Old Mutual Life Assurance Company (South Africa) Ltd
Separate and Consolidated Annual Financial Statements
For the year ended 31 December 2017

Contacts

Public officer	J Baepi
Auditors	KPMG Inc. 1 Mediterranean Street Foreshore Cape Town 8001 South Africa
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Registered office	Mutualpark Jan Smuts Drive Pinelands 7405 South Africa
Company secretary	E M Kirsten
Company registration number	1999/004643/06
Preparation supervised by	R van Zyl Financial Controller BAccHons, CA(SA)

These financial statements have been audited in compliance with the applicable requirements of the Companies Act of South Africa.

Contents

The reports and statements set out below comprise the separate and consolidated annual financial statements:

Statement of directors' responsibilities

Directors' responsibility statement

The directors are responsible for the preparation and fair presentation of the consolidated and separate annual financial statements of Old Mutual Life Assurance Company (South Africa) Ltd, comprising the statements of financial position at 31 December 2017 and the income statements, statements of comprehensive income, statement of changes in equity and statements of cash flows for the year then ended, and the notes to the financial statements which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards (IFRS) and the requirements of the Companies Act of South Africa, and the director's report.

The directors are also responsible for such internal controls as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and for maintaining adequate accounting records and an effective system of risk management.

The directors have made an assessment of the ability of the company to continue as a going concern and have no reason to believe that the business will not be a going concern in the year ahead.

The auditor is responsible for reporting on whether the consolidated and separate financial statements are fairly presented in accordance with the applicable financial reporting framework.

Approval of consolidated and separate annual financial statements

The consolidated and separate annual financial statements of Old Mutual Life Assurance Company (South Africa) Ltd, as identified in the first paragraph, were approved by the board of directors on 12 March 2018 and signed on their behalf by:

T A Manuel **Chairman** **Authorised Director**	**M P Moyo** **Chief Executive Officer** **Authorised Director**

Certificate by the Company Secretary

I declare that, to the best of my knowledge, the company has lodged all such returns and notices as are required of it in terms of section 88(2)(e) of the Companies Act of South Africa 71 of 2008, for the year ended 31 December 2017 and that all such returns appear true, correct and up to date.

E M Kirsten
Company Secretary
12 March 2018

Directors' report

The directors of Old Mutual Life Assurance Company (South Africa) Ltd have pleasure in submitting their report on the consolidated and separate annual financial statements for the year ended 31 December 2017.

1. Review of activities

The principal activity of the group is the transaction of all classes of life assurance, savings and retirement funding business. The group underwrites life insurance risks associated with death and disability. It also issues a diversified portfolio of investment contracts and earns fee income from investment management service contracts.

The operating results and financial position of the group and company are set out in the income statements, statements of comprehensive income, statements of financial position, statements of changes in equity, statements of cash flows and accompanying notes.

Profit before tax for the group was R 11,371 million (2016: R 12,886 million), and R 7,402 million (2016: R 8,770 million) after tax.

Profit before tax for the company was R 10,850 million (2016: R 11,523 million), and R 7,188 million (2016: R 8,014 million) after tax.

2. Consolidated and company annual financial statements

In terms of International Financial Reporting Standards ("IFRS"), the company is required to produce consolidated financial statements as its subordinated debt instruments are traded in a public market.

In the company financial statements, the company's investments in its subsidiaries, joint ventures and associate companies are accounted for as financial assets at fair value through profit or loss and dividends are recognised when receivable.

Details of the company's interest in its principal subsidiaries, joint ventures and associates are set out in note 8.1.

3. Holding company

The company's holding company is Old Mutual Emerging Markets Ltd incorporated in South Africa.

4. Ultimate holding company

The company's ultimate holding company is Old Mutual plc incorporated in the United Kingdom and listed on the London, Johannesburg, Malawi, Namibia and Zimbabwe stock exchanges.

5. Share capital

There were no changes in the authorised or issued ordinary or preference share capital of the company.

6. Dividends

Dividends on ordinary shares amounting to R 5,551 million (2016: R 1,293 million) and dividends on preference shares amounting to R 1,290 million (2016: R 3,631 million) were declared during the year by the company.

7. Public interest score

The company's public interest score, as determined in accordance with the relevant provisions of the Companies Act, of South Africa 71 of 2008, is 680 320.

8. Directors

The directors of the company during the year were as follows:

Name	Nationality		
P C Baloyi	South African	Appointed 24.10.17	
P G de Beyer	South African		
A K Essien	Ghanaian	Appointed 24.10.17	
M G Ilsley	South African	Appointed 01.10.17	Resigned 30.11.2017
I Kgaboesele	South African	Appointed 24.10.17	
J R Lister	British	Appointed 24.10.17	
T A Manuel	South African	Appointed 24.10.17	
S M Magwentshu-Rensburg	South African	Appointed 24.10.17	
T Mokgosi-Mwantembe	South African	Appointed 24.10.17	
M P Moyo	South African	Appointed 01.07.17	
D Macready	South African	Resigned 30.06.17	
N T Moholi	South African		
C W N Molope	South African		
R T Mupita	South African	Resigned 31.01.17	
I G Williamson	South African	Resigned 30.09.17	
B M Rapiya	South African		
I S Sehoole	South African	Appointed 24.10.17	
P G M Truyens	Dutch	Resigned 24.10.17	

The directors who held office in 2017 are:

Executive directors

M P Moyo (Chief Executive Officer) r, ca

Non-executive director

B M Rapiya r, ca

Independent directors

P C Baloyi a,r,
P G de Beyer a, r, ca
A K Essien r, ca
I Kgaboesele a
J R Lister a, r
T A Manuel ca
S M Magwentshu-Rensburg ca
T Mokgosi-Mwantembe
N T Moholi ca
C W N Molope a, r
I S Sehoole a, r

a Member of the Audit Committee
r Member of Risk Committee
ca Member of the Customer Affairs Committee

Mr P G de Beyer, Ms N Moholi, Ms N Molope and Mr B M Rapiya were due to retire by rotation at the Annual General Meeting. Mr P C Baloyi, Mr A K Essien, Mr I Kgaboesele, Mr J R Lister, Mr T A Manuel, Dr S M Magwentshu-Rensburg, Ms T Mokgosi-Mwantembe, Mr M P Moyo and Mr I S Sehoole who were appointed during the year also retire at the Annual General Meeting. All directors, being eligible, and having been recommended for re-election by the Board of Directors, offered themselves for re-election.

M G Ilsley was the Chief Financial Officer between 01.10.2017 and his resignation on 30.11.2017. The company has appointed a new Chief Financial Officer effective 01.04.2018.

Directors' report

9. Company secretary

Ms E M Kirsten is the company secretary.

Registered office	Mutual Park Jan Smuts Drive Pinelands 7405 South Africa
Postal address	PO Box 66 Cape Town 8000

10. Auditors

KPMG Inc. has been nominated to continue in office in accordance with section 90 of the Companies Act of South Africa.

11. Events after the reporting period

The company has negotiated with MMI Holdings Ltd Group to transfer the qualifying insurance policy which covers the post-retirement medical aid obligation and related policyholder assets to Old Mutual Alternative Risk Transfer Ltd on the 31st of January 2018. The accounting treatment and disclosure in the company and consolidated financial statements for the financial year ended 31 December 2017 were left unchanged. Refer to note 9.10 for more information.

Corporate governance report

Introduction

The company has a balanced unitary board comprising a majority of independent and non-executive directors (the Board). The non-executive chairman (the Chairman) of the Board is Mr T A Manuel.

The Old Mutual Group has an overarching governance structure (Group Operating Model), incorporating principles of governance to facilitate effective and dynamic management and oversight of a group containing several regulated entities, in different jurisdictions. These overarching governance structures are set out in the group operating manual (the Manual) which contains the internal operating framework and governance structure for the Old Mutual Group. The company has entered into a relationship agreement with Old Mutual plc and resolved to adhere to the Manual, noting that it is a governance framework for the promotion of efficiency and mitigation of risks, both in the interests of the company and the group, whilst maintaining the primacy of the fiduciary duties of the Board. The Board is satisfied that the company has made every practical effort to adapt all relevant principles and guidlines of King IV during the review period, insofar as it was applicable to wholly owned subsidiaries.

The Board of Directors

Role

The Board has a charter which defines its functions, responsibilities and relationship with Old Mutual plc and separates such from the role of management.

Selection and succession planning

The selection and appointment of directors is effected through a formal and transparent process and is a matter for the Board as a whole, assisted by recommendations from the Old Mutual Group Holdings (SA) Ltd (OMGH) Corporate Governance and Nomination Committee. Emphasis is placed on achieving a balance of diversity, skills, relevant business experience and knowledge. A formal orientation programme exists to familiarise incoming directors with the company's operations, senior management and its business environment and to induct them in their fiduciary duties and responsibilities.

Rotation and retirement

Newly appointed directors may hold office only until the next annual general meeting at which point they retire and become available for re-election by the shareholders, on the recommendations of the OMGH Corporate Governance and Nomination Committee and the Board. All directors are subject to retirement by rotation and re-election by the shareholders at the Annual General Meeting, giving due consideration to good governance guidelines in this regard. Executive directors have no fixed term of appointment, but are subject to short-term notice periods. They retire from the Board at age 61.

Performance and assessment

The Board meets regularly, having met for five scheduled meetings during 2017, including sessions specifically devoted to strategy and business planning as well as people and customer issues. It may also meet, and did meet, as and when required to deal with specific matters that arose between scheduled meetings. Self-evaluation reviews to assess the Board's effectiveness are conducted on an annual basis. In 2017 a facilitated review of the Board's effectiveness was conducted by the Board Practice. All independent and non-executive directors, other than nominees of the ultimate holding company are remunerated for their services to the Board and committees.

Access to company resources

All directors have access to management, including the Company Secretary, and to such information as is needed to carry out their duties and responsibilities fully and effectively. The Company Secretary provides support to the Board to ensure its effective functioning and the proper administration of Board proceedings. The Company Secretary ensures that the independent and non-executive directors are kept informed on latest developments regarding the company's business and industry-wide issues through a formal communication process.

Chairman and Managing Director

The roles of the Chairman and Chief Executive Officer are separate.

The executive management of the company is the responsibility of Mr M P Moyo, who was appointed Chief Executive Officer on 01.07.2017.

Corporate governance report

Board and committees

In terms of the (partial) mirrored Board construct agreed with the Financial Services Board, whereby Board members of the Group Holding Company, currently Old Mutual Group Holdings (SA) Ltd would also serve on this Board, Mr T A Manuel, Mr P C Baloyi, Mr A K Essien, Mr I Kgaboesele, Mr J R Lister, Mr I S Sehoole, Dr S M Magwentshu-Rensburg and Ms T M Mokgosi-Mwantembe were appointed to the as board members with effect from 24.10.2017. Mr P G de Beyer, who was the Chairman of the Board since 03.05.2013, was replaced by Mr T A Manuel on the 24.10.2017.

To ensure business continuity and staggered rotation, Mr P G de Beyer, Ms N T Moholi, Ms C W N Molope and Mr B M Rapiya remained as directors of the Board, but will retire from the OMLACSA Board, and the relevant Group Holdings Board, having reached nine years of service from the date of their appointment as Board members to either this company or Old Mutual Emerging Markets, or Old Mutual Group Holdings, whichever date was the earliest.

Mr I S Sehoole was appointed as Chairman of the Audit Committee with effect from 24.10.2017 and replaced Ms C W N Molope who served as Chairman since 03.05.2013. Ms C W N Molope continues to serve as a member of the newly constituted Committee as noted on page 8.

Mr J R Lister was appointed as Chairman of the Risk and Compliance Committee with effect from 24.10.2017 and replaced Mr P G M Truyens who has stepped down from the Board. Ms C W N Molope and Mr M P Moyo continue to serve as members of the newly constituted Committee as noted on page 8.

Dr S M Magwentshu-Rensburg was appointed as Chairman of the Committee for Customer Affairs with effect from 24.10.2017 and replaced Mr P G M Truyens who has stepped down from the Board. Mr P G de Beyer and Ms N T Moholi continue to serve as members of the newly constituted Committee as noted on page 9.

Purpose

The Board has established three committees to assist it in discharging its responsibilities. All board committees have formally delegated terms of reference and report to the Board and to the respective board committees of the ultimate holding company when relevant. The committees are chaired by independent non-executive directors, supported by the Company Secretary or its delegate, and are free to take independent professional advice as and when necessary.

Audit Committee

Members:

Mr I S Sehoole (Chairman), Mr P G de Beyer, Mr I Kgaboesele, Ms C W N Molope, Mr P C Baloyi and Mr J R Lister.

The committee is chaired by Mr I S Sehoole, an independent director, and is comprised of independent directors only, and meets as often as necessary and met seven times during the year.

Principal functions

The committee ensures the integrity of the company's financial statements and integrated sustainability reporting, effectiveness of the systems of governance, risk management and internal control and monitoring. The Audit Committee report can be found on page 18 of the annual financial statements.

Risk Committee

Members:

Mr J R Lister (Chairman), Mr P C Baloyi, Mr P G de Beyer, Ms C W N Molope, Mr B M Rapiya, Mr A K Essien, Mr I S Sehoole and Mr M P Moyo.

The committee is chaired by Mr J R Lister, an independent director and comprises of independent, non-executive and executive directors, meets as often as necessary and met four times during the year.

Principal functions

The committee reviews management's recommendations on risk management, in particular in relation to the structure and implementation of the risk strategy, model, framework and methodologies, the quality and effectiveness of related internal processes, controls and reporting, risk appetite limits and exposure, and the overall risk profile of the business.

Corporate governance report

Committee for Customer Affairs

Members:

Dr S M Magwentshu-Rensburg (Chairman), Mr T A Manuel, Mr A K Essien, Mr B M Rapiya, Mr P G de Beyer, Mr M P Moyo and Ms N T Moholi.

The committee is chaired by Dr S M Magwentshu-Rensburg, an independent director, and comprises of independent non-executive directors and executive directors, meets as often as necessary and met four times during the year.

Principal functions

The committee reviews the extent to which the company is providing acceptable value for money to its customers and the extent to which customers are being treated fairly. The committee also reviews, approves and monitors compliance with the company's Principles and Practices of Financial Management which sets out the nature of discretion retained by the Board and the parameters within which this discretion would be used in relation to discretionary participating products. Further the committee reviews the company's scrip lending policies and recommends any changes to the Board.

Internal control environment

The Board acknowledges its overall responsibility for the company's system of internal control and for reviewing its effectiveness, whilst executive management is accountable to the Board for monitoring the system of internal control and for providing assurance to the Board that it has done so.

Executive management has implemented an internal control system designed to facilitate effective and efficient operation of the company, aimed at enabling management to respond appropriately to significant business, operational, financial, compliance and other risks to achieving the group's business objectives. The system of internal control also helps to ensure the quality of internal and external reporting, compliance with applicable laws and regulations and internal policies with respect to the conduct of business.

The company's internal control system is designed to mitigate, rather than eliminate, the risk of failure to achieve the company's business objectives, and can only provide reasonable, and not absolute, assurance against material misstatement or loss.

Approach to risk management

Creating long-term shareholder value is the company's overriding business objective and the company derives its approach to risk management and control primarily from a shareholder-inclusive value perspective.

Risk management is an integral part of the management decision making process and the company's overall approach is to define a clear risk strategy to ensure that risk taking is a conscious strategic decision. The pursuit of shareholder value requires the company to balance the risk assumed as reflected in capital required with the aim to provide higher risk-adjusted returns within an acceptable level of risk assumed and capital required. Significant progress has been made to implement a framework where risk, capital and value are fully aligned with commercial objectives. From a risk management perspective there is a strong emphasis on understanding the diversity and full breadth of risk to the business and its objectives and on implementing controls to reduce residual risk to an acceptable level. Risk management is, however, not limited solely to risks that may adversely affect the company's ability to achieve its objectives; it is also about identifying and seizing new opportunities while ensuring that the risks are understood, evaluated, appropriately taken on and managed.

The company operates a risk management system, which contains the following components: Risk end vision, risk strategy and appetite, risk categorisation model, risk governance, risk value chain, risk management processes, risk reporting and risk culture.

Corporate governance report

Risk end vision

Our risk end vision describes the attributes of the organisation and condition when the risk management system is fully embedded. In particular the following are the desired outcomes of the risk management system:

- A strong risk management culture where risks are understood, controlled and meaningfully communicated by decision makers.
- Understanding of the material drivers of regulatory capital.
- Clarity of individual responsibility in the management of risk.
- The management of risk is closely linked to the achievement of business objectives.
- Risks are continuously monitored and reviewed and there is organisational learning.
- Positive impact on shareholder protection.
- Reduced losses as a result of risks not materialising.

Risk categorisation model

The risk categorisation model is designed to provide a common framework within which to identify, collate, aggregate and report on risks, both from a bottom-up and top-down perspective and to assess quantitatively and qualitatively, at various levels within the organisation, including Group Internal Audit. To achieve these objectives, all three lines of defence are required to use the same categorisation model, and the model is designed to ensure that there is appropriate detail for it to be meaningful at all levels within the organisation, and also to enable aggregation and escalation of material items to the correct level. The following Level 1 risk categories are applied:

Market risk: The risk of adverse changes in the balance sheet or on future earnings whether directly or indirectly, due to fluctuations in the market prices of financial instruments or changes in yield curves. (for example, equity and real estate returns, and yield curve shifts).

Credit risk: This is the risk of loss as a result of credit defaults, defaults by counterparties, credit rating changes and spread moves, where the changes are applied to fixed interest holdings and receivables of the company. This category includes concentration risk by credit counterparty.

Liability risk: This is the risk of loss as a result of fluctuations in current insurance claims experience and revisions to estimates of future insurance claims experience. For life insurance, this relates to the incidence of mortality, longevity, morbidity and insured accident and disability claims.

Business risk: This is a non-discretionary risk, being a fundamental risk associated with "being in business". This is the risk of loss due to adverse changes in new business volume, margin, expenses and termination experience.

Operational risk: This is the risk of loss due to the occurrence of unexpected one-off events caused by people, processes, systems or external events (excluding external events that are reflected in other risk categories above).

Corporate governance report

Risk governance

Enterprise risk governance is a systematic approach to decision making based on the principles of cooperation, participation, mitigation and sustainability adopted to achieve more effective risk management.

The risk governance model is the construct of how the company's structures, processes and people relate to each other in order to enable optimal risk decisions. Risk governance provides assurance to the organisation's shareholders that the organisation is being prudently managed in the context of value creation for shareholders.

Other risk reporting includes:

- Three lines of defence model.
- Clearly defined accountabilities and expectations for all relevant parties, including the roles and responsibilities of the Board, management and employees.
- Clearly defined policies for the management of all defined risks.
- The monitoring and reporting processes for risk-based decision making, including a common set of metrics that enhance communication about enterprise risks.
- Approaches to enterprise risk assurance that enhance the organisation's resilience including stress testing and contingency and crisis planning.
- A sound system of internal control.

Risk value chain

Risks are always considered in the context of pre-defined business objectives, firstly at an inherent (gross) level, i.e. in the absence of any controls or management actions and secondly at a residual (net) level, i.e. based on the adequacy and effectiveness of specific controls or management actions.

There are eight distinct stages in the risk value chain:

Risk identification: Risk identification is the responsibility of line management. Risks are identified using a combination of bottom-up and top down approaches and considering various factors including organisational objectives, business environment, control breakdowns, internal risk events, audit reports and the regulatory environment. The identified risks are validated through management and board Risk Committees.

Risk assessment: Risks are assessed by line management using a risk scoring matrix which consists of a likelihood and impact scale. The net risk is managed in accordance with risk appetite with an accountable risk appointed to manage the risk on a continuous basis.

Risk monitoring: Risk monitoring is a function of all three lines of defence in their respective areas of responsibility. Monitoring is performed by using risk indicators, modelling tools and methodologies that measure outcomes within an acceptable range, as pre-determined by risk appetite and tolerance levels.

Risk recording: The primary mechanism used by Old Mutual for the collation and recording of risk information is a risk management tool known as Open Pages.

