised as an expense in profit and loss.

(d) De-recognition

On de-recognition of an owner-occupied property or item of plant and equipment, any gain or loss on disposal, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit and loss in the period of the de-recognition. In the case of owner-occupied property, any surplus in the revaluation reserve in respect of the individual property is transferred directly to retained earnings.

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(e) Depreciation

Depreciation is charged to profit and loss on a straight-line basis over the estimated useful lives of items of owner-occupied property, plant and equipment that are accounted for separately.

In the case of owner-occupied property, any accumulated depreciation at revaluation is eliminated against the gross carrying amount of the property concerned and the net amount restated to the revalued amount. Subsequent depreciation charges are adjusted based on the revalued amount for each property. Any difference between the depreciation charge on the revalued amount and that which would have been charged under historic cost is transferred, net of any related deferred tax, between the revaluation reserve and retained earnings as the property is utilised. Land is not depreciated.

The maximum estimated useful lives are as follows:

- Computer equipment	5 years
- Computer software	3 years
- Motor vehicles	6 years
- Fixtures and furniture	10 years
- Leasehold property	20 years
- Freehold property	50 years

The group assess and adjusts (if required) the useful life, residual value and depreciation method for property and equipment on an annual basis.

(f) Leases

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Payments made under operating leases are charged against income on a straight-line basis over the period of the lease.

Finance leases

Lease agreements where the Group substantially accepts the risks and rewards of the ownership of the leased asset are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Lease payments are allocated between the liability and finance charges so as to achieve a constant interest rate on the outstanding balance of the liability.

Finance lease obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to profit and loss over the lease period according to the effective interest method. Where applicable, assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Where assets are leased out under a finance lease arrangement, the present value of the lease payments is recognised as a receivable. Initial direct costs are included in the initial measurement of the receivable. Finance lease income is allocated to accounting periods to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Assets leased under operating leases

Assets leased out under operating leases are included under property, plant and equipment in the statement of financial position. Initial direct costs incurred in negotiating and arranging are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income. Leased assets are depreciated over their expected useful lives on a basis consistent with similar assets. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the term of the lease. When another systematic basis is more representative of the time pattern of the user's benefit, then that method is used.

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A17: Investment properties

Investment property is real estate held to earn rentals or for capital appreciation. This does not include real estate held for use in the production or supply of goods or services or for administrative purposes. Investment properties are initially measured at cost plus any directly attributable expenses.

Investment properties are stated at fair value. Internal professional valuers perform valuations annually. For practical reasons, internal valuations are carried out on a cyclical basis over a 12 month period due to the large number of properties involved. External valuations are obtained once every three years on a cyclical basis. In the event of a material change in market conditions between the valuation date and reporting date an internal valuation is performed and adjustments made to reflect any material changes in value.

The valuation methodology adopted is dependent upon the nature of the property. Income generating assets are valued using discounted cash flows. Vacant land, land holdings and residential flats are valued according to sales of comparable properties. Near vacant properties are valued at land value less the estimated cost of demolition.

Surpluses and deficits arising from changes in fair value are recognised in profit and loss.

For properties reclassified during the year from property, plant and equipment to investment properties, any revaluation gain arising is initially recognised in profit and loss to the extent that impairment losses were previously recognised. Any residual excess is taken to the revaluation reserve. Revaluation deficits are recognised in the revaluation reserve to the extent of previously recognised gains and any residual deficit is accounted for in profit and loss.

Investment properties that are reclassified to owner-occupied property are re-valued at the date of transfer, with any difference being taken to profit and loss.

A18: Finance costs

Finance costs relate to the Group's borrowed funds that are directly controlled by, or managed on behalf of, Old Mutual plc. These include interest payable, and gains and losses on revaluation of these funds and on those derivative instruments which are used to hedge these funds.

A19: Pension plans and retirement benefits

Defined benefit and defined contribution schemes have been established for eligible employees of the Group with the assets held in separate trustee administered funds.

The projected unit credit method is used to determine the defined benefit obligations based on actuarial assessments, which incorporate not only the pension obligations known on the reporting date but also information relevant to their expected future development. The discount rates used are determined based on the yields for investment grade corporate bonds that have maturity dates approximating to the terms of the Group's obligations.