Risk escalation: Risks and issues that meet the escalation threshold are escalated to Old Mutual Emerging Markets Exco and Old Mutual Plc as soon as possible, but at least within 30 days of identification.

Risk reporting: The Board receives sufficient risk information to enable them to understand the overall risk profile and focus on the material and strategic implications for the business. The risk reporting structure is hierarchical and cyclical. Formal risk reporting takes place quarterly at business segment level after which the key risks, trends and mitigating actions are reported at the management Risk Committee, prior to the quarterly board Risk Committee. The Board Risk Committee has oversight over all risk types in Old Mutual. There are also specialist management risk committees in place that focus on specific risk types, for example the Credit Review Committee and the ALM Committee.

Corporate governance report

Stress Testing: Old Mutual performs stress and scenario testing and sensitivity analysis to monitor the robustness of its regulatory and economic capital position. These assessments help to inform management's understanding of the capital that would be required in the event of the scenarios materialising. The output of these tests helps management to prepare for significant changes in the environment and ensure that the impact of such changes would be within risk appetite limits.

Contingency and Crisis planning: Old Mutual has formal contingency and business continuity plans in place to ensure its ability to operate on an ongoing basis and limit losses in the event of severe business disruption. Management periodically reviews these plans so that they are consistent with Old Mutual's operations and business strategies. Moreover, these plans are tested periodically to ensure that Old Mutual would be able to execute these plans in the unlikely event of a severe business disruption.

Risk management processes

Collating minimum prescribed information regarding major processes, key controls and risk and performance indicators linked to risks, contributes to the creation of a coherent and holistic single view of risk and allows staff to optimally manage risk. The key risk management processes are as follows:

- Risk self assessment
- Control self assessment
- Internal risk events
- Key risk indicators

Risk reporting

The risk reporting framework uses the following reference points: local and group regulatory requirements, risk committee terms of reference, risk policies, the Risk categorisation model, risk strategy and appetite limits and key shareholders to define the scope and content of risk reporting in the organisation.

The key stakeholders of risk management information are as follows:

- Old Mutual plc
- Executive and line management
- Risk Committee
- Segment and specialist risk committees
- General public
- Regulators

Risk culture

A risk-based culture implies neither risk aversion nor unwise risk taking. Rather, it means a balanced approach that strives for an integrated understanding of risk and approach to risk management. It cultivates risk responsiveness at all organisational levels, values and demands transparency, and evokes behaviour aligned with sound business growth. Old Mutual defines culture as "how we think about things and the way we do things around here". Risk management culture, therefore, is related to the set of shared attitudes, values, goals and practices that characterise how Old Mutual's people consider risks in their day to day activities.

People capability and capacity: The risk management processes depend on its people's skills and willingness to execute the risk management system. Therefore a key step in its journey is to attract, grow and retain the right people. This is then maintained by having in place good people management practices, where staff are valued and understand their roles and responsibilities and how they fit in with the business strategy.

Corporate governance report

Education and training: Old Mutual's central risk function develops training material that is customised for different target groups to raise risk awareness and to provide specific methodology and system training. Board induction material is also developed to educate Directors on their increased responsibilities.

Whistle blowing and ethics: An overarching formal code of ethics has been adopted by the Board. The Code of Ethics is founded on the group values of "Respect", "Integrity", Accountability", and "Pushing beyond boundaries". It is the responsibility of all employees to act in accordance with the group values and thereby to maintain and enhance the group's reputation.

Employment policies

The company's employment policies are designed, regularly reviewed and updated to promote a working environment that supports the attraction, recruitment, development and retention of high performing employees, and fosters relationships that strengthen the diversity of its workforce.

The following key human resource policies are promoted throughout the company:

- The company considers that the establishment of the right environment for its people is essential for their wellbeing, performance and development, and the future of the company.

- The company takes cognisance of and applies the principles and legal requirements as set out in the Employment Equity Act, No 5 of 1998. Employees are recruited and promoted on the basis of their suitability for the job, without unfair discrimination in terms of race, religion, national origin, colour, gender, age, marital status, sexual orientation or disability unrelated to the task at hand. This principle is aligned with the requirement to address the issues of employment equity within the workplace, and the company's practices and policies are cognisant of this.

- The company values the involvement of its employees and continues to keep them informed on matters affecting them as employees, and factors relevant to the performance of the company. Employee involvement and consultation is managed in a number of ways, including but not limited to in house publications, briefings, road shows and intranet. In many parts of the business, employee representatives are regularly consulted on a wide range of issues affecting their current and future interests. In addition, change management processes and capability are regularly reviewed and strengthened to ensure the inclusion of staff in changes affecting them.

- The efforts of the individual in helping to create the success of the company should be appropriately recognised. Remuneration systems are structured to recognise both the contribution of individuals, and the performance of the area of the business in which they work.

- The training, development and career growth of all employees remains a priority. Developing employees and leaders requires a holistic learning experience that is aligned with core competencies, specialist skills, business objectives and company strategy, thereby ensuring that the growth and development of the organisation remains sustainable.

- Employees are bound by the Old Mutual code of conduct. In terms of this code of conduct, employees are required to adhere to all staff policies and procedures.

Corporate governance report

Employment equity report

The table below sets out the staff profile of the company, across the different race groups (African, Coloured, Indian and White) as at 31 December 2017. The employment equity data formed part of the annual declaration to the Department of Labour and in compliance with Section 21 of the Employment Equity Act 55 of 1998.

	Male				Female				Foreign national		
Occupational levels	**A**	**C**	**I**	**W**	**A**	**C**	**I**	**W**	**M**	**F**	**Total**
Top management	2	-	-	2	2	-	-	2	2	-	**10**
Senior management	101	83	76	376	81	81	59	135	30	7	**1 029**
Professionally qualified and experienced specialists and mid-management	366	372	158	482	349	417	128	451	29	16	**2 768**
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	2 483	1 180	331	819	4 218	1 674	319	857	26	28	**11 935**
Semi-skilled and discretionary decision making	654	365	13	21	1 558	743	34	58	4	2	**3 452**
Unskilled and defined decision making	10	11	-	1	28	13	-	-	-	-	**63**
Total permanent	**3 616**	**2 011**	**578**	**1 701**	**6 236**	**2 928**	**540**	**1 503**	**91**	**53**	**19 257**
Temporary employees	23	34	2	6	83	58	2	8	-	1	**217**
Grand total	**3 639**	**2 045**	**580**	**1 707**	**6 319**	**2 986**	**542**	**1 511**	**91**	**54**	**19 474**

The following table indicates the total number of employees with disabilities only at the various occupational levels:

	Male				Female				Foreign national		
Occupational levels	**A**	**C**	**I**	**W**	**A**	**C**	**I**	**W**	**M**	**F**	**Total**
Top management	-	-	-	-	-	-	-	-	-	-	-
Senior management	1	3	1	5	-	2	3	3	1	-	19
Professionally qualified and experienced specialists and mid-management	6	7	4	14	2	15	1	12	1	-	62
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	13	28	6	13	23	42	5	30	-	-	160
Semi-skilled and discretionary decision making	35	19	2	-	69	30	2	1	1	-	159
Unskilled and defined decision making	-	-	-	-	1	-	-	-	-	-	1
Total permanent	**55**	**57**	**13**	**32**	**95**	**89**	**11**	**46**	**3**	**-**	**401**
Temporary employees	-	-	-	-	-	-	-	-	-	-	-
Grand total	**55**	**57**	**13**	**32**	**95**	**89**	**11**	**46**	**3**	**-**	**401**

Note: Racial categories: A - African; C - Coloured; I - Indian; W - White, Gender categories: M - Male; F - Female

Corporate governance report

Governance of smoothed bonus policyholder funds

Smoothed bonus products constitute a significant proportion of the company's business. The Board's Committee for Customer Affairs considers, amongst others, the interests of discretionary participating policyholders and reviews key decisions and recommendations affecting the interests of these policyholders.

The company's Principles and Practices of Financial Management (PPFM) document covers smoothed bonus and other discretionary participating business. The purpose of the document is to define the principles and practices of financial management that are currently applied in the management of the company's discretionary participating business, and to disclose the nature and extent of discretion used and the parameters within which it will be used. The Committee for Customer Affairs provides the Board with an independent assessment of compliance with the PPFM on an annual basis. The Board, in turn, reports on the extent of compliance with the PPFM in the company's annual statutory return to the Financial Services Board (FSB).

Specific steps are taken to ensure that policyholder funds in respect of smoothed bonus business are managed in the interests of the policyholders concerned.

The following are some of the steps that are taken:

- There is a clear separation of shareholder and policyholder funds.
- The assets within shareholder and policyholder funds are predominantly managed by different portfolio managers, in terms of different investment mandates.
- The asset managers responsible for policyholder funds are clearly instructed that all investment decisions taken within policyholder funds are to be in the longer-term best interest of policyholders, within the constraints of specified investment mandates.
- Each product portfolio has an investment mandate, based on the nature of that portfolio's liability. Amongst others, the mandate specifies which asset classes may be held, and in what proportions. For portfolios with fully guaranteed benefits (such as the immediate annuity portfolio), particular care is taken to ensure that assets appropriately match liabilities.
- In addition to applicable statutory limitations, there are further self-imposed limits on investments in associated companies of the Old Mutual Group, within each policyholder fund portfolio.
- Major investments in Old Mutual Group companies (such as in Nedbank Group Limited) and loans to other companies in the group (such as to Old Mutual plc) are held mainly in shareholder funds. Policyholder funds may, from time to time, have some limited exposure to such investments as part of their normal portfolio investments.
- Potential conflicts of interest arising out of proposals that policyholder funds invest in a company or fund in which shareholders have an interest must be disclosed to the Statutory Actuary, who will report on these to the Committee for Customer Affairs. If the potential conflict of interest is material, approval by the Board is required. Any such transactions are conducted on arm's-length terms, and only when the asset manager is satisfied that such investments are in the interest of policyholders.
- The asset manager produces a monthly report covering, amongst others, the structure of each portfolio relative to its mandate and investment performance relative to benchmarks.
- The method of allocation of surplus between policyholders and shareholders is clearly specified. Smoothed bonus policyholder funds are credited (by way of bonus stabilisation reserves) with the investment return earned on those funds, less applicable charges and tax.
- Any surplus attributable to shareholders is only transferred from policyholder funds to shareholder funds on the recommendation of the Statutory Actuary, with the final amounts of the transfer being confirmed following the production of interim and year-end results. Such transfers are always subject to the assets in the policyholder funds remaining sufficient to cover all the corresponding liabilities. These liabilities include provision for any guarantees that may apply.
- The company pays particular attention to ensuring that the declaration of bonuses is carried out in a responsible manner, such that sufficient reserves are retained for bonus smoothing purposes, and that sufficient reserves and capital are maintained to meet policy benefits. The way in which the company manages these products ensures that information is produced on the financial strength of its smoothed bonus funds and their ability to pay bonuses at an individual fund level. This information is carefully considered whenever bonuses are declared, and is monitored regularly throughout the year. Investment returns credited to policyholder funds, after deducting applicable charges and tax, that are not declared as bonuses are retained in bonus stabilisation reserves, which are used to support subsequent bonus declarations.

Corporate governance report

Going concern

The Board has satisfied itself that the company has adequate resources to continue in operation for the foreseeable future. The company's financial statements have accordingly been prepared on a going concern basis.

Corporate citizenship and non-financial reporting

The Old Mutual Emerging Markets Group publishes a separate annual sustainability report which covers the activities of its business with respect to its material sustainability issues.

This report also covers concerted efforts to offer financial services delivered to customers, employees, government and shareholders. The Old Mutual Group subscribes to a code of ethics which is available to all staff.

Statutory actuary's report

I have conducted an actuarial review of the company as at 31 December 2017, according to applicable guidelines issued by the Actuarial Society of South Africa. Contracts classified as insurance and investment contracts with discretionary participating features have been valued using the Financial Soundness Valuation (FSV) method. Contracts classified as investment contracts (without discretionary participation in profit) have been valued at fair value as per IAS 39, Financial Instruments. Policyholders' reasonable benefit expectations have been taken into account in valuing policy liabilities. Further notes to this report, including a description of the valuation basis, are provided in notes 3.4 and 12 to the consolidated and separate annual financial statements. Sample derivative contract prices derived from the calculation of market-consistent investment guarantee reserves are provided in note 3.2.8.

Actuarial Balance Sheet

		Rm		Rm
	2017 Published	2017 Statutory	2016 Published	2016 Statutory
Total value of assets	664,544	663,708	631,410	630,402
Actuarial value of policy liabilities	(566,880)	(567,160)	(524,047)	(523,976)
Unsecured subordinated callable notes	(5,995)	(5,995)	(5,902)	(5,902)
Provisions and other liabilities	(40,750)	(40,599)	(50,875)	(50,840)
	(613,625)	(613,754)	(580,824)	(580,718)
Excess of assets over liabilities	50,919	49,954	50,586	49,684
Less: Inadmissible for statutory solvency purposes		(1,819)		(1,172)
Less: Limits on group undertakings		(8,454)		(8,440)
Add: Unsecured subordinated callable notes		5,995		5,902
Excess assets (statutory basis)		45,676		45,974
Statutory capital adequacy requirement (CAR)		15,380		14,344
Ratio of excess assets to CAR		3.0		3.2

Notes:

1. Certain of the 2017 figures for inadmissible assets and limits in respect of group undertakings and the resulting calculations are estimates.
2. A reconciliation of the movement in excess of assets over liabilities on the published basis is provided in note 3.4.
3. The composition of the assets backing the CAR is 30% in local equities and 70% in local cash (2016: 30% local equities and 70% local cash).

Certification of statutory financial position

I hereby certify that:

- the valuation on the statutory basis of the company as at 31 December 2017, the results of which are summarised above, has been conducted in accordance with, and this statutory actuary's report has been produced in accordance with, applicable Actuarial Society of South Africa professional guidance notes and Board Notice 14 of 2010;

- the company was financially sound on the statutory basis as at the valuation date, and in my opinion is likely to remain financially sound on the statutory basis for the foreseeable future; and

- the company also had sufficient non-linked assets to more than cover non-linked liabilities and capital adequacy requirements after allowing for the asset spreading requirements as prescribed by the Long Term Insurance Act.

W Louw
Statutory Actuary
BComm (Hons), FASSA
Cape Town
12 March 2018

Audit Committee report

The Audit Committee is a committee of the Board of directors, and serves in an advisory capacity to the Board in discharging its duties relating to the safeguarding of assets, the operation of adequate systems, internal controls, the review of financial information and the preparation of the consolidated and separate annual financial statements. This includes satisfying the Board that adequate internal, operating and financial controls are in place.

Terms of reference

The Audit Committee has adopted formal terms of reference that have been updated and approved by the Board of directors, and has executed its duties during the past financial year in compliance with these terms of reference.

Composition and meeting process

The current members are Mr I S Sehoole (Chairman), Mr P C Baloyi, Mr P G de Beyer, Mr I Kgaboesele, Mr J R Lister and Ms C W N Molope.

The committee comprises exclusively independent directors, and met seven times during the year with senior management, including the chief executive officer, the statutory actuary, the group finance director, the group audit director, the chief risk officer and certain other executive management. Representatives from Old Mutual plc sometimes attend these meetings. The external and internal auditors attend these meetings and have unrestricted access to the committee and to its chairman. Ad hoc meetings are held as required.

Statutory duties

In execution of its statutory duties, as required in terms of the Companies Act of South Africa and the Long-term Insurance Act, during the past financial year the Audit Committee has:

- Ensured the appointment as external auditor of the company of a registered auditor who, in the opinion of the Audit Committee, was independent of the company.
- Determined the fees to be paid to the external auditor and such auditor's terms of engagement.
- Ensured that the appointment of the external auditor complies with the Companies Act of South Africa and any other legislation relating to the appointment of such auditors.
- Determined the nature and extent of any non-audit services which the auditor may provide to the company or such services that the auditor may not provide to the company or related company.
- Pre-approved any proposed contract with the auditor for the provision of non-audit services to the company.
- Considered the independence of the external auditors and has concluded that the external auditor has been independent of the company throughout the year taking into account all other non-audit services performed and circumstances known to the committee.
- Received and dealt appropriately with any complaints relating to the accounting practices and internal audit of the company, the content or auditing of its consolidated and separate annual financial statements, the internal financial controls of the company, or to any related matter.
- Made submissions to the Board on any matter concerning the company's accounting policies, financial control, records and reporting.

Legal requirements

The Audit Committee has complied with all applicable legal, regulatory and other responsibilities for the period under review.

Consolidated and separate annual financial statements

Following our review of the consolidated and separate annual financial statements for the year ended 31 December 2017, we are of the opinion that, in all material respects, they comply with the relevant provisions of IFRS and the Companies Act of South Africa 71 of 2008 and that they fairly present the financial position at 31 December 2017 of the company and subsidiaries, joint ventures and associates and the consolidated results of operations and cash flows for the year then ended.

I S Sehoole
Chairman of the Audit Committee
12 March 2018

To the Shareholders of Old Mutual Life Assurance Company (South Africa) Ltd

Report on the Audit of the Separate and Consolidated Financial Statements

Opinion

We have audited the separate and consolidated financial statements of Old Mutual Life Assurance Company (South Africa) Ltd (the group and company) set out on pages 24 to 132, which comprise the separate and consolidated statements of financial position at 31 December 2017, and the separate and consolidated income statements and separate and consolidated the statements of comprehensive income, the separate and consolidated statements of changes in equity and the separate and consolidated statements of cash flows for the year then ended, and notes to the financial statements, including a summary of accounting policies.

In our opinion, the separate and consolidated financial statements present fairly, in all material respects, the separate and consolidated financial position of Old Mutual Life Assurance Company (South Africa) Ltd at 31 December 2017, and its separate and consolidated financial performance and separate and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Separate and Consolidated Financial Statements section of our report. We are independent of the group and company in accordance with the Independent Regulatory Board for Auditors Code of Professional Conduct for Registered Auditors (IRBA Code) and other independence requirements applicable to performing audits of financial statements in South Africa. We have fulfilled our other ethical responsibilities in accordance with the IRBA Code and in accordance with other ethical requirements applicable to performing audits in South Africa. The IRBA Code is consistent with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (Parts A and B). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the separate and consolidated financial statements of the current year. These matters were addressed in the context of our audit of the separate and consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of insurance and investment contracts with discretionary participation features ("policyholder liabilities") (Aggregated policyholder liabilities for company: R313,8 billion and group: R314,8 billion as included in note 3.2.3 and 3.2.5)

Refer to the accounting policy on page 36 to 47 and specifically the disclosures in notes 3.2.3, 3.2.5 and 3.2.8 to the financial statements.

The key audit matter:

The group and company have incurred significant obligations in respect of policyholder liabilities related to life insurance contracts. Judgement is required over a variety of uncertain future outcomes, including the policy for creating and releasing discretionary margins, economic assumptions, such as discount rates, and operating assumptions, such as mortality/morbidity, maintenance expense and persistency.

The valuation of policyholder liabilities are also dependent on the completeness and accuracy of the data used in the valuation process which is reliant on a number of underlying systems and processes.

The key business units of the group and company, reviewed the appropriateness of the expense allocation bases during the course of 2017 with specific focus on refining the initial versus maintenance expense split. As part of this process, central project costs have now also been allowed for in the determination of policyholder liabilities for those products within scope for IFRS 4 Insurance Contracts and where a prospective valuation method is used.

Due to the significant judgement and estimation involved in the determination of the policyholder liabilities, this was considered a key audit matter.

How the matter was addressed in our audit:

Our procedures in this area included testing the design, implementation and operating effectiveness of key controls over the identification, measurement and management of the group and the company's calculation of policyholder liabilities. We also evaluated the consistency of methodologies against prior years and the appropriateness of the assumptions used by the group and the company. We assessed whether the methodology used to determine the policyholder liabilities are consistent with the actuarial guidance (SAP 104) and industry practice.

We involved our own internal actuarial specialists to assist us in evaluating the key assumptions used (refer to note 3.2.8) by management and the process followed for setting and updating these assumptions, particularly around persistency, expense and mortality/morbidity assumptions. This included testing the appropriateness of the data used in management's analysis prepared to set the assumptions. We referred to our own industry knowledge, external data and our views of experience to date, an understanding of which was enhanced through our attendance at the Old Mutual Group's Internal Review Committee meetings.

In respect of the discretionary margins held, we tested and evaluated the group and company's use and application of the established policy, with reference to industry-wide practice.

Following on from the refinement of expense assumptions in the current year we reviewed the processes and principles applied in allocating business unit expenses, including centrally allocated expenses, the split between initial and maintenance expenses and the split of expenses to different products. To assess the appropriateness of the additional central project costs allowed for in the policyholder liabilities, we reviewed the methodology used to identify project costs, how these were allocated to the different product types and eventually how the project costs were treated in the estimation models.

We agreed the data used in the valuation of policyholder liabilities to the policyholder administration systems via data reconciliations. The input data including premiums, claims and expenses were verified by testing the design, implementation and operating effectiveness of key controls over the policy administration systems.

Also, we examined management's Analysis of Surplus and placed focus on the key areas of profit and loss and obtained supporting evidence for large items and movements, ensuring that this was in line with our expectation and past experience.

Valuation of investments and securities (company: R622,6 billion and group: R688.7 billion)

Refer to the accounting policy on page 57 to 58 and the disclosures in notes 3.3.4 and 5 to the financial statements.

The key audit matter:

The group and the company holds and manages a significant investment portfolio to meet its obligations under insurance and investment contracts and for shareholder investment purposes. The size of the portfolio and the judgements involved in applying the applicable valuation models and assessing the various unobservable market inputs, contributes to making the valuation of investments and securities a key area of focus within our audit.

How the matter was addressed in our audit:

Our procedures in this area included testing the group and company's key controls over the investment valuation process, monitoring performance of investments and the data integrity of the investment records.

We assessed the allocation of these assets into the fair value hierarchy as disclosed in note 5, placing specific emphasis on financial instruments where a greater degree of judgement is required. In addition:

- For investments and securities with a level 1 fair value hierarchy, we performed independent sample checks on the pricing used to value the instruments.
- For investments and securities with a level 2 fair value hierarchy, we used our internal valuation specialists and evaluated management's modelling and assumptions used based on our specialists' knowledge of the industry and external data,

ensuring the reasonableness and consistency of assumptions across the group and company.

- For unlisted debt with a level 3 fair value hierarchy, we evaluated the movement in the credit spreads over the period and also benchmarked the reasonability of the credit spreads to similar counterparties.

The estimation uncertainty is higher for those unlisted instruments that are classified as level 3 fair value hierarchy per IFRS 13 Fair Value Measurement, as significant elements of the valuation are not observable. We used our own valuation specialists to challenge the key inputs and assumptions, such as estimated cash flows and discount rates which drive the valuation, and to critically assess the valuation methodologies against current market best practice.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' report, the Audit Committee report and the Certificate by the Company Secretary as required by the Companies Act of South Africa, and contacts, the Statement of directors' responsibilities, the Corporate Governance report, Statutory actuary's report, and a guide to the financial statements. Other information does not include the separate and consolidated financial statements and our auditor's report thereon.

Our opinion on the separate and consolidated financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the separate and consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Consolidated and Separate Financial Statements

The directors are responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance with International Financial Reporting Standards and the requirements of the Companies Act of South Africa, and for such internal control as the directors determine is necessary to enable the preparation of separate and consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group and / or the company or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated and Separate Financial Statements

Our objectives are to obtain reasonable assurance about whether the separate and consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these separate and consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the group's and the company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the group's and the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate and consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the group and / or the company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the separate and consolidated financial statements, including the disclosures, and whether the separate and consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the separate and consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In terms of the IRBA Rule published in Government Gazette Number 39475 dated 4 December 2015, we report that KPMG Inc. has been the auditor of Old Mutual Life Assurance Company (South Africa) Ltd for 27 years.

KPMG Inc.

Registered Auditor

Per: GM Pickering
Chartered Accountant (SA)
Registered Auditor
Director
13 March 2018

1 Mediterranean Street
Foreshore
Cape Town
8000

A guide to the financial statements

The group's business primarily involves the provision of all classes of life assurance, savings and retirement funding. The group underwrites life insurance risks associated with death and disability. The diagram below illustrates the relationship of the various products to key areas of the financial statements and main risk exposures.

	Key risk exposure	Key performance impact	Note reference
Key liabilities arising from products offered: • Insurance contracts	Insurance risk and business risk	Net earned premium Net claims incurred Commission and other acquisition costs Operating expenses	3.2.1 3.2.2 3.2.3 6.1
• Investment contracts with discretionary participating features	Financial risk and business risk	Net earned premium Net claims incurred Commission and other acquisition costs Operating expenses	3.2.1 3.2.2 3.2.5 6.1
• Investment contracts without discretionary participating features		Fee, commission and other income Change in investment contract liabilities Commission and other acquisition costs Operating expenses	3.2.4 6.1
Key assets held by the group to manage exposure from products offered: • Investments and securities	Financial risk	Investment return	3.3.2
• Investment properties • Owner-occupied property	Property valuation risk (non-financial)	Investment return	4.1
		Property revaluation reserve	4.2, 9.5

Income statements

For the year ended 31 December 2017

R m

	Notes	Separate		Consolidated	
		Year ended 31 December 2017	Year ended 31 December 2016	**Year ended 31 December 2017**	Year ended 31 December 2016
Revenue					
Gross earned premiums		48,320	50,224	49,348	51,231
Outward reinsurance		(1,311)	(1,324)	(1,532)	(1,532)
Net earned premiums	3.2.1	47,009	48,900	47,816	49,699
Investment return	3.3.2	68,110	33,503	83,642	38,151
Fee, commission and other income		6,772	5,811	8,007	8,222
Total revenue		**121,891**	**88,214**	**139,465**	**96,072**
Expenses					
Claims and benefits		(67,602)	(52,161)	(68,272)	(52,587)
Reinsurance recoveries		844	1,028	1,079	1,251
Net claims incurred (including change in insurance contract liabilities)	3.2.2	(66,758)	(51,133)	(67,193)	(51,336)
Change in investment contracts without discretionary participating features	3.2.4	(26,695)	(10,616)	(28,913)	(10,700)
Finance costs	3.3.3	(1,696)	(1,588)	(2,299)	(2,179)
Commission and other acquisition costs		(6,878)	(5,634)	(6,326)	(5,907)
Operating and administration expenses	6.1	(9,014)	(7,720)	(12,106)	(10,820)
Change in third party interest in consolidated funds		-	-	(11,218)	(2,212)
Total expenses		**(111,041)**	**(76,691)**	**(128,055)**	**(83,154)**
Share of associates' and joint ventures' (loss)/profit after tax	8.1	-	-	(39)	(32)
Profit before tax		**10,850**	**11,523**	**11,371**	**12,886**
Shareholders tax		(2,530)	(2,988)	(2,718)	(3,183)
Policyholders tax		(1,132)	(521)	(1,251)	(933)
Total income tax expense	7.1	**(3,662)**	**(3,509)**	**(3,969)**	**(4,116)**
Profit after tax for the financial year		**7,188**	**8,014**	**7,402**	**8,770**
Attributable to:					
Equity holders of the parent		7,188	8,014	**7,412**	8,772
Non-controlling interest		-	-	**(10)**	(2)
Profit after tax for the financial year		**7,188**	**8,014**	**7,402**	**8,770**

Statements of comprehensive income

	Separate		Consolidated	
R m	**Year ended 31 December 2017**	Year ended 31 December 2016	**Year ended 31 December 2017**	Year ended 31 December 2016
Profit after tax for the financial year	**7,188**	**8,014**	**7,402**	**8,770**
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss				
Property revaluation	62	122	62	122
Shadow accounting (change in long term policyholder liabilities due to property revaluation)	(147)	(133)	(147)	(133)
Actuarial gains/ (losses) on defined benefit plans and return on plan assets	12	(10)	12	(10)
Items that will be reclassified subsequently to profit or loss				
Currency translation differences on foreign operations	(24)	(63)	3	(448)
Other comprehensive loss for the year net of taxation	**(97)**	**(84)**	**(70)**	**(469)**
Total comprehensive income	**7,091**	**7,930**	**7,332**	**8,301**
Attributable to:				
Equity holders of the parent	**7,091**	**7,930**	**7,342**	**8,303**
Non-controlling interest	**-**	**-**	**(10)**	**(2)**
	7,091	**7,930**	**7,332**	**8,301**

Statements of financial position

At 31 December 2017

		Separate		Consolidated	
R m	Notes	**At 31 December 2017**	At 31 December 2016	**At 31 December 2017**	At 31 December 2016
Assets					
Intangible assets	9.8	1,122	606	1,373	692
Investment property	4.1	1,196	519	24,229	19,180
Owner-occupied property	4.2	2,379	2,658	2,379	2,658
Equipment		381	434	392	439
Deferred tax assets	7.2	21	501	419	539
Reinsurance contracts	3.2.6	300	617	743	962
Post employment benefits	6.3	664	594	664	594
Deferred acquisition costs		1,202	1,000	2,345	2,097
Loans and advances		209	222	209	222
Investment and securities	3.3.4	622,575	576,164	688,690	634,967
Investment in associates and joint ventures	8.1	-	-	2,222	2,112
Derivative assets		3,662	3,595	3,662	3,852
Amounts due by group companies	8.2	6,019	10,253	4,550	8,884
Other assets	9.1	11,213	6,554	14,425	9,171
Cash and cash equivalents	9.2	12,381	25,083	20,880	34,090
Non-current assets held for sale	9.4	1,220	2,610	1,313	2,839
Total assets		**664,544**	**631,410**	**768,495**	**723,298**
Liabilities					
Insurance contracts	3.2.3	148,942	149,087	149,987	150,010
Investment contracts without discretionary participating features	3.2.4	255,470	229,242	273,934	249,315
Investment contracts with discretionary participating features	3.2.5	164,822	147,920	164,822	147,920
Third party interests in consolidated funds		-	-	76,763	66,042
Borrowed funds	3.3.5	5,995	5,902	11,489	10,488
Share-based payment liabilities	6.2	576	533	576	533
Deferred revenue on investment contracts		151	35	1,070	878
Deferred tax liabilities	7.2	5,511	4,496	7,079	5,595
Derivative liabilities		5,001	4,844	5,001	4,867
Amounts due to group companies	8.2	1,100	902	2,796	1,648
Provisions	9.7	1,266	1,462	1,299	1,496
Current tax payable		1,169	1,448	1,183	1,475
Collateral owing		8,094	25,939	8,094	25,939
Repurchase agreements		5,302	-	5,302	-
Other liabilities	9.3	10,226	9,014	15,072	13,659
Total liabilities		**613,625**	**580,824**	**724,467**	**679,865**
Shareholders' equity					
Share capital and premium	9.5	6,423	6,423	6,423	6,423
Reserves	9.5	44,496	44,163	37,557	37,037
Equity attributable to holders of the parent		**50,919**	**50,586**	**43,980**	**43,460**
Non-controlling interest		-	-	48	(27)
Total equity		**50,919**	**50,586**	**44,028**	**43,433**

Statements of changes in equity

Separate

	Share capital and premium	Reserves	Total equity
	R m	R m	R m
Balance at 1 January 2016	**6,423**	**41,129**	**47,552**
Profit after tax	-	8,014	8,014
Other comprehensive loss	-	(84)	(84)
Dividends	-	(4,924)	(4,924)
Other movements	-	28	28
Total changes	-	3,034	3,034
Balance at 31 December 2016	**6,423**	**44,163**	**50,586**
Profit after tax	-	7,188	7,188
Other comprehensive loss	-	(97)	(97)
Dividends	-	(6,841)	(6,841)
Other movements	-	83	83
Total changes	-	333	333
Balance at 31 December 2017	**6,423**	**44,496**	**50,919**

Refer to note 9.5 for breakdown of reserves.

Consolidated

	Share capital and premium	Reserves	Non-controlling interest	Total equity
	R m	R m	R m	R m
Balance at 1 January 2016	**6,423**	**34,143**	**(25)**	**40,541**
Profit after tax	-	8,772	(2)	8,770
Other comprehensive loss	-	(469)	-	(469)
Dividends	-	(4,924)	-	(4,924)
Acquisition of business from fellow subsidiary	-	(386)	-	(386)
Other movements	-	(99)	-	(99)
Total changes	-	2,894	(2)	2,892
Balance at 31 December 2016	**6,423**	**37,037**	**(27)**	**43,433**
Profit after tax	-	7,412	(10)	7,402
Other comprehensive loss	-	(70)	-	(70)
Issue of share capital	-	-	60	60
Dividends	-	(6,841)	-	(6,841)
Acquisition of subsidiary	-	-	25	25
Other movements	-	19	-	19
Total changes	-	520	75	595
Balance at 31 December 2017	**6,423**	**37,557**	**48**	**44,028**

Statements of cash flows

For the year ended 31 December 2017

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	Notes	Separate		Consolidated	
		Year ended 31 December 2017	Year ended 31 December 2016	**Year ended 31 December 2017**	Year ended 31 December 2016
Cash flows from operating activities					
Cash used in operations	9.6	(28,685)	(5,356)	(42,085)	(5,374)
Interest received		20,548	18,238	22,220	19,914
Dividends received		5,351	6,802	6,505	7,269
Interest paid		(1,684)	(1,641)	(2,287)	(2,232)
Tax paid	7.3	(2,466)	(2,306)	(2,756)	(2,862)
Net cash from operating activities		**(6,936)**	**15,737**	**(18,403)**	**16,715**
Cash flows from investing activities					
Net disposal/ (acquisition) of property and equipment		68	(289)	61	(301)
Acquisition of investment property	4.1	(349)	(678)	(1,899)	(957)
Proceeds from disposal of investment property		844	1,788	910	1,838
Acquisition of intangible assets	9.8	(554)	(447)	(648)	(447)
Acquisition of investment in associates		(191)	-	(493)	(961)
Acquisition of investment in subsidiaries		-	-	(900)	-
Acquisition of business from fellow subsidiary		-	-	-	(401)
Issue of loan as part of business combination		-	-	(1,299)	-
Net (acquisition)/ disposal of financial instruments		(4,194)	(4,044)	8,524	(12,912)
Proceeds from disposal of non-current asset held for sale		149	-	378	-
Net cash used in investing activities		**(4,227)**	**(3,670)**	**4,634**	**(14,141)**
Cash flows from financing activities					
Proceeds from borrowed funds		-	-	2,600	-
Repayment of borrowed funds		-	-	(1,400)	(500)
Funding received in respect of repurchase agreements		5,302	-	5,302	-
Dividends paid to company's shareholders		(6,841)	(4,924)	(6,841)	(4,924)
Net cash used in financing activities		**(1,539)**	**(4,924)**	**(339)**	**(5,424)**
Net (decrease)/ increase in cash and cash equivalents		**(12,702)**	**7,143**	**(14,108)**	**(2,850)**
Cash and cash equivalents at beginning of the year		25,083	17,940	34,090	36,940
Cash acquired as part of business combination		-	-	898	-
Total cash and cash equivalents at end of the year	9.2	**12,381**	**25,083**	**20,880**	**34,090**

Notes to the financial statements

1. Basis of preparation

These financial statements have been prepared in accordance with and containing information required by International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and interpretations issued by the IFRS Interpretations Committee (IFRS IC), the SAICA Financial Reporting Guides as issued by the Accounting Practices Committee and Financial Pronouncements as issued by the Financial Reporting Standards Council and the requirements of the Companies Act, No. 71 of 2008, of South Africa.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements. Judgements made by the directors in the application 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 the notes referenced below.

The consolidated financial statements consolidate those of the company and its subsidiaries (together referred to as the group) and equity account the group's interests in associates and joint ventures (other than those held by investment linked insurance funds which are accounted for as investments at fair value through profit or loss). The separate financial statements present information about Old Mutual Life Assurance Company (South Africa) Ltd as a separate entity and not about the group.

The consolidated and separate financial statements are presented in millions of Rand (R million), unless otherwise indicated. The South African Rand is the company's functional currency. The financial statements have been prepared on the going concern basis.

Critical accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments.

The table below sets out the items that require the group to make critical estimates and judgements in the application of the relevant accounting policy.

Critical Accounting Estimate	Accounting policy reference
Classification of contracts	3.2
Measurement of policyholder liabilities	3.2
Fair value measurement of financial assets and liabilities	5
Recognition and measurement of provisions	9.7
Estimation of uncertain tax positions	7
Fair value measurement of Investment property and Owner-occupied property	4
Consolidation of investment vehicles	8.1
Impairment of goodwill and other intangible assets	11.3

Notes to the financial statements

Accounting policy elections

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

Area	Details
Policyholder liabilities: insurance contracts and investment contracts with discretionary participating features	Although not an accounting policy election, the measurement of policyholder liabilities under IFRS 4 *Insurance Contracts* currently refers to existing local practice. In South Africa, the valuation basis of such policyholder liabilities is made in accordance with the Financial Soundness Valuation basis as set out in actuarial guidance issued by the Actuarial Society of South Africa in Standard of Actuarial Practice (SAP) 104. Under this guidance, provisions are valued using realistic expectations of future experience, with margins for prudence and deferral of profit emergence. For territories outside of South Africa, local actuarial practices and methodologies are applied.
Policyholder liabilities: insurance contracts	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 are recognised in other comprehensive income (OCI). Fair value adjustments to insurance contract liabilities are recognised in OCI to the extent that the unrealised gains or losses on the related underlying owner occupied property, are recognised in OCI.
Financial instruments	The group has elected to designate certain financial assets and liabilities at fair value through profit and loss to reduce the accounting mismatch. This measurement election is typically utilised in respect of financial assets held to support liabilities in respect of contracts with policyholders. Financial assets and liabilities are also designated at fair value through profit and loss when they are managed on a fair value basis.
Investment properties	The group has elected to recognise all investment properties at fair value, with changes in fair value being recognised in profit and loss for the year.
Owner-occupied property	Owner-occupied property is stated at revalued amounts. Revaluation surpluses are recognised directly in equity, through other comprehensive income.

Segment information

2. Segment information

OMLACSA has identified the Chief Operating Decision Maker function as the Executive Committee, led by the CEO (the Executive Committee serves as advisors to the CEO), which encompasses individuals who are tasked with assessing the operating results of the operating segments and the allocation of resources to the appropriate operating segments. The Executive Committee consists of individuals who have strong operational experience and extensive knowledge of the entity.

The group's reported segments comprise:

- **Mass and Foundation Cluster**, a retail segment that operates in life and savings. It provides simple financial services products to customers in the low income and lower middle-income markets (individuals earning from R1,000 to R20,000 monthly).
- **Personal Finance**, a retail segment that operates primarily in life and savings. It provides holistic financial advice and long-term savings, investment, income and risk protections and targets the middle-income market (individuals earning from R20,000 to R80,000 monthly).
- **Wealth and Investments**, which operates in life and savings and asset management. Wealth (SA) is a retail segment targeting high income and high net worth individuals earning in excess of R80,000 monthly, that provides vertically integrated advice, investment solutions and funds, and risk protection.
- **Old Mutual Corporate**, which operates in life and savings. The segment primarily provides group risk, investments, annuities and consulting services to employer-sponsored retirement and benefit funds.

Shareholder and other comprises consolidation adjustments, which includes the consolidation of funds and the elimination of inter-segment balances, and the balance of the group's financial results which are either not directly attributable to an operating segment as defined above or are attributable to shareholders.

The segmental results are reported on a basis consistent with the internal reporting provided to the chief operating decision maker.

Segment revenue is revenue that is directly attributable to a segment and the relevant portion of the group's revenue that can be allocated on a reasonable basis. Given the nature of the group's operations, no single external client provides 10% or more of the group's revenue. Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to a segment. Segment liabilities are those operating liabilities that result from operating activities of a segment. There are no differences between the measurement of the assets and liabilities reflected in the primary financial statements and that reported for the segments.