Re-measurements comprise actuarial gains and losses, the actual return on plan assets and the effect of the asset ceiling. The Group recognises these immediately in other comprehensive income. Administration costs (other than the costs of managing plan assets) are recognised in profit and loss when the service is provided.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit and loss when the plan amendment or curtailment occurs. Contributions in respect of defined contribution schemes are recognised as an expense in profit and loss as incurred.

Where applicable, Group companies make provision for post retirement medical and housing benefits for eligible employees. Non-pension post retirement benefits are accounted for according to their nature, either as defined contribution or defined benefit plans. The expected costs of post retirement benefits that are defined benefit plans in nature are accounted for in the same manner as for defined benefit pension plans.

A20: Share-based payments

(a) Equity-settled share-based payment transactions with employees

The services received in an equity-settled transaction with employees are measured at the fair value of the equity instruments granted. The fair value of those equity instruments is measured at grant date.

If the equity instruments granted vest immediately and the employee is not required to complete a specified period of service before becoming unconditionally entitled to those instruments, the services received are recognised in full on grant date in profit and loss for the period, with a corresponding increase reflected directly in equity.

Where the equity instruments do not vest until the employee has completed a specified period of service, it is assumed that the services rendered by the employee, as consideration for those equity instruments, will be received in the future, during the vesting period. These services are accounted for in profit and loss as they are rendered during the vesting period, with a corresponding increase recognised directly in equity.

In the Parent Company, the fair value of equity instruments granted by the Company to the employees of subsidiary undertakings is recorded as an additional investment in the relevant subsidiary with the contra recorded in equity.

(b) Cash-settled share-based payment transactions with employees

The services received in cash-settled transactions with employees and the liability to pay for those services, are recognised at fair value as the employee renders services. Until the liability is settled, the fair value of the liability is re-measured at each reporting date and at the date of settlement, with any changes in fair value recognised in profit and loss for the period.

(c) Measurement of fair value of equity instruments granted

The equity instruments granted by the Group are measured at fair value at the measurement date using standard option pricing valuation models. The valuation technique is consistent with generally acceptable valuation methodologies for pricing financial instruments, and incorporates all factors and assumptions that knowledgeable, willing market participants would consider in setting the price of the equity instruments.

A21: Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash balances and highly liquid short-term funds, mandatory reserve deposits held with central banks, cash held in investment portfolios awaiting reinvestment and cash and cash equivalents subject to the consolidation of funds.

A22: Other provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will occur, and where a reliable estimate can be made of the amount of the obligation. Where the effect of discounting is material, provisions are discounted and the discount rate used is a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Specific policies:

- A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting the obligations under the contract
- A provision for restructuring is recognised only if the Group has approved a detailed formal plan and raised a valid expectation among those parties directly affected, that the plan will be carried out either by having begun implementation or by publicly announcing the plan's main features

No provision is made for future operating costs or losses.

A23: Treasury shares

Upon consolidation, the statement of financial position and income statement are adjusted for own shares held in policyholder funds, Employee Share Ownership Trusts (ESOPs), and Black Economic Empowerment Trusts consolidated within the Group's financial statements.

Own shares are deducted from equity. On purchase, the cost of the shares acquired is deducted from equity. Subsequently, any proceeds from the sale or cancellation of own equity instruments are recognised in equity.

Income in relation to own shares, both dividends received and unrealised gains and losses, are eliminated before stating the profit for the year.

In calculating basic earnings per share, the exclusion of income in respect of own shares from the income statement requires the corresponding exclusion of own shares from the weighted average number of shares. When calculating diluted earnings per share, the number of shares included in the weighted average reflects the potential issue in respect of the own shares held.

ACCOUNTING POLICIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

A24: Share capital

Ordinary and preference share capital (including perpetual preferred callable securities) are classified as equity if they are non-redeemable by the shareholder and any dividends are discretionary and coupon payments are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders or if dividend payments are not discretionary. Coupon payments thereon are recognised in profit and loss as interest expense.

A25: Dividends

Dividends payable to holders of equity instruments are recognised in the period in which they are authorised or approved. Interim dividends payable to holders of the Group's ordinary share capital are authorised by the directors of the Parent Company; the final dividend typically requires shareholder approval.