Assets, liabilities, revenues or expenses that are not directly attributable to a particular segment are allocated between segments where there is a reasonable basis for doing so. The group accounts for inter-segment revenues and transfers as if the transactions were with third parties at current market prices.

Notes to the financial statements

2. Segment information

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Income statement	Personal Finance	Mass and Foundation Cluster	Old Mutual Corporate	Wealth and Investment	Shareholder and Other	Total
Segment revenue						
Gross earned premiums	11,827	10,952	26,405	164	-	49,348
Outward reinsurance	(1,109)	(39)	(384)	-	-	(1,532)
Net earned premiums	10,718	10,913	26,021	164	-	47,816
Investment income (net of investment losses)	21,547	1,641	25,314	17,557	17,583	83,642
Fee, commission and other income	8,021	2	360	7,237	(7,613)	8,007
Segment expenses						
Claims and benefits	(16,661)	(6,103)	(45,239)	(466)	197	(68,272)
Reinsurance recoveries	509	30	540	-	-	1,079
Net claims incurred (including change in insurance contract provisions)	(16,152)	(6,073)	(44,699)	(466)	197	(67,193)
Change in investment contract liabilities	(8,081)	-	(3,102)	(17,759)	29	(28,913)
Finance costs	(13)	-	-	(26)	(2,260)	(2,299)
Commission and other acquisition costs	(7,680)	(1,847)	(419)	(3,440)	7,060	(6,326)
Operating and administration expenses	(4,460)	(2,229)	(1,821)	(2,128)	(1,468)	(12,106)
Change in third party interest in consolidated funds	-	-	-	-	(11,218)	(11,218)
Segment result	**3,900**	**2,407**	**1,654**	**1,139**	**2,310**	**11,410**
Share of associates and joint ventures loss after tax	-	-	-	-	(39)	(39)
Profit before tax	**3,900**	**2,407**	**1,654**	**1,139**	**2,271**	**11,371**

Statement of financial position	Personal Finance	Mass and Foundation Cluster	Old Mutual Corporate	Wealth and Investment	Shareholder and Other	Total
Total assets	198,513	15,777	237,382	178,428	138,395	**768,495**
Insurance contracts	(81,846)	(1,951)	(62,941)	(150)	(3,099)	(149,987)
Investment contracts with discretionary participating features	(13,406)	(10,566)	(137,899)	(2,951)	-	(164,822)
Investment contracts without discretionary participating features	(80,368)	-	(32,966)	(170,800)	10,200	(273,934)
Other liabilities	(22,893)	(3,260)	(3,576)	(4,527)	(101,468)	(135,724)
Total liabilities	(198,513)	(15,777)	(237,382)	(178,428)	(94,367)	**(724,467)**

Notes to the financial statements

2. Segment information (continued)

Income statement	Personal Finance	Mass and Foundation Cluster	Old Mutual Corporate	Wealth and Investment	Shareholder and Other	2016 R m Total
Segment revenue						
Gross earned premiums	11,729	10,239	29,218	52	(7)	51,231
Outward reinsurance	(1,033)	(38)	(494)	-	33	(1,532)
Net earned premiums	10,696	10,201	28,724	52	26	49,699
Investment income (net of investment losses)	10,537	491	10,343	6,772	10,008	38,151
Fee, commission and other income	8,041	115	241	5,989	(6,164)	8,222
Segment expenses						
Claims and benefits	(12,969)	(4,666)	(35,046)	(92)	186	(52,587)
Reinsurance recoveries	795	31	458	-	(33)	1,251
Net claims incurred (including change in insurance contract provisions)	(12,174)	(4,635)	(34,588)	(92)	153	(51,336)
Change in investment contract liabilities	(2,664)	-	(1,187)	(6,785)	(64)	(10,700)
Finance costs	(7)	-	-	(7)	(2,165)	(2,179)
Commission and other acquisition costs	(3,668)	(1,756)	(67)	(856)	440	(5,907)
Operating and administrative expenses	(7,207)	(2,173)	(2,022)	(4,177)	4,759	(10,820)
Change in third-party interest in consolidated funds	-	-	-	-	(2,212)	(2,212)
Segment result	**3,554**	**2,243**	**1,444**	**896**	**4,781**	**12,918**
Share of associates and joint ventures loss after tax	-	-	-	-	(32)	(32)
Profit before tax	3,554	2,243	1,444	896	4,749	**12,886**
Statement of financial position						
Total assets	193,849	15,007	223,714	169,347	121,381	**723,298**
Insurance contracts	(84,132)	(1,937)	(60,707)	(129)	(3,105)	(150,010)
Investment contracts with discretionary participating features	(12,395)	(9,692)	(122,966)	(2,868)	-	(147,921)
Investment contracts without discretionary participating features	(72,732)	-	(30,371)	(155,689)	9,478	(249,314)
Other liabilities	(24,590)	(3,378)	(9,670)	(10,661)	(84,321)	(132,620)
Total liabilities	(193,849)	(15,007)	(223,714)	(169,347)	(77,948)	**(679,865)**

Key exposures

Notes to the financial statements

3.1 Risk acceptance and management

Risk Type	Exposure Arising From	Risk Management
Insurance Risks		
Insurance Risk The group assumes insurance risk, by issuing insurance contracts under which the group agrees to compensate the policyholder or beneficiary if a specified uncertain future event affecting the policyholder occurs.	Variable mortality and disability claims when providing customers with insurance contracts. Providing customers with retirement income for life which results in uncertainty about the extent to which annuitant mortality will improve in future (longevity).	Refer to note 3.2.8 for insurance risk management and exposure at the individual risk level.
Financial Risks		
Market Risk This is the risk of a financial impact arising from changes in the value of financial assets or financial liabilities from changes in equity, bond and property prices, interest rates and foreign exchange rates. The group separately considers currency translation risk, which relates to the translation of earnings and capital to our reporting currency. Secondary market risk arises from our exposure to asset-based fees.	Providing customers with long-term smoothed investment returns and guarantees on certain linked products.	Refer to note 3.3.6 for market risk management in respect of investment contracts.
	Asset liability management on non-profit guaranteed products which provide guaranteed investment returns, where the company is able to adequately match the liabilities with appropriate assets, and where the profit margin is sufficient.	Limited amount of mismatch is tolerated where full matching is not possible, or where the expected benefit of mismatching exceeds the mismatch risk, provided the exposure is limited to an approved amount.
	Investment of shareholder assets.	A large proportion of the shareholder portfolio assets are invested in cash or near cash, although there is appetite for some exposure to equities or protected (hedged) equities.

Notes to the financial statements

3.1 Risk acceptance and management (continued)

Risk Type	Exposure Arising From	Risk Management
Credit Risk This relates to the risk of credit defaults. It includes lending risk, where a borrower becomes unable to repay outstanding balances, as well as counterparty risk where an asset is not repaid in accordance with the terms of the contract. The risk of credit spreads changing is included under market risk.	Credit defaults and movements in credit spreads from the insurance business. This includes counterparty default risk, which also arises mainly from reinsurance and hedging activities. Amounts due from policyholders	Diversified credit portfolios are run across various businesses in order to minimise concentration risks by sector, industry and term of credit risk.
	Default or migration relating to our debtors book arising in the normal course of business.	The group manages various debtors tightly through dealing with approved counterparties, obtaining sufficient collateral, where appropriate, and monitoring credit exposure.
Liquidity Risk The risk that liquid assets may not be available to pay obligations at a reasonable cost, when due.	Long-term savings business which gives the group a strategic advantage in attracting longer dated liabilities from customers, which can be invested in longer dated assets.	The group-wide liquidity policy sets out the parameters within which all business units must operate in order to identify, measure and manage liquidity risk. Liquidity headroom is a key risk indicator and control for managing group liquidity risk. It ensures the group has sufficient liquidity to cover both asset liquidity risk and finding liquidity risk.
	Certain derivative strategies backing guaranteed investment and annuity products, shortfall of liquid assets to pay significantly higher than expected claims or surrender payments, as well as funding shortfalls in the business.	The group ensures sufficient capital is available at all times to fulfil business and regulatory requirements and that sufficient liquidity and funding resources are available to meet financial obligations as they fall due, under both normal and stressed business conditions, expected claims or surrender payments, as well as funding shortfalls in the business.

Notes to the financial statements

3.1 Risk acceptance and management (continued)

Risk Type	Exposure Arising From	Risk Management
Other Risks		
Business Risk The risk that business performance will be below projections as a result of negative variances in new business volumes and margins, and lapse, rebate and expense experience.	A natural consequence of doing business, which is proportional to the size of our business, is that it will grow as the businesses grows. These arise as a result of new products and new business.	Good business practices and disciplines. When selling new business, the group will only sell products that meet its customers' needs and which they can afford, which then has a better chance of staying on books (this benefits both the customer and the group). The group offers innovative products to suit different clients and needs, enabling it to find opportunities even in challenging market conditions. In order to limit lapse risk, products are designed to limit the financial loss on surrender, subject to "Treating Customers Fairly" principles. Expense risk is limited through the quarterly monitoring of budgets and forecasts.
Operational Risk The risk arising from operational activities, such as a failure of a major system, or losses incurred as a consequence of people and/or process failures, including external events.	A natural consequence of operational activities necessary to do business.	The group seeks to reduce operational risk through effective processes, systems and controls. The group has a strategic risk management system which is used to increase our understanding of the operational risks in the business and facilitate improvement in the controls to reduce losses. Operational risk is one of the metrics in our risk appetite framework: it is continuously monitored and the group takes action if it approaches the limit.

Notes to the financial statements

3.1 Risk acceptance and management (continued)

Risk Type	Exposure Arising From	Risk Management
Regulatory and Compliance Risk The risk that laws and regulations will be breached. This includes risk of regulatory intervention resulting in sanctions being imposed or a temporary restriction on our ability to operate and/or an additional regulatory capital charge. It also includes failure to adapt to regulatory change and business conduct risk.	Laws and regulations with which the group is required to comply.	Engage with and challenge the authorities to ensure that their interpretation of laws and regulations are correct. Make the best use of opportunities provided to comment on proposed new laws and regulations and lobby appropriately.
Strategic Risk The risk of failing to implement the strategy of each business and the management of associated changes to the business, including external factors such as political risk.	Associated with various initiatives to transform our business in order to remain relevant, competitive and profitable.	The group seeks to manage this risk with tight programme governance.

Notes to the financial statements

3.2 Insurance and investment contracts

Classification of contracts

The group issues contracts that transfer insurance risk or financial risk or, in some cases, both from the policyholder to the group. The group provides life insurance and savings products which are categorised into life insurance contracts, investment contracts with discretionary participating features or investment contracts without discretionary participating features.

Significant accounting estimates and judgments – Classification of contracts

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 significant if, and only if, an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. If significant additional benefits would be payable in scenarios that have commercial substance, significant insurance risk exists even if the insured event is extremely unlikely or even if the expected present value of contingent cash flows is a small proportion of the expected present value of all the remaining contractual cash flows.

A contract that is classified as an insurance contract remains an insurance contract until all rights and obligations are extinguished or expire.

Contracts that expose the group to financial risk and do not expose the group to significant insurance risk are investment contracts.

Investment contracts with discretionary participating features 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 without discretionary participating features. Such contracts include unit-linked contracts and investment contracts sold without life insurance protection.

Insurance contracts

Insurance contracts provide the policyholder or their beneficiary with a specified payment on their death, disability, survival or other insured event. Regular bonuses may be added to the guaranteed sum assured over the term of the policy and, in addition, a final bonus may be paid on death or maturity. Insurance contracts principally expose the group to mortality and morbidity risk and, for products which have investment performance and annuity guarantees, investment risk.

The group charges a single or regular premium and depending on the type of contract, the premiums charged may be reassessed and renewed annually. The group's ability to generate profit from these contracts is a factor of whether the premiums charged, and return on assets held to manage the risk, are sufficient to cover the claims paid.

3.2 Insurance and investment contracts (continued)

The group provides insurance contracts both to individuals and on a collective basis to companies and retirement funds. The key terms of the group's principal insurance contracts are set out below:

Product solution & key benefits	Essential terms	Main risks	Guarantees	Policyholder participation in investment return
Universal Life with protection Old generation universal life and reversionary bonus products with guaranteed death and annuity benefits	Certain mortality / morbidity rates may be repriced	Mortality Morbidity Investment	Some investment performance, cover and annuity guarantees	Yes
Pure protection Products which pay a predetermined amount (either as a lump sum or as a recurring benefit) on death, disability or severe illness	Rates are reviewable after the guarantee term	Mortality Morbidity	Rates fixed for a specified period	None
Non-profit annuity Payment of a pension according to fixed contract terms	Regular benefit payments guaranteed in return for consideration	Longevity Investment	Benefit payment schedule is guaranteed	None
With-profit annuity Payment of a pension where future increases depend on underlying performance of the fund	Regular benefit payments participating in profits in return for consideration	Investment	Underlying pricing interest rate is guaranteed. Declared bonuses cannot be reduced.	Yes

In addition to the specified risks identified above, the group is subject to the risk that policyholders discontinue the insurance policy through lapse or surrender.

Investment contracts

As part of the savings products offered, the group issues investment contracts to clients which include third-party financial institutions, retirement funds, public sector organisations, investment professionals and private investors. The investment contracts provide a pay-out to investors based on the terms of the specific products which may include:

- Payment directly linked to the return of the underlying assets
- Payment based on the return of the underlying assets, with guaranteed minimum payments
- Additional payments, at the group's discretion, as a supplement to guaranteed minimum payments, likely to be a significant portion of the benefits

The group classifies investment contracts whose terms include significant additional discretionary payments in addition to guaranteed minimum payments as investment contracts with a discretionary participating feature. These contracts are accounted for in the same way as insurance contracts. Other investment contracts are accounted for at fair value through profit or loss.

The group generates revenue primarily from fees and commission income, premium based charges and transactional charges. Fees earned on products such as pensions and mutual funds are calculated as a percentage fee based on the assets held. The fees and other income earned by the group on these contracts are recovered by deduction from the investment balance. Investment risk on these contracts rests mainly with the customer, with the group's key exposure to changes in the markets coming from higher or lower fee and commission income.

Notes to the financial statements

3.2 Insurance and investment contracts (continued)

Investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies.

Smoothed bonus products constitute a significant portion of the business. Smoothing of returns is achieved by holding back some of the net investment return during periods of above average investment performance and releasing it again in times when investment performance is below average. Any funds held back in order to smooth investment returns are kept for the future benefit of policyholders whose policies are covered by the fund.

Product solution & key benefits	Essential terms	Main risk	Guarantees	Policyholder participation in investment return
Investment contracts with discretionary participating features				
Smoothed bonus products Guaranteed investment portfolios that offer smoothed returns, protecting investors from the risks of a volatile market	Bonuses are declared and charges are reviewable subject to the Principles and Practices of Financial Management	Investment	Various levels of guaranteed benefits on capital, contributions and declared bonuses	Yes
Investment contracts without discretionary participating features				
Unit-linked policies Pro-rata share of underlying financial assets, derivatives and/or investment property	Charges are reviewable	Limited as investment risk lies with unit-holder	Limited guarantee. Fair value of liability is equal to the current unit fund value.	Yes
Other contracts Payment of principal and return, which may be guaranteed	Charges may be reviewable	Investment	Some investment performance guarantees	Yes

Notes to the financial statements

Accounting policy

The accounting treatment followed for insurance contracts, investment contracts with discretionary participating features and investment contracts are set out below:

	Life insurance, savings products and investment contracts		
	Insurance contracts	Investment contracts with discretionary participating features	Investment contracts without discretionary participating features
Level of insurance risk	Significant	Not significant	Not significant
Benefit to policyholder	Compensation if a specified uncertain event (insured event) adversely affects policyholder	Additional payments, at the group's discretion, as a supplement to guaranteed minimum payments, likely to be a significant portion of the benefits	**Unit linked contracts:** pro-rata share of underlying financial assets, derivatives and/or investment property **Other contracts:** payment of principal and return, which may be guaranteed
Policyholder liabilities			
Nature	Best estimate of group's exposure from the contracts taking into account future benefit payments less premiums to be received		Liability for amounts held for the benefit of the policyholder
Method of measurement	Gross premium valuation method in accordance with Financial Soundness Valuation (FSV) basis		Designated at fair value through profit or loss (FVTPL)
Measurement principles	**Policyholder's future benefit:** provisions valued using realistic expectations of future experience, with compulsory margins as required in terms of SAP 104 and additional discretionary margins for prudence and deferral of profit emergence. The liability is determined as the sum of the expected discounted value of the best estimate of benefit payments and the future administration expenses (including proportional costs associated with governing the company) that are directly related to the contract, less the expected discounted value of the theoretical premiums that would be required to meet the benefits and administration expenses based on the valuation assumptions used. Embedded investment options and guarantees are calculated on a market-consistent basis, with additional margins added as permitted by APN 110.		**Unit linked-contracts:** account balance which reflects the fair value of financial assets within the unitised investment funds linked to the financial liability multiplied by the number of units held by the policyholder, (adjusted for tax). **Other contracts:** fair value determined by reference to the fair value of the underlying assets

Notes to the financial statements

	Life insurance, savings products and investment contracts		
	Insurance contracts	Investment contracts with discretionary participating features	Investment contracts without discretionary participating features
Measurement principles	Assumptions are periodically reviewed with changes recognised in Profit or Loss 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, are recognised in OCI. Shadow accounting adjustment to insurance contract liablities is recognised in OCI to the extent the unrealised gains or losses, together with any related taxation on the owner-occupied property, are recognised in OCI.		Premiums received recorded as deposits to investment contract liabilities and claims paid are recorded as a deduction from investment contract liability.
Liability adequacy testing	Performed at business unit level to ensure carrying amount of liabilities (less related deferred acquisition costs and intangible assets) is sufficient in view of the estimated future cash flows. Discounted cash flows are compared to carrying value of liability at discounted rates appropriate to the business in question. If shortfall identified, additional provision raised.		Subject to "deposit floor" where the liability cannot be less than the amount repayable on demand.
Other liabilities	**Outstanding claims** are recognised in Insurance contract liabilities and are stated gross of reinsurance.	**Bonus stabilisation reserves:** Any funds held back in order to smooth investment returns are kept for the future benefit of policholders whose policies are covered by the fund.	**Deferred revenue liability:** initial fees received, which exceed the level of recurring fees and relate to future services are deferred, and accounted for over the service period through profit or loss.

Notes to the financial statements

	Life insurance, savings products and investment contracts		
	Insurance contracts	Investment contracts with discretionary participating features	Investment contracts without discretionary participating features
Revenue			
Nature	Premiums on contracts		Fees for investment management services
Measurement	Gross of commission, excluding tax and levies.		Gross of commission, excluding tax and levies.
Recognised in	Profit or loss		Addition to investment contract liability
Timing	When due for payment.		As services are provided. Any deferred revenue liability is amortised over the expected duration of the contract on a straight-line basis (5 – 10 years).
Claims			
Nature	Maturities, annuities, surrenders, death, disability payments		Maturities, annuities, death and withdrawals
Measurement	Contractually defined, excluding tax		Contractually defined, excluding tax
Recognised in	Profit or loss		Deduction from investment contract liability
Timing	Maturity and annuities: as the policy falls due for payment Death and disability claims and surrenders: when notified		When contract falls due for payment or when notified

Notes to the financial statements

	Life insurance, savings products and investment contracts		
	Insurance contracts	Investment contracts with discretionary participating features	Investment contracts without discretionary participating features
Acquisition costs			
Recognition	As the gross premium valuation method makes implicit allowance for the deferral of acquisition costs, no explicit deferred acquisition cost asset is recognised.		Incremental costs that are directly attributable are capitalised to the extent they meet the definition of an asset. Amortised as the related revenue is recognised over: 5 – 10 years

Reinsurance

The group reinsures to limit its net potential loss on insurance contracts it has issued.

Only rights under contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance assets, otherwise such contracts are accounted for as financial instruments.

Ceded reinsurance *3rd party insurer takes on some of group's risk*	Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from those in respect of the related insurance contracts because the reinsurance arrangements do not relieve the group from its direct obligations to its policyholders. Reinsurance premiums paid 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. Reinsurance assets are measured on a basis that is consistent with measurement of the related insurance contract and include recoveries due from the reinsurance companies in respect of claims already paid. Reinsurance assets are assessed for impairment at each reporting date. Reinsurance recoveries are recognised in profit or loss in the same period as the related claim.

Notes to the financial statements

Insurance contracts and investment contracts with discretionary participating features

Significant accounting estimates and judgments – Discretionary margins

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 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 of 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 (1.4%% of total technical provisions) were held at 31 December 2017 (2016: R7,823 million).

Notes to the financial statements

3.2.1. Net earned premium

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Gross premium earned from insurance contracts	24,246	23,928	25,274	24,935
Gross premium earned from investment contracts with discretionary participating features	24,074	26,296	24,074	26,296
Gross earned premiums	**48,320**	**50,224**	**49,348**	**51,231**
Outwards reinsurance premium ceded	(1,311)	(1,324)	(1,532)	(1,532)
Net earned premiums	**47,009**	**48,900**	**47,816**	**49,699**

3.2.2. Net claims incurred

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Gross claims and benefits from insurance contracts	28,135	23,099	28,805	23,525
Gross claims and benefits from investment contracts with discretionary participating features	39,467	29,062	39,467	29,062
Gross claims incurred	**67,602**	**52,161**	**68,272**	**52,587**
Reinsurers share of claims incurred	(844)	(1,028)	(1,079)	(1,251)
Net claims incurred	**66,758**	**51,133**	**67,193**	**51,336**

Notes to the financial statements

3.2.3. Insurance contracts

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Insurance contracts				
Outstanding claims	2,354	2,202	2,355	2,205
Future policyholders' benefits	146,588	146,885	147,632	147,805
	148,942	**149,087**	**149,987**	**150,010**

All policyholder liabilities are classified as non-current, with the exception of outstanding claims which is classified as current.

Movement in future policyholder's benefits for insurance contracts

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Balance at beginning of the year	146,885	152,714	147,805	153,602
Inflows				
Premium income	24,246	23,929	25,274	24,936
Investment income (net of investment losses)	16,491	13,048	16,578	13,117
Outflows				
Claims and policy benefits	(28,432)	(28,926)	(28,978)	(29,322)
Operating expenses	(8,309)	(8,037)	(8,403)	(8,141)
Other charges and transfers	963	(194)	1,236	(91)
Tax	(251)	(25)	(400)	(173)
Transfer to operating profit	(5,005)	(5,624)	(5,480)	(6,123)
Balance at end of the year	**146,588**	**146,885**	**147,632**	**147,805**

3.2.4. Investment contracts without discretionary participating features

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Balance at beginning of the year	229,242	226,888	249,315	248,395
New contributions received	41,608	37,396	43,221	39,184
Withdrawals	(39,417)	(38,970)	(42,541)	(42,155)
Fair value movements, net of tax	26,695	10,616	28,913	10,700
Foreign currency translation	(2,309)	(3,184)	(2,309)	(3,184)
Fees deducted	(2,704)	(3,538)	(2,665)	(3,659)
Transfers	2,355	-	-	-
Balance at end of the year	**255,470**	**229,242**	**273,934**	**249,315**

Notes to the financial statements

3.2.5. Investment contracts with discretionary participating features

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Balance at beginning of the year	147,920	139,375	147,920	139,375
Inflows				
Premium income	24,074	26,296	24,074	26,296
Investment income (net of investment losses)	19,047	5,496	19,047	5,496
Outflows				
Claims and policy benefits	(22,565)	(20,517)	(22,565)	(20,517)
Operating expenses	(938)	(910)	(938)	(910)
Other charges and other transfers	(851)	(557)	(851)	(556)
Tax	(177)	(34)	(177)	(34)
Transfer to operating profit	(1,688)	(1,229)	(1,688)	(1,229)
Balance at end of the year	**164,822**	**147,920**	**164,822**	**147,920**

3.2.6. Reinsurance contracts

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Reinsurers' share of policyholder liabilities	10	376	402	699
Outstanding claims	290	241	341	263
	300	**617**	**743**	**962**
Reinsurers' share of policyholder liabilities				
At beginning of the year	376	341	699	588
Outward reinsurance premiums	1,311	1,324	1,532	1,532
Reinsurance recoveries	(1,210)	(993)	(1,275)	(1,141)
Decrease in reinsurers' share of policyholder liabilities	(467)	(296)	(554)	(280)
At end of the year	**10**	**376**	**402**	**699**

3.2.7. Contractual maturity analysis

				Separate 2017 R m
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Insurance contracts	7,752	18,473	95,434	310,902
Investment contracts				
Unit-linked investment contracts and similar contracts	254,264	-	-	-
Investment contracts with discretionary participating features	164,822	-	-	-
Other investment contracts	1,308	278	676	49
Outstanding claims	2,354	-	-	-
	430,500	**18,751**	**96,110**	**310,951**

Notes to the financial statements

	Separate 2016 R m			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Insurance contracts	7,472	20,660	98,561	328,427
Investment contracts				
Unit-linked investment contracts and similar contracts	228,099	-	-	-
Investment contracts with discretionary participating features	147,920	-	-	-
Other investment contracts	1,241	273	834	57
Outstanding claims	2,082	-	-	-
	386,814	**20,933**	**99,395**	**328,484**

	Consolidated 2017 R m			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Insurance contracts	7,881	18,544	95,733	311,509
Investment contracts				
Unit-linked investment contracts and similar contracts	272,728	-	-	-
Investment contracts with discretionary participating features	164,822	-	-	-
Other investment contracts	1,308	278	676	49
Outstanding claims	2,355	-	-	-
	449,094	**18,822**	**96,409**	**311,558**

	Consolidated 2016 R m			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Insurance contracts	8,453	20,660	98,561	328,427
Investment contracts				
Unit-linked investment contracts and similar contracts	248,172	-	-	-
Investment contracts with discretionary participating features	147,921	-	-	-
Other investment contracts	1,241	273	834	57
Outstanding claims	2,085	-	-	-
	407,872	**20,933**	**99,395**	**328,484**

Notes to the financial statements

3.2.8. Insurance risk management

The group assumes insurance risk by issuing insurance contracts, under which the group agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. Insurance risk includes liability risks related to mortality, morbidity and longevity.

Risk management objectives and policies for mitigating insurance risk

The group manages insurance risk through the following mechanisms:

- An agreed risk preference for all risk types, including those relating to insurance.
- The diversification of business over several classes of insurance and large numbers of uncorrelated individual risks, by which the group seeks to reduce variability in loss experience.
- The maintenance and use of management information systems, which provide current data on the risks to which the business is exposed and the quantification of such risks.
- Actuarial models, which use the above information to calculate premiums and monitor decrements and claims patterns. Past experience and statistical methods are used.
- Guidelines for concluding insurance contracts and assuming insurance risks. These include underwriting principles and product pricing procedures.
- Reinsurance, which is used to limit the group's exposure to large single claims and catastrophes. When selecting a reinsurer, consideration is given to those companies that provide high security using rating information from both public and private sources.
- The mix of assets, which is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to ensure that there are sufficient interest bearing assets to match the guaranteed portion of liabilities. Hedging instruments are used at times to limit exposure to equity market and interest rate movements.

Management of insurance risks

The table below summarises the variety of insurance risks to which the group is exposed, and the methods by which it seeks to mitigate these risks.

Risk Type	Nature of risk	Risk management
Liability - Mortality	Misalignment of policyholders to the appropriate pricing basis or impact of anti- selection, resulting in a loss	Experience is closely monitored. For universal life business, mortality rates can be reset. Underwriting limits, health requirements, spread of risks and training of underwriters all mitigate the risk.
Liability - Mortality	Impact of HIV/AIDS on mortality rates and critical illness cover	Impact of HIV/AIDS is mitigated wherever possible by writing products that allow for repricing on a regular basis or are priced to allow for the expected effects of AIDS. Tests for AIDS and other tests for lives insured above certain values are conducted. A negative test result is a prerequisite for acceptance at standard rates.
Liability - Longevity	Possible increase in annuity costs due to policyholders living longer	For non-profit annuities, improvement to mortality is allowed for in pricing and valuation. Experience is closely monitored. For with-profit annuity business, the mortality risk is carried by policyholders and any mortality profit or loss is reflected in bonuses declared.

Notes to the financial statements

3.2.8. Insurance risk management (continued)

Risk Type	Nature of risk	Risk management
Market	Lower swap curves and higher volatilities cause investment guarantee reserves to increase	A discretionary margin is added to the value of guarantees, determined on a market consistent stochastic basis and included in current reserves. Hedging is largely in place for most products. Fewer and lower guarantees are typically provided on new business.
Business	Policyholder behaviour: selection of more expensive options, or lapse and re-entry when premium rates are falling or termination of policy, which may cause the sale of assets at inopportune times	Experience is closely monitored, and policyholder behaviour is allowed for in pricing and valuation.
Liability - Mortality catastrophe	Natural and non-natural disasters could result in increased mortality risk and payouts on policies	Catastrophe excess of loss re-insurance treaty covers claims from one incident occurring within a specified period between a range of specified limits.

Many of the above risks are concentrated by line of business (for example, longevity). The group, through diversification in the types of business it writes attempts to mitigate this concentration of risk.

Changes in key assumptions used to value insurance contracts would result in increases or decreases to the insurance contract liabilities recorded, with corresponding decreases or increases to profit. For with-profit annuity business the effect of a change in mortality assumption is mitigated by the offset to the bonus stabilisation reserve.

The increase or decrease to insurance contract liabilities, and hence the impact on the income statement and equity, as at 31 December has been estimated as follows:

Sensitivity analysis

Assumption	Change %	R m Increase/ (decrease) in liabilities 2017	R m Increase/ (decrease) in liabilities 2016
Mortality and morbidity rates - assurance	10%	4,832	5,016
Mortality rates - annuities	-10%	998	939
Discontinuance rates	10%	155	133
Expenses (maintenance)	10%	1,000	992

The insurance contract liabilities recorded for South African business are also impacted by the valuation discount rates assumed. Lowering this rate by 1% (with a corresponding reduction in the valuation inflation rate) would have no impact on insurance contract liabilities or profit in 2017 (2016: no impact). There continues to be no impact in 2017 due to management actions taken to reduce the impact of changing interest rates on operating profit. This impact is also calculated with no change to the charges paid by policyholders.

It should be noted that where the assets and liabilities of a product are closely matched (e.g. non-profit annuity business) or where the impact of a lower valuation discount rate is hedged or partially hedged, the net effect has been shown since the assets movement fully or partially offsets the liability movement.

Guarantees and options

Many of the insurance contracts issued by the group contain guarantees and options, the ultimate liability for which will depend significantly on the number of policyholders exercising their options and on market and investment conditions applying at that time.

Notes to the financial statements

3.2.8. Insurance risk management (continued)

Certain life assurance contracts include the payment of guaranteed values to policyholders on maturity, death, disability or survival. The published liabilities include the provision for both the intrinsic and time-value of the options and guarantees. The time-value of options and guarantees has been valued using a market-consistent stochastic asset model that is in keeping with the applicable professional guidance notes issued by the Actuarial Society of South Africa, APN 110 in particular. The options and guarantees that could have a material effect on the amount, timing and uncertainty of future cash flows are described below.

Product category	Description of options and guarantees
Retail	
Death, disability, point and/or maturity guarantees	A closed block of unit-linked type and smoothed bonus business with an underlying minimum growth rate guarantee (4.28% pa for life and endowment business and 4.78% pa for retirement annuity business), and smoothed bonus business with vested bonuses, applicable when calculating death, disability and maturity claims.
	A small block of smoothed bonus savings business in Mass and Foundation Cluster that has death guarantees of premiums (net of fees) plus 4.25% pa investment return.
Guaranteed annuity options	Retirement annuities sold prior to June 1997 contain guaranteed annuity options, whereby the policyholder has an option to exchange the full retirement proceeds for a minimum level of annuity income at maturity.
Corporate	
Vested bonuses in respect of pre-retirement with- profits business	There is a significant pre-retirement savings smoothed bonus portfolio. Vested bonuses affect the calculation of benefit payments when a member exits from the scheme as the face value is paid out. If, however, a scheme terminates, the lower of face and market value is paid out and the vested bonuses are not guaranteed.
Guaranteed annuity payments in respect of with-profit annuity business	There is a significant with-profit annuity portfolio. The underlying pricing interest rate is guaranteed and as such the current level of annuity payments (including past declared bonuses) cannot be reduced. If, however, a scheme terminates, the lower of the liability value on the Financial Soundness Valuation basis and the underlying asset market value is paid out.

The following disclosures are provided in terms of APN 110 issued by the Actuarial Society.

Investment guarantee reserves have been calculated using an internal economic scenario generator (ESG) model that generates product specific economic scenarios. These scenarios comprise interest rates, inflation and fund returns and are generated using a Hull-White model for interest rates and inflation, and a Merton jump diffusion model for fund returns. The model is calibrated to South African derivative market data (where available and reliable), according to the group's specific calibration requirements. The calibration has been performed as at 31 December 2017.

3.2.8. Insurance risk management (continued)

The risk-free zero coupon yield curve has been derived from mid-swap spot rates at the calibration date.

Term (years)	Annualised zero-coupon yield
1	7.2%
2	7.2%
3	7.3%
4	7.5%
5	7.6%
10	8.4%
15	8.6%
20	8.6%
25	8.4%
30	8.0%

The following derivative contract prices have been calculated using 8192 simulations of the internal ESG model at the calibration date.

The table below provides the prices and implied volatilities of put options on the FTSE/JSE TOP40 index:

Maturity (years)	Strike	Price	Implied volatility
1	Spot	5.2%	18.4%
1	0.8 times spot	0.9%	21.2%
1	Forward	6.6%	16.9%
5	Spot	8.9%	23.7%
5	1.04^5 times spot	16.4%	23.5%
5	Forward	18.0%	23.4%
20	Spot	4.3%	29.0%
20	1.04^20 times spot	17.1%	29.0%
20	Forward	27.6%	28.8%

APN 110 also requires the disclosure of the following option prices:

Description of derivative contract*	Calculated price (% of spot price)
5-year put with a strike price equal to (1.04)^5 of spot, on an underlying index constructed as 60% FTSE/JSE Top 40 and 40% ALBI, with rebalancing of the underlying index back to these weights taking place yearly	8.14%
20-year put option based on an interest rate with a strike equal to the present 5-year forward rate as at maturity of the put option (stripped from the zero coupon yield curve), which pays out if the 5-year interest rate at the time of maturity (in 20 years) is lower than this strike	0.40%

*Note that the FTE/JSE TOP40 referred to in this section is a capital return index, whereas the ALBI is a total return index.

Notes to the financial statements

3.2.8. Insurance risk management (continued)

Significant accounting estimate – discount rate

The calculation of the group's South African insurance contract liability is sensitive to the discount rate used to value the liabilities.

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 insurance business during 2017, given the continuance of the hedging programme and discretionary margins put in place to mitigate these impacts.

Notes to the financial statements

3.3. Financial instruments

The key focus of the group's financial risk management is to ensure that proceeds from financial assets are sufficient to fund the obligations that arise from the insurance operations. The group's financial assets and liabilities are categorised and measured as follows:

Financial instrument category	Measurement
Held-for-trading financial assets • Investment and securities • Derivative assets **Financial assets designated as fair value through profit or loss** • Loans and advances • Investment and securities • Other assets Financial assets that the group has elected to designate as fair value through profit or loss where the treatment either eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise when using a different measurement basis (e.g. financial assets supporting insurance contract liabilities) or are managed, evaluated and reported using a fair value basis (e.g. financial assets supporting shareholders' funds)	Measured at fair value with resulting fair value gain or loss adjustments recognised in profit or loss and reported in investment return. Changes in fair value in respect of derivatives are recognised in profit or loss and reported in investment return. Interest earned while holding these financial assets is recognised in profit or loss and reported in investment return. Dividends receivable are recognised in profit or loss and reported in investment return.
Financial assets at amortised cost • Loans and advances • Other assets • Cash and cash equivalents • Collateral held	Initially measured at fair value. Subsequently measured at amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised in profit or loss and reported in loss on loans and advances. Interest earned is recognised in profit or loss and reported in investment return.

Notes to the financial statements

Held-for-trading financial liabilities • Amounts owed to bank depositors • Derivative liabilities **Financial liabilities designated as fair value through profit or loss** • Investment contracts • Third-party interests in consolidated funds • Borrowed funds • Amounts owed to depositors Financial liabilities that the group has elected to designate as fair value through profit or loss 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.	Measured at fair value with resulting fair value gain or loss adjustments recognised in profit or loss and reported in Investment return, as appropriate. Changes in fair value in respect of derivatives are recognised in profit or loss and reported in Investment return, as appropriate. Interest paid while holding these financial assets is recognised in profit or loss and reported in Investment return, as appropriate
Financial liabilities at amortised cost • Borrowed funds • Other liabilities • Collateral owing	Initially measured at fair value. Subsequently measured at amortised cost using the effective interest method with interest recognised in profit or loss and reported as finance costs.

Initial recognition

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.

Derecognition

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 and loss.

Impairments of financial assets

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.
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 discounted based on the effective interest rate at initial recognition. If the impairment amount subsequently decreases, the release of the impairment provision is credited to profit or loss, and is limited to what the carrying value of the asset would have been had it not been impaired.

Notes to the financial statements

3.3.1. Financial assets and liabilities

				Separate 2017 R m
Assets	**Fair value through profit or loss**	**Amortised cost**	**Other assets**	**Total**
Intangible assets	-	-	1,122	1,122
Investment property	-	-	1,196	1,196
Owner-occupied property	-	-	2,379	2,379
Equipment	-	-	381	381
Deferred tax assets	-	-	21	21
Reinsurance contracts	-	-	300	300
Post employment benefits	-	-	664	664
Deferred acquisition costs	-	-	1,202	1,202
Loans and advances	-	209	-	209
Investment and securities	622,575	-	-	622,575
Derivative assets	3,662	-	-	3,662
Amounts due by group companies	-	6,019	-	6,019
Other assets	-	11,213	-	11,213
Cash and cash equivalents	-	12,381	-	12,381
Non-current assets held for sale	-	-	1,220	1,220
Total assets	**626,237**	**29,822**	**8,485**	**664,544**

				Separate 2016 R m
Assets	**Fair value through profit or loss**	**Amortised cost**	**Other assets**	**Total**
Intangible assets	-	-	606	606
Investment property	-	-	519	519
Owner-occupied property	-	-	2,658	2,658
Equipment	-	-	434	434
Deferred tax assets	-	-	501	501
Reinsurance contracts	-	-	617	617
Post employment benefits	-	-	594	594
Deferred acquisition costs	-	-	1,000	1,000
Loans and advances	-	222	-	222
Investment and securities	576,111	53	-	576,164
Derivative assets	3,595	-	-	3,595
Amounts due by group companies	-	10,253	-	10,253
Other assets	-	6,554	-	6,554
Cash and cash equivalents	-	25,083	-	25,083
Non-current assets held for sale	-	-	2,610	2,610
Total assets	**579,706**	**42,165**	**9,539**	**631,410**

Notes to the financial statements

3.3.1. Financial assets and liabilities (continued)

	Separate 2017 R m			
	Fair value through profit or loss	Amortised cost	Other liabilities	Total
Liabilities				
Insurance contracts	-	-	148,942	148,942
Investment contracts without discretionary participating features	255,470	-	-	255,470
Investment contracts with discretionary participating features	-	-	164,822	164,822
Borrowed funds	5,995	-	-	5,995
Share-based payment liabilities	-	-	576	576
Deferred revenue	-	-	151	151
Deferred tax liabilities	-	-	5,511	5,511
Derivative liabilities	5,001	-	-	5,001
Amounts due to group companies	-	1,100	-	1,100
Provisions	-	-	1,266	1,266
Current tax payable	-	-	1,169	1,169
Collateral owing	-	8,094	-	8,094
Repurchase agreements	-	5,302	-	5,302
Other liabilities	-	8,864	1,362	10,226
	266,466	**23,360**	**323,799**	**613,625**

	Separate 2016 R m			
	Fair value through profit or loss	Amortised cost	Other liabilities	Total
Liabilities				
Insurance contracts	-	-	149,087	149,087
Investment contracts without discretionary participating features	229,242	-	-	229,242
Investment contracts with discretionary participating features	-	-	147,920	147,920
Borrowed funds	5,902	-	-	5,902
Share-based payment liabilities	-	-	533	533
Deferred revenue	-	-	35	35
Deferred tax liabilities	-	-	4,496	4,496
Derivative liabilities	4,844	-	-	4,844
Amounts due to group companies	-	902	-	902
Provisions	-	-	1,462	1,462
Current tax payable	-	-	1,448	1,448
Collateral owing	-	25,939	-	25,939
Other liabilities	-	8,098	916	9,014
	239,988	**34,939**	**305,897**	**580,824**

Notes to the financial statements

3.3.1. Financial assets and Liabilities (continued)

				Consolidated 2017 R m
Assets	**Fair value through profit or loss**	**Amortised cost**	**Other assets**	**Total**
Intangible assets	-	-	1,373	1,373
Investment property	-	-	24,229	24,229
Owner-occupied property	-	-	2,379	2,379
Equipment	-	-	392	392
Deferred tax assets	-	-	419	419
Reinsurance contracts	-	-	743	743
Post employment benefits	-	-	664	664
Deferred acquisition costs	-	-	2,345	2,345
Loans and advances	-	209	-	209
Investment and securities	688,690	-	-	688,690
Investments in associates	-	-	2,222	2,222
Derivative assets	3,662	-	-	3,662
Amounts due by group companies	-	4,550	-	4,550
Other assets	-	14,425	-	14,425
Cash and cash equivalents	-	20,880	-	20,880
Non-current assets held for sale	-	-	1,313	1,313
Total assets	**692,352**	**40,064**	**36,079**	**768,495**

				Consolidated 2016 R m
Assets	**Fair value through profit or loss**	**Amortised cost**	**Other assets**	**Total**
Intangible assets	-	-	692	692
Investment property	-	-	19,180	19,180
Owner-occupied property	-	-	2,658	2,658
Equipment	-	-	439	439
Deferred tax assets	-	-	539	539
Reinsurance contracts	-	-	962	962
Post employment benefits	-	-	594	594
Deferred acquisition costs	-	-	2,097	2,097
Loans and advances	-	222	-	222
Investment and securities	634,914	53	-	634,967
Investments in associates	-	-	2,112	2,112
Derivative assets	3,852	-	-	3,852
Amounts due by group companies	-	8,884	-	8,884
Other assets	-	9,171	-	9,171
Cash and cash equivalents	-	34,090	-	34,090
Non-current assets held for sale	-	-	2,839	2,839
Total assets	**638,766**	**52,420**	**32,112**	**723,298**

Notes to the financial statements

3.3.1. Financial assets and liabilities (continued)

				Consolidated 2017 R m
	Fair value through profit or loss	Amortised cost	Other liabilities	Total
Liabilities				
Insurance contracts	-	-	149,987	149,987
Investment contracts without discretionary participating features	273,934	-	-	273,934
Investment contracts with discretionary participating features	-	-	164,822	164,822
Third party interest in consolidated funds	76,763	-	-	76,763
Borrowed funds	5,995	5,494	-	11,489
Share-based payment liabilities	-	-	576	576
Deferred revenue	-	-	1,070	1,070
Deferred tax liabilities	-	-	7,079	7,079
Derivative liabilities	5,001	-	-	5,001
Amounts due to group companies	-	2,796	-	2,796
Provisions	-	-	1,299	1,299
Current tax payable	-	-	1,183	1,183
Collateral owing	-	8,094	-	8,094
Repurchase agreements	-	5,302	-	5,302
Other liabilities	-	13,527	1,545	15,072
	361,693	**35,213**	**327,561**	**724,467**

				Consolidated 2016 R m
	Fair value through profit or loss	Amortised cost	Other liabilities	Total
Liabilities				
Insurance contracts	-	-	150,010	150,010
Investment contracts without discretionary participating features	249,315	-	-	249,315
Investment contracts with discretionary participating features	-	-	147,920	147,920
Third party interest in consolidated funds	66,042	-	-	66,042
Borrowed funds	5,902	4,586	-	10,488
Share-based payment liabilities	-	-	533	533
Deferred revenue	-	-	878	878
Deferred tax liabilities	-	-	5,595	5,595
Derivative liabilities	4,867	-	-	4,867
Amounts due to group companies	-	1,648	-	1,648
Provisions	-	-	1,496	1,496
Current tax payable	-	-	1,475	1,475
Collateral owing	-	25,939	-	25,939
Other liabilities	-	12,864	795	13,659
	326,126	**45,037**	**308,702**	**679,865**

Notes to the financial statements

3.3.2. Investment return

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Interest and similar income				
Loans and advances (Policyholder loans)	7	15	7	15
Investment and securities	18,167	15,771	18,729	16,333
Cash and cash equivalents	575	779	1,685	1,893
Collateral held	1,799	1,673	1,799	1,673
	20,548	**18,238**	**22,220**	**19,914**
Dividend income				
Investment and securities				
Equity securities	4,690	5,747	5,707	5,954
Pooled investments	661	1,055	798	1,315
	5,351	**6,802**	**6,505**	**7,269**
Rental income from investment property	**241**	**290**	**2,146**	**1,970**
Fair value gains/(losses)				
Investment property	51	477	185	1,886
Investment and securities *	39,829	3,474	50,496	2,890
Derivative instruments	2,090	4,222	2,090	4,222
	41,970	**8,173**	**52,771**	**8,998**
Total investment income recognised in income statement	**68,110**	**33,503**	**83,642**	**38,151**

*Included in gains recognised in income for the group and company are transaction costs amounting to R130 million (2016: R159 million).

Notes to the financial statements

3.3.3. Finance costs

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Interest payable				
Borrowed funds - subordinated debt	610	583	610	583
Collateral held	998	1,051	998	1,051
Other interest expense	75	7	678	598
Fair value gains and losses on borrowed funds				
Borrowed funds	93	169	93	169
Derivative instruments used as economic hedges	(80)	(222)	(80)	(222)
	1,696	**1,588**	**2,299**	**2,179**
Total interest expense included above for liabilities at fair value through profit and loss	610	583	610	583

3.3.4. Investments and securities

The group invests either for its own proprietary behalf (shareholder funds) or on behalf of third parties (either policyholder funds or pooled investments). Investment risks on unit linked assets are borne by policyholders. Investments and securities are regarded as current and non-current based on the intention with which the financial assets are held, as well as their contractual maturity profile.

Analysis of investments

		Separate		Consolidated	
	Notes	2017 R m	2016 R m	2017 R m	2016 R m
Investments in group undertakings					
Nedbank Group Ltd		20,574	19,539	20,860	19,560
Subsidiaries, joint ventures and associates	8.1	25,654	23,341	-	-
Capital advances to group undertakings	8.1	8,819	10,014	8,819	10,014
Old Mutual plc		2,553	2,314	5,018	2,314
		57,600	**55,208**	**34,697**	**31,888**
Other financial assets					
Government securities		62,502	57,532	74,729	69,049
Equity securities		115,541	93,645	260,241	216,401
Other debt securities		85,412	78,980	85,531	87,113
Pooled investments		258,230	244,039	171,545	168,284
Short-term funds		43,290	46,760	61,947	62,232
At end of the year		**564,975**	**520,956**	**653,993**	**603,079**
		622,575	**576,164**	**688,690**	**634,967**

A list of the company’s investment in subsidiaries, joint ventures and associates can be found in note 8.1.

The company conducts securities lending activities as lender in respect of some of its listed equities and bonds. The fair value of collateral accepted as security for securities lending arrangements amount to R8,066 million (2016: R25,563 million).

Other debt securities include credit linked notes of R 2,183 million (2016: R 3,871 million). Credit linked notes are made up of a deposit and a credit default swap. There are also R1,560 million (2016: R nil) of receivables in respect of Reverse repurchase agreements included in the Other debt securities.

No financial assets have been pledged as collateral for the company's obligations. The split of investments and securities between current and non-current is shown in Note 3.3.6.

A register of investments is available for inspection at the company's registered office.

Notes to the financial statements

3.3.4 Investments and securities (continued)

Debt instruments and similar securities

The table below analyses end of the year values of debt and similar securities according to their credit rating (Standard and Poors or equivalent) by investment grade.

	Separate 2017 R m			
	Government securities	Other debt securities	Short-term funds	Total
Investment grade (AAA to BBB)	59,404	42,717	36,934	139,055
Not rated	-	33,643	4,164	37,807
Sub-investment grade	3,098	9,052	2,192	14,342
	62,502	**85,412**	**43,290**	**191,204**

	Separate 2016 R m			
	Government securities	Other debt securities	Short-term funds	Total
Investment grade (AAA to BBB)	57,532	42,616	33,269	133,417
Not rated	-	29,333	13,491	42,824
Sub-investment grade	-	7,031	-	7,031
	57,532	**78,980**	**46,760**	**183,272**

	Consolidated 2017 R m			
	Government securities	Other debt securities	Short-term funds	Total
Investment grade (AAA to BBB)	59,404	42,827	37,843	140,074
Not rated	12,227	33,653	21,621	67,501
Sub-investment grade	3,098	9,051	2,483	14,632
	74,729	**85,531**	**61,947**	**222,207**

	Consolidated 2016 R m			
	Government securities	Other debt securities	Short-term funds	Total
Investment grade (AAA to BBB)	57,532	42,878	34,330	134,740
Not rated	11,517	37,204	27,902	76,623
Sub-investment grade	-	7,031	-	7,031
	69,049	**87,113**	**62,232**	**218,394**

The group's cash balances are mainly held with Nedbank Ltd, which has a credit rating of BBB (2016: BBB-).

Notes to the financial statements

Collateral obtained

Below is an analysis of collateral taken as security by the group:

	Separate and Consolidated	
	2017 Rm	2016 Rm
Bonds	741	578
Cash	8,066	25,563
Total collateral	**8,807**	**26,141**

3.3.5. Borrowed funds

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Subordinated debt securities				
Fixed and variable rate unsecured subordinated callable notes	5,995	5,902	5,995	5,902
Other debt securities in issue at book value				
Term loans and other loans	-	-	5,494	4,586
Total borrowed funds	**5,995**	5,902	**11,489**	10,488

		Separate and Consolidated	
		2017 R m	2016 R m
Subordinated debt securities	**Maturity Date**	**Carrying Amount**	
R 700 million at 3-month JIBAR+2.20%	November 2024	703	700
R 300 million at 9.26%	November 2024	299	292
R 537 million at 3-month JIBAR+2.30%	March 2025	538	538
R 425 million at 9.76%	March 2025	425	416
R 409 million at 10.32%	March 2027	407	395
R 1,150 million at 10.96%	March 2030	1,123	1,099
R 1,288 million at 3-month JIBAR+2.25%	September 2025	1,303	1,292
R 568 million at 10.90%	September 2027	577	561
R 623 million at 11.35%	September 2030	620	609
Total fixed and variable unsecured subordinated		**5,995**	**5,902**

The unsecured subordinated callable notes are carried at fair value.

The subordinated notes rank behind the claims from the company's policyholders and other unsecured unsubordinated creditors. The notes are listed on the Bond Exchange of South Africa (BESA). All subordinated debt securities have a first call date five years before the maturity date. Capital is redeemed on maturity or call date. Refer to the Liquidity Risk section in note 3.3.6 for future cash flow requirements on borrowed funds.

The company is authorised to issue subordinated callable notes up to a par value of R10 billion.

Notes to the financial statements

3.3.5. Borrowed funds (continued)

Term loans and other loans	Maturity Date	Consolidated 2017 R m Carrying Amount	Consolidated 2016 R m Carrying Amount
Floating rate term loans			
$65 million at 3 month LIBOR plus 2.80%	December 2020	869	935
R500 million at 3 month JIBAR plus 1.35%	September 2017	-	503
R500 million at 3 month JIBAR plus 1.35%	March 2018	492	-
R500 million at 3 month JIBAR plus 1.35%	March 2018	499	-
R1,000 million at 3 month JIBAR plus 1.35%	March 2018	986	-
R500 million at 3 month JIBAR plus 1.45%	April 2018	496	509
Fixed rate term loans			
R500 million at 7.17%	April 2017	-	507
R500 million at 7.45%	April 2018	497	508
R400 million at 9.25%	September 2019	365	-
R400 million at 9.25%	April 2023	-	402
R300 million at 8.10%	April 2020	281	305
R300 million at 8.46%	April 2021	280	306
R300 million at 8.70%	April 2022	279	306
R200 million at 4.29%	October 2022	171	-
R300 million at 8.87%	April 2023	279	305
Total fixed and variable rate term loans and other loans		**5,494**	**4,586**

All of the loans above relate to term loan financing received by K2012150042 (South Africa) (Pty) Ltd, except for the $65 million loan which relates to OMP Africa Holdco (Pty) Ltd.

3.3.6. Financial risk management

Financial risk management strategy and policy

The group manages these positions within an asset liability management (ALM) framework that has been developed to achieve long-term investment returns in excess of its obligations under insurance and investment contracts. The principal technique of the group's ALM framework is to match assets to the liabilities arising from insurance and investment contracts by reference to the type of benefits payable to policyholders, as well as seeking to maximise the return on shareholders' funds, all within an acceptable risk framework. For each distinct category of liabilities, a separate portfolio of assets is maintained.

The insurance contracts retain substantial exposures to the extent that the benefits payable to policyholders are not linked to the performance of the underlying assets and/or policyholders enjoy options embedded in their contracts which are not matched by identical options in the underlying investments. These exposures include duration risk, credit risk and market risk. The notes below explain how financial risks are managed using the categories utilised in the ALM framework. Note 3.2.8 explains in more detail how insurance risk is managed.

The group utilises derivative instruments to enhance the risk-return profile of policyholder and shareholders' funds. The group undertakes transactions involving derivative financial instruments with other financial institutions, and has established limits commensurate with the credit quality of the institutions with which it deals, and manages the resulting exposures such that a default by any individual counterparty is unlikely to have a materially adverse impact on the company.

Capital adequacy

Capital is actively managed to ensure that the group is properly capitalised and funded at all times, having regard to its regulatory needs, prudent management and the needs of all stakeholders. The group has a business planning process that runs on an annual cycle with regular updates to projections. It is through this process, which includes risk and sensitivity analyses of forecasts, and the operations of the Capital Management Committee (CMC) that the group's capital is managed.

3.3.6. Financial risk management (continued)

The CMC is a sub-committee of the Executive Committee, established to set an appropriate framework and guidelines to ensure the appropriate management of capital, to allocate capital to the various businesses, and to monitor return on allocated capital for each business relative to the agreed hurdle. The CMC comprises the Executive Directors together with certain executives and senior managers. Meetings are held as regularly as circumstances require and in any event not less than half-yearly and approve requests for capital that are outside the business plans.

The insurance operations within the group met the minimum capital requirements as set by the regulator for each entity throughout the year. The capital position of the company is set out in the Statutory actuary's report on page 17.

Specifically, the group has adopted the following capital management policies:

- Maintenance, as a minimum, of capital sufficient to meet the statutory requirements and such additional capital as management believes is necessary to ensure that obligations to policyholders can be met on a timely basis.
- Maintenance of an appropriate level of liquidity at all times. The group further ensures that it can meet its expected capital and financing needs at all times, having regard to business plans, forecasts and any strategic initiatives.

Sensitivities

The group has both qualitative and quantitative risk management procedures to monitor the key risks and sensitivities of the business. This is achieved through stress tests, scenario analyses and risk assessments. From an understanding of the principal risks, appropriate risk limits and controls are defined.

The risk types affecting the surplus capital of the group are market risk, credit risk, liquidity risk, underwriting risk, business risk and operational risk.

For further details of the management of specific financial risks, refer to the relevant sections of this note.

Sensitivity tests

The table below shows the sensitivity of the company’s embedded value to changes in key assumptions. Embedded value is a measure of the value of shareholders' interests in the covered business of the company after sufficient allowance has been made for the aggregate risks in the covered business. It is measured in a way that is consistent with the value that would normally be placed on the cashflows generated by these assets and liabilities in a deep and liquid market. All calculations include the impact on the time-value reserves necessary for policyholder financial options and guarantees. For each sensitivity illustrated, all other assumptions have been left unchanged.

Notes to the financial statements

3.3.6. Financial risk management (continued)

31 December 2017	R m Embedded Value
Embedded value	79,712
Effect of:	
Required capital equal to the minimum statutory requirement	640
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(193)
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	49
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	4,031
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	(4,044)
50 bps contraction on corporate bond spreads	482
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	(1,155)
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	-
Voluntary discontinuance rates decreasing by 10 per cent	1,479
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1,754
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1,793
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	(139)
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	(111)

31 December 2016	R m Embedded Value
Embedded value	77,541
Effect of:	
Required capital equal to the minimum statutory requirement	635
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(121)
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	(36)
Equity and property market values increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	3,699
Equity and property market values decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged	(3,715)
50 bps contraction on corporate bond spreads	104
25 per cent increase in equity and property implied volatilities (e.g. 10 to 12.5 per cent)	(1,378)
25 per cent increase in swaption implied volatilities (e.g. 5 to 6.25 per cent)	3
Voluntary discontinuance rates decreasing by 10 per cent	1,448
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1,711
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1,959
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges*	(175)
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	(142)

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

Notes to the financial statements

3.3.6. Financial risk management (continued)

Credit risk

The credit risk exposure of the group is discussed in note 3.1.

Overall credit risk

	Separate		Consolidated	
	2017 Rm	2016 R m	2017 Rm	2016 R m
Reinsurance contracts	300	617	743	962
Loans and advances	209	222	209	222
Investments and securities				
Government securities	62,502	57,532	74,729	69,049
Other debt securities	85,412	78,980	85,531	87,113
Short-term funds	43,290	46,760	61,947	62,232
Capital advances to group undertakings	8,819	10,014	8,819	10,014
Other assets	11,213	6,554	14,425	9,171
Derivative assets	3,662	3,595	3,662	3,852
Amounts due by group companies	6,019	10,253	4,550	8,884
Cash and cash equivalents	12,381	25,083	20,880	34,090
	233,807	**239,610**	**275,495**	**285,589**

Reinsurance assets

The total contracts amount of R743 million (2016: R 962 million) for the group and R300 million (2016: R 617 million) for the company is investment grade (AAA to BBB) rated. None are past due or impaired.

Market risk

Market risk is the potential impact of unfavourable changes in foreign exchange rates, interest rates, prices and market volatilities on its financial position, financial performance and cash flows. Market risk arises from changes in the fair value of investments.

The stock selection and investment analysis process is supported by a well-developed research function. For fixed annuities, market risks are managed by investing in fixed interest securities with a duration closely corresponding to those liabilities. Market risks on policies where the terms are guaranteed in advance and the investment risk is carried by the shareholders, principally reside in the South African guaranteed non-profit annuity book, which is predominantly matched with suitably dated interest-bearing assets. Other non-profit policies are also suitably matched through appropriate investment mandates. Market risks on with-profit policies, where investment risk is shared, are minimised by appropriate bonus declaration practices and by having suitable mandates for asset allocation that reflect the level of guarantees.

Equity price risk and interest rate risk (on the value of the securities) are modelled by the group's risk-based capital practices.

Currency risk

The group has exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position, financial performance and cash flows.

The company operates in Hong Kong, Guernsey and Isle of Man through branches and in China through an associate. This creates an additional source of foreign currency risk which arises from the fact that the branches use GBP and the associate the Chinese Yuan Renminbi as their functional currencies, whereas the functional currency of the company is Rands.

3.3.6. Financial risk management (continued)

The table below summaries the group's exposure to foreign currency exchange rate risk.

	Separate		Consolidated	
	2017	2016	2017	2016
	R m	R m	R m	R m
Total assets				
ZAR	548,591	521,014	652,757	611,897
GBP	7,447	10,986	7,447	10,986
USD	103,475	94,001	103,260	94,001
EUR	2,413	1,897	2,413	1,897
Other	2,618	3,512	2,618	4,517
	664,544	**631,410**	**768,495**	**723,298**
Total liabilities				
ZAR	577,274	549,442	688,452	648,426
GBP	116	8,860	116	8,896
USD	35,969	20,939	35,825	20,939
EUR	2	1,407	2	1,407
Other	264	177	72	197
	613,625	**580,824**	**724,467**	**679,865**

Interest rate risk

Interest rate risk is the risk that fluctuating interest rates will unfavourably affect the group’s earnings and the value of its assets, liabilities and capital.

The group has due regard to the nature of the liabilities and guarantees given to policyholders. The interest rate risk of such liabilities is managed by investing in assets of similar duration. For products that have a durational mismatch between premium inflows and benefit and expense outflows, mainly pure risk products, matching of assets and liabilities is complex and earnings are exposed to interest rate movements. Hedging strategies and a discretionary margin are in place to partially hedge this exposure to interest rate movements. These hedges are economic hedges.

Investment guarantee reserves calculated on a market-consistent basis are very sensitive to movements in interest rates as well as the implied volatility of interest rates, with a reduction in interest rates or an increase in implied interest rate volatility increasing the reserves held. Hedging is largely in place to mitigate the impact of interest rate movements. A discretionary margin is also held for the potential ineffectiveness of such hedging strategies and for the movements in implied volatilities which are not currently hedged.

Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost.

The group's executive committee is responsible for the effective management of liquidity risk by putting the appropriate structure and processes in place. The Risk Committee of the board is responsible for reviewing the adequacy and effectiveness thereof.

The table below is a maturity analysis of liability cash flows based on gross, undiscounted cash flows for financial liabilities. The maturity analysis of policyholder liabilities can be found in note 3.2.7.

Notes to the financial statements

3.3.6. Financial risk management (continued)

	Separate 2017 R m			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Borrowed funds	231	377	6,927	835
Derivative liabilities	135	357	1,890	5,842
Amounts due to group companies	1,100	-	-	-
Collateral owing	8,094	-	-	-
Repurchase agreements	5,302	-	-	-
	14,862	**734**	**8,817**	**6,677**

	Separate 2016 R m			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Borrowed funds	231	381	5,203	3,179
Derivative liabilities	36	117	1,410	6,773
Amounts due to group companies	902	-	-	-
Collateral owing	25,939	-	-	-
	27,109	**498**	**6,614**	**9,952**

	Consolidated 2017 R m			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Borrowed funds	283	601	7,273	835
Derivative liabilities	135	357	1,890	5,842
Amounts due to group companies	2,796	-	-	-
Collateral owing	8,094	-	-	-
Repurchase agreements	5,302	-	-	-
	16,610	**958**	**9,163**	**6,677**

Notes to the financial statements

3.3.6. Financial risk management (continued)

	Consolidated 2016 R m			
	Less than 3 months	Between 3 months and 1 year	Between 1 and 5 years	Over 5 years
Borrowed funds	249	1,971	7,422	3,887
Derivative liabilities	36	117	1,410	6,773
Amounts due to group companies	1,648	-	-	-
Collateral owing	25,939	-	-	-
	27,872	**2,088**	**8,832**	**10,660**

Financial instruments that are subject to master netting agreements

The group and company offsets financial assets and liabilities in the statements of financial position when it has a legal enforceable right to do so and intends to settle on a net basis or at a simultaneous time. Certain master netting agreements do not provide the group with the current legally enforceable right to offset the instruments. The majority of these transactions are governed by the principles of ISDA or similar type of agreements. These agreements aim to protect the parties in the case of default.

The potential effect of netting offset arrangements after taking into consideration these types of agreements is:

- Derivative financial instruments – assets: Gross amounts of recognised financial instruments in the statement of financial position amounted to R 3,662 million (2016: R 3,852 million).
- Derivative financial instruments – liabilities: Gross amounts of recognised financial instruments in the statement of financial position amounted to R 5,001 million (2016: R 4,867 million).
  - Derivative financial instruments – assets (Separate): Gross amounts of recognised financial instruments in the statement of financial position amounted to R 3,662 million (2016: R 3,595 million).
  - Derivative financial instruments – liabilities (Separate): Gross amounts of recognised financial instruments in the statement of financial position amounted to R 5,001 million (2016: R 4,844 million).
- Cash and bond collateral amounts not offset against derivative assets and liabilities in the statement of financial position are R976 million (2016: R1,042 million).

Notes to the financial statements

3.3.6. Financial risk management (continued)

The table below analyses assets and liabilities into current and non-current categories based on the remaining period at reporting date to settlement date, or if not subject to fixed terms of repayment, the intention as regards settlement period at the reporting date.

			Separate 2017 R m
	Current assets	Non-current assets	Total
Assets			
Intangible assets	-	1,122	1,122
Investment property	-	1,196	1,196
Owner-occupied property	-	2,379	2,379
Equipment	-	381	381
Deferred tax assets	-	21	21
Reinsurance contracts	290	10	300
Post employment benefits	-	664	664
Deferred acquisition costs	349	853	1,202
Loans and advances	-	209	209
Investments and securities	53,616	568,959	622,575
Derivative assets	641	3,021	3,662
Amounts due by group companies	2,671	3,348	6,019
Other assets	11,213	-	11,213
Cash and cash equivalents	12,381	-	12,381
Non-current assets held-for-sale	1,220	-	1,220
Total assets	**82,381**	**582,163**	**664,544**

			Separate 2017 R m
	Current liabilities	Non-current liabilities	Total
Liabilities			
Insurance contracts	2,354	146,588	148,942
Investment contracts without discretionary particiapting features	-	255,470	255,470
Investment contracts with discretionary participating features	-	164,822	164,822
Borrowed funds	-	5,995	5,995
Share-based payment liabilities	203	373	576
Deferred revenue on investment contracts	71	80	151
Deferred tax liabilities	-	5,511	5,511
Derivative liabilities	492	4,509	5,001
Amounts due to group companies	1,100	-	1,100
Provisions	-	1,266	1,266
Current tax payable	1,169	-	1,169
Collateral owing	8,094	-	8,094
Repurchase agreements	5,302	-	5,302
Other liabilities	10,226	-	10,226
Total liabilities	**29,011**	**584,614**	**613,625**

Notes to the financial statements

3.3.6. Financial risk management (continued)

	Separate 2016 R m		
	Current assets	Non-current assets	Total
Assets			
Intangible assets	-	606	606
Investment property	-	519	519
Owner-occupied property	-	2,658	2,658
Equipment	-	434	434
Deferred tax assets	-	501	501
Reinsurance contracts	241	376	617
Post employment benefits	-	594	594
Deferred acquisition costs	281	719	1,000
Loans and advances	-	222	222
Investments and securities	56,541	519,623	576,164
Derivative assets	465	3,130	3,595
Amounts due by group companies	-	10,253	10,253
Other assets	6,554	-	6,554
Cash and cash equivalents	25,083	-	25,083
Non-current assets held-for-sale	2,610	-	2,610
Total assets	**91,775**	**539,635**	**631,410**

	Separate 2016 R m		
	Current liabilities	Non-current liabilities	Total
Liabilities			
Insurance contracts	2,202	146,885	149,087
Investment contracts without discretionary particiapting features	-	229,242	229,242
Investment contracts with discretionary participating features	-	147,920	147,920
Borrowed funds	-	5,902	5,902
Share-based payment liabilities	212	321	533
Deferred revenue on investment contracts	16	19	35
Deferred tax liabilities	-	4,496	4,496
Derivative liabilities	369	4,475	4,844
Amounts due to group companies	902	-	902
Provisions	-	1,462	1,462
Current tax payable	1,448	-	1,448
Collateral owing	25,939	-	25,939
Other liabilities	9,014	-	9,014
Total liabilities	**40,102**	**540,722**	**580,824**

Designated financial assets

The maximum exposure of the company to credit risk for designated financial assets that would have otherwise been categorised as financial assets carried at amortised cost amounted to R 103,478 million (2016: R 98,921 million). The changes in fair value of these assets relating to any change in credit risk was insignificant.

Notes to the financial statements

3.3.6. Financial risk management (continued)

			Consolidated 2017 R m
	Current assets	Non-current assets	Total
Assets			
Intangible assets	-	1,373	1,373
Investment property	-	24,229	24,229
Owner-occupied property	-	2,379	2,379
Equipment	-	392	392
Deferred tax assets	-	419	419
Reinsurance contracts	290	453	743
Post employment benefits	-	664	664
Deferred acquisition costs	351	1,994	2,345
Loans and advances	-	209	209
Investments and securities	53,616	635,074	688,690
Investments in associated undertakings and joint ventures	-	2,222	2,222
Derivative assets	641	3,021	3,662
Amounts due by group companies	2,671	1,879	4,550
Other assets	14,425	-	14,425
Cash and cash equivalents	20,880	-	20,880
Non-current assets held-for-sale	1,313	-	1,313
Total assets	**94,187**	**674,308**	**768,495**

			Consolidated 2017 R m
	Current liabilities	Non-current liabilities	Total
Liabilities			
Insurance contracts	2,355	147,632	149,987
Investment contracts without discretionary particiapting features	-	273,934	273,934
Investment contracts with discretionary participating features	-	164,822	164,822
Third party interest in consolidated funds	76,763	-	76,763
Borrowed funds	1,984	9,505	11,489
Share-based payment liabilities	185	391	576
Deferred revenue on investment contracts	554	516	1,070
Deferred tax liabilities	-	7,079	7,079
Derivative liabilities	492	4,509	5,001
Amounts due to group companies	2,796	-	2,796
Provisions	-	1,299	1,299
Current tax payable	1,183	-	1,183
Collateral owing	8,094	-	8,094
Repurchase agreements	5,302	-	5,302
Other liabilities	15,072	-	15,072
Total liabilities	**114,780**	**609,687**	**724,467**

Notes to the financial statements

3.3.6. Financial risk management (continued)

	Consolidated 2016 R m		
	Current assets	Non-current assets	Total
Assets			
Intangible assets	-	692	692
Investment property	-	19,180	19,180
Owner-occupied property	-	2,658	2,658
Equipment	-	439	439
Deferred tax assets	-	539	539
Reinsurance contracts	241	721	962
Post employment benefits	-	594	594
Deferred acquisition costs	283	1,814	2,097
Loans and advances	-	222	222
Investments and securities	56,541	578,426	634,967
Investment in associates and joint ventures	-	2,112	2,112
Derivative assets	465	3,387	3,852
Amounts due by group companies	-	8,884	8,884
Other assets	9,171	-	9,171
Cash and cash equivalents	34,090	-	34,090
Non-current assets held-for-sale	2,839	-	2,839
Total assets	**103,630**	**619,668**	**723,298**

	Consolidated 2016 R m		
	Current liabilities	Non-current liabilities	Total
Liabilities			
Insurance contracts	2,205	147,805	150,010
Investment contracts without discretionary particiapting features	-	249,315	249,315
Investment contracts with discretionary participating features	-	147,920	147,920
Third party interests in consolidated funds	66,042	-	66,042
Borrowed funds	1,010	9,478	10,488
Share-based payment liabilities	212	321	533
Deferred revenue on investment contracts	22	856	878
Deferred tax liabilities	-	5,595	5,595
Derivative liabilities	369	4,498	4,867
Amounts due to group companies	1,648	-	1,648
Provisions	-	1,496	1,496
Current tax payable	1,475	-	1,475
Collateral owing	25,939	-	25,939
Other liabilities	13,659	-	13,659
Total liabilities	**112,581**	**567,284**	**679,865**

Designated financial assets

The maximum exposure of the group to credit risk for designated financial assets that would have otherwise been categorised as financial assets carried at amortised cost amounted to R 115,916 million (2016: R 122,263 million). The changes in fair value of these assets relating to any change in credit risk was insignificant.

Notes to the financial statements

3.4. Notes to the Statutory actuary's report

3.4.1 Change in excess assets on published basis

	Separate	
	2017 Rm	**2016 R m**
At end of the year	50,919	50,586
At beginning of the year	(50,586)	(47,552)
Change in excess assets	**333**	**3,034**
Analysis of change		
Operating profit before shareholders tax (excluding changes in the valuation basis)	6,351	5,726
Dividend income	1,242	1,669
Interest income	1,124	933
Investment income on excess assets	2,366	2,602
Gains and losses on excess assets	1,281	1,886
Changes in valuation basis	747	1,309
Non-operating items	105	-
Shareholders' tax	(2,530)	(2,988)
Policyholders' tax	(1,132)	(521)
Profit for the financial year	7,188	8,014
Other comprehensive income and equity		
Actuarial gains on defined benefit plans	12	(10)
Revaluation of owner - occupied property	(85)	(11)
Currency translation differences	(24)	(63)
Issue of share capital	-	-
Other movements	83	28
Dividends	(6,841)	(4,924)
Change in excess assets	**333**	**3,034**

3.4.2 Reconciliation of policy liabilities from published to statutory basis

	Separate	
	2017 Rm	**2016 R m**
Published	(566,880)	(524,047)
Statutory	567,160	523,976
	280	**(71)**
Comprising:	**2017 Rm**	**2016 R m**
Investment contracts	289	305
Reinsurance	(9)	(376)
	280	**(71)**

Notes to the financial statements

3.4.3 Reconciliation of excess assets from published to statutory basis

	Separate	
	2017 Rm	2016 R m
Published	50,919	50,586
Statutory	(49,954)	(49,684)
	965	**902**
Comprising:	**2017 Rm**	**2016 R m**
Investment contracts	289	305
Revenue recognition	1,051	965
Deferred tax impacts of above items	(375)	(368)
	965	**902**

The investment contracts adjustments relate to a remaining difference between the published and statutory policy liabilities for one particular product range where the statutory policy liability exceeds the published policy liability. The revenue recognition adjustments are in respect of investment management contracts and arise from the spreading of incremental initial expenses and initial fees to emerge over the lifetime of the contracts.

3.4.4 Published valuation basis

The published valuation of insurance contracts and investment contracts with discretionary participating features is performed using the FSV method, in accordance with SAP 104. This means that the assumptions used for valuing liabilities are based on realistic expectations of future experience, plus compulsory margins for prudence and further discretionary margins. The result of the valuation method and assumptions is such that profits are released appropriately over the term of each policy, to avoid premature recognition of profits that may give rise to losses in later years. Liabilities under investment contracts without discretionary participating features are valued at fair value in accordance with IFRS 9.

Assets

Investment property and financial assets are valued on the bases set out in notes 4.1 and 3.3 respectively.

Liabilities: Insurance contracts and investment contracts with a discretionary participating feature

The major classes of business are valued as follows:

- For group savings policies, liabilities are based on account balances at the valuation date. Bonus stabilisation reserves are added.

- For retail policies where a portion of the premium is allocated to an accumulation account, liabilities are based on the account balances at the valuation date, less the present value of future charges not required for risk benefits and renewal expenses.

    - For market-related policies, the account balance is based on the market value of assets attributable to these policies.
    - For smoothed bonus policies, the account balance includes vested and non-vested bonuses declared to date, and where applicable provision for interim bonuses at current rates. Bonus stabilisation reserves (which may be positive or negative) are added to ensure consistency of the value of liabilities with the value of assets.

- For reversionary bonus with-profit policies, liabilities are determined by calculating the present value of projected future benefits and expenses less the present value of projected future premiums. Projected future benefits include bonuses accrued to date plus future bonuses at levels supported by the future investment return assumed. Bonus stabilisation reserves are added.

Notes to the financial statements

3.4.4 Published valuation basis (continued)

- For with-profit annuities, liabilities are determined by calculating the present value of projected future benefits and expenses. Projected future benefits include bonuses declared to date plus future bonuses at levels supported by the future investment return assumed. Bonus stabilisation reserves are added.

- For non-profit annuities, liabilities are determined by calculating the present value of projected future benefits and expenses, using applicable yield curves.

Bonus stabilisation reserves are calculated by adding the investment return earned on assets backing smoothed bonus policies, less applicable charges and tax, and by deducting the cost of bonuses declared, including the cost of interim bonuses to the valuation date where applicable. The bonus stabilisation reserves for all classes of smoothed bonus business were better than -7.5% of corresponding liabilities at the valuation date.

Policyholder reasonable benefit expectations are provided for by assuming that future bonuses would be declared at levels supported by the future investment return assumed, adjusted for the balance in the bonus stabilisation reserves over the next three years.

The future gross investment return by major asset categories and expense inflation (excluding margins) assumed for South African assurance business are as follows:

	2017 Rm	2016 R m
Fixed interest securities	9.0%	9.1%
Cash	7.0%	7.1%
Equities	12.7%	12.8%
Properties	10.5%	10.6%
Future expense inflation *	6.0%	6.1%

*8.0% (2016: 8.1%) for Personal Finance business administered on old platforms and 7.0% (2016: 7.1%) for Mass and Foundation Cluster.
In the calculation of liabilities, provision has been made for:

- The company's best-estimate of future experience, as described below;

- The compulsory margins as set out in the Actuarial Society's Standards of Actuarial Practice (SAP 104) and FSB board notices;

- Discretionary margins reflecting mainly the excess of capital charges over the compulsory investment margin of 0.25% for policies that are valued prospectively. These implicit discretionary margins cause excess capital charges to be included in operating profits as they are charged and ensure that profits are released appropriately over the term of each policy; and

- Other discretionary margins, mainly held to cover:

  – mortality, lapse and investment return margins for Mass and Foundation Cluster funeral policies sold prior to 2015, due to the additional risk associated with this business, and to ensure that profit is released appropriately over the term of the policies,

  – mortality margins on Personal Finance old generation life policies and accidental death and disability supplementary benefits, to ensure that profit is released appropriately over the term of the policies,

  – interest rate margin on certain Personal Finance and Mass and Foundation Cluster life policies to allow for the uncertainty associated with volatile interest rates,

  – margins on certain Personal Finance 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,

  – investment margins in the pricing basis for Old Mutual Corporate annuities, as well as expense margins on Old Mutual Corporate with-profit annuities to defer the recognition of these margins over the term of the policy,

3.4.4 Published valuation basis (continued)

- termination margins on Old Mutual Corporate PHI claims in payment due to uncertainty about future termination experience, and
- margins on the investment guarantee reserves to mitigate the sensitivity of the reserves calculated on a market- consistent basis to implied volatilities in particular.
- All investment contracts are valued at units times price for statutory purposes, i.e. an implicit discretionary margin is held equal to the value of the non-unit reserve.
- The pre-retirement smoothed bonus products in Old Mutual Corporate are valued at account balance for both statutory and published reporting purposes, i.e. an implicit discretionary margin is effectively held equal to the value of the negative rand reserves in aggregate.

Liabilities include provisions to meet financial options and guarantees on a market-consistent basis, and make due allowance for potential lapses, paid-ups and surrenders, based on levels recently experienced. Mortality and disability rates assumed are consistent with the company's recent experience, or expected future experience if this would result in a higher liability. In particular, allowance has been made for the expected deterioration in assured lives experience due to AIDS, and for the expected improvement in annuitant mortality.

The provision for maintenance expenses (before allowing for margins) starts at a level consistent with the company's recent experience and allows for an escalation thereafter. A provision for future strategic project costs has been established based on business planning projections.

The company's recent experience in respect of products open to new business has been analysed in the following main experience investigations:

Business unit	Type of investigation	Period of investigation
Personal Finance	Annuitant mortality	2010 to 2014
	Greenlight mortality	2012 to 2016
	Greenlight morbidity	2012 to 2016
	Greenlight persistency	2012 to 2016
Mass and Foundation cluster	Mortality	2012 to 2016
	Persistency	2009 to 2016
Old Mutual Corporate	Annuitant mortality	2010 to 2014
	PHI claims termination	July 2011 to June 2016
	Pre-retirement retention	2012 to 2017
	Group assurance mortality and disability experience	Ongoing for the purpose of setting scheme rates
All	Expenses	For all business units the expense assumptions are reviewed on an annual basis.

The 2017 analysis of profit provides a measure of the aggregate experience in 2017. During this valuation period, actual experience was in aggregate more favourable than the valuation assumptions, excluding special project expenditure.

Liabilities: Investment contracts without discretionary participating features

- For both retail and group savings policies, liabilities for investment contracts without discretionary participating features are based on account balances at the valuation date. In respect of investment contracts that provide investment management services, for example market-related investment contracts, a deferred acquisition cost (DAC) asset is held, which defers incremental acquisition expenses over the expected term of the policy, and a deferred revenue liability (DRL) is held, which defers excess initial fees over the expected term of the policy.

3.4.4 Published valuation basis (continued)

- For structured products, liabilities are calculated based on the market value of matching assets, together with an allowance for future expenses and margins.

- For non-profit term certain annuities, liabilities are determined by calculating the present value of projected future benefits and expenses, using applicable yield curves.

- Liabilities include the cost of any investment guarantees for products that are classified as investment contracts. These have been calculated on a market-consistent basis and a discretionary margin has been added to the calculated reserve. Sample derivative contract prices derived from the calculation are provided in note 3.2.8.

Various actuarial assumption changes have been made which resulted in a net reduction in the value of liabilities of R 747 million (2016: R 1 309 million reduction in liabilities). This is mainly driven by capitalising maintenance expense savings in Mass and Foundation Cluster and reducing morbidity assumptions in Personal Finance to better reflect future experience. This was partly offset by establishing a reserve for future strategic project costs as well as modelling the cost of reinsurance in Personal Finance beyond the guarantee review date. The assumption changes exclude the impact on new business sold in 2017, as this is valued on the new basis.

Non-financial assets held to manage exposure

Notes to the financial statements

4.1 Investment property

Classification

Includes real estate held to earn rentals or for capital appreciation or both. It does not include owner-occupied property. Certain investments properties are matched to policyholder liabilities.

Measurement

Investment Properties are measured at fair value as determined by a registered independent valuer at least every three years, and annually by a locally qualified staff, having an appropriate recognised professional qualification and recent experience in the location and category of the property being valued.

For practical reasons, valuations are carried out on a cyclical basis over a twelve-month period due to the large number of properties involved. 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.

Surpluses and deficits arising from changes in fair value and rental income are reflected as investment income and similar income in the income statement, as appropriate.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made and rentals received under operating leases are recognised in the income statement on a straight-line basis over the period of the lease.

Reconciliation of investment property – at fair value

	Separate		Consolidated	
	2017 R m	**2016 R m**	**2017 R m**	**2016 R m**
Carrying amount at beginning of the year	519	1,947	19,180	17,949
Additions	349	678	1,899	957
Acquired through business combinations	-	-	2,395	-
Disposals	(813)	(1,115)	(879)	(144)
Revaluation	51	477	185	1,886
Straightlining adjustment	-	-	225	-
Transfer from non-current assets held-for-sale	1,090	-	1,317	-
Transfers to non-current assets held-for-sale	-	(1,468)	(93)	(1,468)
Carrying amount at end of the year	**1,196**	**519**	**24,229**	**19,180**

Amounts recognised in profit or loss for investment properties

	Separate		Consolidated	
	2017 R m	**2016 R m**	**2017 R m**	**2016 R m**
Rental income from investment property	241	290	2,146	1,970
Direct operating expenses arising from investment property rented out	(12)	(24)	(347)	(466)
	229	**266**	**1,799**	**1,504**

4.1. Investment property (continued)

The fair value of the group's properties are categorised into level 3 of the fair value hierarchy. The valuation techniques used in the determination of the fair values for investment and owner-occupied properties, as well as the unobservable inputs used in the valuation models are as follows:

- Income generating assets - commercial, retail and industrial properties: Valued using the internationally and locally recognised Discounted Cash Flow method. A minimum of five years (if required for specific leases, a longer period is used) of net income is discounted at a market related rate, together with the present value of the capitalised net income in year six. Net income is determined by considering gross income, vacancies and lease obligations from which all normalised operating expenditure and capital expenditure is deducted. The discount rate is determined with reference to the current market conditions and is constantly monitored by reference to comparable market transactions. Valuation capitalisation and discount rates are based on industry guidelines e.g. SAPOA, IPD as well as comparison to the listed sector property funds. Market rentals are based on the valuers' assumptions and information they have based on similar valuations they have done our sourced from external brokers.

- Land holdings or land: As a general rule, these will be valued according to the prevailing town planning scheme and current zoning at the date of valuation. The land is valued according to its current condition and zoning. Should the valuer consider that the site has potential for a different zoning, the valuer is permitted to report a value subject to receipt of zoning and advise accordingly. Land is to be valued by the direct comparison method by reference to recent sales of comparable properties in the neighbourhood or similar localities on a land per square metre, bulk per square metre or unit basis.

- Investment property under construction: Valued in a similar manner to income producing properties (less outstanding development costs), except where the fair value of the investment property is not reliably determinable. In certain exceptional cases the cost model approach of land value plus development costs to date can be adopted to value developments in progress.

Notes to the financial statements

4.1. Investment property (continued)

The table below sets out information about significant unobservable inputs used at year end in measuring investment properties categorised at level 3:

Type of property	Valuation approach	Key unobservable inputs	Range of estimates for unobservable inputs
Income generating assets - commercial/retail/industrial properties	Valued using the internationally and locally recognised Discounted Cash Flow (DCF) method. A minimum of five years (if required for specific leases, a longer period is used) of net income is discounted at a market-related rate, together with the present value of the capitalised net income in year six. Net income is determined by considering gross income, vacancies and lease obligations from which all normalised operating expenditure is deducted. The discount rate is determined with reference to the current market conditions and is constantly monitored by reference to comparable market transactions.	Valuation capitalisation and discount rates are based on industry guidelines predominantly from South African Property Owners Association (SAPOA) and Investment Property Databank (IPD) as well as comparison to listed property funds in South Africa. Where market rentals are used, these are based on the valuers assumptions and information they have based on similar valuations they have done or sourced from external brokers. Vacancy rates are based on property specific data.	**Office** Capitalisation rates: 7.75% to 9% Discount rates: 13.75% to 14.5% Market rentals: R95 to R155 per m² Vacancy rates: 0% to 19.9% **Retail** Capitalisation rates: 6.5% to 10% Discount rates: 12.5% to 15.5% Market rentals: R50 to R1 990 per m² Vacancy rates: 0% to 20.39% **Industrial** Capitalisation rates: 8.25% to 10.5% Discount rates: 14.25% to 16% Market rentals: R30 to R70 per m² Vacancy rates: 0% to 25.78%
Land	Valued according to the existing zoning and town planning scheme at the date of valuation. However there are cases where exceptional circumstances need to be considered.	The land per m² and bulk per m² are based on comparable sales and zoning conditions. Discount rates are based on industry guidelines predominantly from SAPOA and IPD as well as comparison to listed property funds in South Africa.	**Land** Bulk per m² (net): R280 to R3 650

4.1.1. Operating lease receivables

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Total future minimum lease receivables under operating leases				
Within one year	-	13	1,749	1,367
In second to fifth year inclusive	-	12	4,005	3,050
Later than five years	-	-	1,521	593
	-	**25**	**7,275**	**5,010**

Investment property comprises a portfolio of retail, commercial and industrial properties that are leased to third parties. Each lease has a defined lease period and financial terms. Renewal negotiations with tenants commence prior to expiry of their current lease agreement. Lease periods vary and are dependent on the tenant and property type. No contingent rents are charged.

Notes to the financial statements

4.2 Owner-occupied property

Owner-occupied properties: Valued according to the sales of comparable properties. Owner-occupied properties are valued as at 31 December each year by internal professional valuers and external valuations are obtained once every 3 years.

Increases or decreases in the carrying amount are taken to other comprehensive income and presented in a revaluation reserve in equity. To the extent that increases reverse a revaluation decrease previously recognised in the income statement, or a decrease that exceeds the revaluation surplus, then the excess is recognised in the income statement.

Category	Valuation Model	Measurement
Land	Revaluation model	Land is stated at revalued amounts and is not depreciated.
Buildings	Revaluation model	Stated at revalued amounts. Depreciated over a period of 50 years using the straight-line method. On revaluation any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the property concerned and the net amount restated to the revalued amount. On derecognition, 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 the income statement in the period the asset is derecognised. Any revaluation surplus is transferred directly to retained earnings.

Owner-occupied property	Notes	**Separate and Consolidated**	
		2017	**2016**
		R m	**R m**
Balance at beginning of the year		2,658	2,582
Revaluation		77	118
Disposals		(109)	-
Depreciation		(47)	(42)
Transfer to non-current assets held for sale		(200)	-
Balance at end of the year		**2,379**	**2,658**

The group engages internal and external valuers to determine the carrying value of its owner-occupied property. Fair value is determined by reference to market-based evidence. The valuations are carried out at intervals throughout the year by internal valuers and every three years by external valuers. A fixed asset register is available for inspection at the company's registered office.

The carrying value that would have been recognised had owner-occupied property been carried under the cost model would be R 2,025 million (2016: R 2,181 million) for the group and the company.

Fair value: financial instruments

Notes to the financial statements

5. Fair value: financial instruments

Determination of fair value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair values of financial instruments measured at fair value that are quoted in active markets are based on mid prices for assets, which in certain circumstances includes using quotations from independent third parties such as brokers and pricing services. When quoted prices are not available, fair values are determined by using valuation techniques that refer as far as possible to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. A number of factors such as bid–offer spread, credit profile, servicing costs and model uncertainty are taken into account, as appropriate, when values are calculated using a valuation technique. Changes in the assumptions used in such valuations could impact the reported value of such instruments.

The fair value of derivatives is determined with reference to the exchange traded prices of the specific instruments.For certain derivative instruments, fair values may be determined in whole or in part using techniques based on assumptions that are not supported by prices from current market transactions or observable market data.

Investments and securities

The fair values of listed investments and securities are based on mid prices. For unlisted investments and securities, fair values are determined using valuation techniques that refer as far as possible to observable market data (see above).

Investment contracts

The approach to determining the fair values of investment contracts is set out in the accounting policies section for insurance and investment contract business.

Borrowed funds

Borrowed funds are carried at fair value based on quoted market prices at the reporting date where applicable, or by reference to quoted prices of similar instruments.

Other financial assets and liabilities

The fair values of other financial assets and liabilities are reasonably approximated by the carrying amounts reflected in the statement of financial position.

Fair value hierarchy

Fair values are determined according to the following hierarchy:

- Level 1 – quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.
- Level 2 – valuation techniques using observable inputs: quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.
- Level 3 – valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.

The best evidence of fair value is a quoted price in an active market. In the event that the market for a financial asset or liability is not active, a valuation technique is used.

Notes to the financial statements

5. Fair value: financial instruments (continued)

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

The majority of valuation techniques employ only observable market data, and so the reliability of the fair value measurement is high. However, certain financial assets and liabilities are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable and, for them, the derivation of fair value is more judgemental. A financial asset or liability in its entirety is classified as valued using significant unobservable inputs if a significant proportion of that asset or liability's carrying amount is driven by unobservable inputs. In this context, 'unobservable' means that there is little or no current market data available for which to determine the price at which an arm's length transaction is likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Furthermore, in some cases the majority of the fair value derived from a valuation technique with significant unobservable inputs may be attributable to observable inputs.

Additional information on the impact of unobservable inputs is provided in the section headed 'Effect of changes in significant unobservable assumptions to reasonably possible alternatives'.

Fair value hierarchy

				Separate 2017 R m
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Derivative assets	-	3,662	-	3,662
Investment and securities	304,292	270,005	48,278	622,575
	304,292	**273,667**	**48,278**	**626,237**

				Separate 2016 R m
	Level 1	**Level 2**	**Level 3**	**Total**
Financial assets at fair value				
Derivative assets	-	3,595	-	3,595
Investment and securities*	279,944	255,926	40,241	576,111
	279,944	**259,521**	**40,241**	**579,706**

		Separate 2017 R m
	Level 2	**Total**
Financial liabilities at fair value		
Derivative liabilities	5,001	5,001
Investment contracts	255,470	255,470
Borrowed funds	5,995	5,995
	266,466	**266,466**

		Separate 2016 R m
	Level 2	**Total**
Financial liabilities at fair value		
Derivative liabilities	4,844	4,844
Investment contracts	229,242	229,242
Borrowed funds#	5,902	5,902
	239,988	**239,988**

Notes to the financial statements

5. Fair value: financial instruments (continued)

	Level 1	Level 2	Level 3	Consolidated 2017 R m Total
Financial assets at fair value				
Derivative assets	-	3,662	-	3,662
Investment and securities	466,654	206,323	15,713	688,690
	466,654	**209,985**	**15,713**	**692,352**

	Level 1	Level 2	Level 3	Consolidated 2016 R m Total
Financial assets at fair value				
Derivative assets	-	3,852	-	3,852
Investment and securities*	411,774	210,607	12,533	634,914
	411,774	**214,459**	**12,533**	**638,766**

	Level 2	Consolidated 2017 R m Total
Financial liabilities at fair value		
Derivative liabilities	5,001	5,001
Investment contracts	273,934	273,934
Third party interest in consolidated funds	76,763	76,763
Borrowed funds	11,489	11,489
	367,187	**367,187**

	Level 2	Consolidated 2016 R m Total
Financial liabilities at fair value		
Derivative liabilities	4,867	4,867
Investment contracts	249,315	249,315
Third party interest in consolidated funds	66,042	66,042
Borrowed funds#	10,488	10,488
	330,712	**330,712**

*Unlisted equity securities to the value of R14,863 million were reclassified from level 2 to level 3 in the separate disclosure to better reflect the valuation technique used to value these investments. There were also unlisted corporate bonds to the value of R4,614 million reclassified from level 1 to level 2 in the separate and consolidated disclosure to better reflect the valuation technique used to value these investments.

#Borrowed funds amounting to R5,902 million were classified as level 1 at 31 December 2016. Upon further consideration, it was decided that level 2 is a more appropriate classification. The comparative amount for 31 December 2016 has also been reclassified to reflect as level 2.

Notes to the financial statements

5. Fair value: financial instruments (continued)

Movement in level 3 assets	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
At the beginning of the year	40,241	38,696	12,533	15,804
Gains recognised in income statement	2,681	466	948	927
Purchases and issues	1,741	4,078	652	1,882
Sales and settlements	(1,092)	(2,732)	(517)	(2,170)
Transfers into level 3 from other categories	6,164	1,152	2,376	1,152
Transfers out of level 3 to other categories	(1,457)	(1,419)	(279)	(5,062)
At end of the year	**48,278**	**40,241**	**15,713**	**12,533**

For the group's designated level 3 assets held at the end of the year, net gains of R804 million were recognised in the income statement as investment income (2016: net gains of R1,031 million).

For the company's designated level 3 assets held at the end of the year, net gains of R1,206 million were recognised in the income statement as investment income (2016: net gains of R187 million).

Effect of changes in assumptions

Favourable and unfavourable changes are determined on the basis of changes in the value of the financial asset or liability as a result of varying the levels of the unobservable parameters using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental. When the fair value of a financial asset or liability is affected by more than one unobservable assumption, the figures shown reflect the most favourable or most unfavourable change from varying the assumptions individually.

In respect of private equity investments, the valuations are assessed on an asset-by-asset basis using a valuation methodology appropriate to the specific investment, in line with industry guidelines. In many of the methodologies, the principal assumption is the valuation multiple to be applied to the main financial indicators including, for example, multiples for comparable listed companies and discounts to marketability.

Gains and losses recognised in the income statement principally are taken through investment income.

For asset-backed securities whose prices are unobservable, models are used to generate the expected value of the asset, incorporating benchmark information on factors such as prepayment patterns, default rates, loss severities and the historical performance of the underlying assets. The models used are calibrated by using securities for which external market information is available.

For structured notes and other derivatives, principle assumptions concern the future volatility of asset values and the future correlation between asset values. These principle assumptions include credit volatilities and correlations used in the valuation of the structured credit derivatives. For such unobservable assumptions, estimates are based on available market data, which may include the use of a proxy method to derive a volatility or correlation from comparable assets for which market data is more readily available, and examination of historical levels.

5. Fair value: financial instruments (continued)

Analysis of reasonably possible alternative assumptions - level 3 assets

	Separate			
	2017 R m		2016 R m	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Level 3 financial assets				
Investments and securities	4,221	(4,511)	3,394	(3,409)

	Consolidated			
	2017 R m		2016 R m	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Level 3 financial assets				
Investments and securities	2,363	(3,046)	2,439	(2,587)

Key inputs and assumptions used in the valuation models include discount rates (with the reasonably possible alternative assumptions calculated by increasing/decreasing the discount rate by 10%) and price earnings ratio (with the reasonably possible alternative assumptions calculated by increasing/decreasing the price earnings ratio by 10%).

The table below sets out information about significant unobservable inputs used at year end in measuring financial instruments categorised as level 3:

Valuation technique	Significant unobservable input	Range of unobservable inputs
Discounted cash flow (DCF)	Risk adjusted discount rate:	
	- Equity risk premium	3% - 7%
	- Liquidity discount rate	5% - 40%
	- Nominal risk free rate	7.65% - 22%
Price earnings (PE) model/multiple/ embedded value	PE ratio/multiple	4 - 11 times
Sum of parts	PE ratio and DCF	See PE ratio and DCF

Notes to the financial statements

5. Fair value: financial instruments (continued)

Fair value hierarchy for financial assets and liabilities not measured at fair value

Certain financial instruments of the group are not carried at fair value, principally loans and advances, cash and cash equivalents, and other financial assets and financial liabilities at amortised cost. The calculation of the fair value of these financial instruments incorporates the group's best estimate of the value at which these financial assets could be exchanged, or financial liabilities transferred, between market participants at the measurement date.

					Separate 2017
					R m
	Level 1	**Level 2**	**Level 3**	**Total Fair values**	**Total Carrying amount**
Assets					
Loans and advances	-	-	209	209	209
Other assets	-	-	11,213	11,213	11,213
Cash and cash equivalents	-	12,381	-	12,381	12,381
	-	**12,381**	**11,422**	**23,803**	**23,803**
Liabilities					
Collateral owing	-	-	8,094	8,094	8,094
Repurchase agreements	-	-	5,302	5,302	5,302
Other liabilities	-	-	10,226	10,226	10,226
	-	**-**	**23,622**	**23,622**	**23,622**

					Separate 2016
					R m
	Level 1	**Level 2**	**Level 3**	**Total Fair values**	**Total Carrying amount**
Assets					
Loans and advances	-	-	222	222	222
Other assets	-	-	6,554	6,554	6,554
Cash and cash equivalents	-	25,083	-	25,083	25,083
	-	**25,083**	**6,776**	**31,859**	**31,859**
Liabilities					
Collateral owing	-	-	25,939	25,939	25,939
Other liabilities	-	-	9,014	9,014	9,014
	-	**-**	**34,953**	**34,953**	**34,953**

Notes to the financial statements

5. Fair value: financial instruments (continued)

	Level 2	Level 3	Total Fair values	Total Carrying amount
				Consolidated 2017 R m
Assets				
Loans and advances	-	209	209	209
Other assets	-	14,425	14,425	14,425
Cash and cash equivalents	20,880	-	20,880	20,880
	20,880	**14,634**	**35,514**	**35,514**
Liabilities				
Collateral owing	-	8,094	8,094	8,094
Repurchase agreements	-	5,302	5,302	5,302
Other liabilities	-	15,072	15,072	15,072
	-	**28,468**	**28,468**	**28,468**

	Level 2	Level 3	Total Fair values	Total Carrying amount
				Consolidated 2016 R m
Assets				
Loans and advances	-	222	222	222
Other assets	-	9,171	9,171	9,171
Cash and cash equivalents	34,090	-	34,090	34,090
	34,090	**9,393**	**43,483**	**43,483**
Liabilities				
Collateral owing	-	25,939	25,939	25,939
Other liabilities	-	13,659	13,659	13,659
	-	**39,598**	**39,598**	**39,598**

Operating costs

Notes to the financial statements

6.1. Operating and administration expenses

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Staff costs (excluding directors' emoluments)				
Wages and salaries	3,869	3,741	3,979	3,844
Social security costs	18	18	18	18
Defined contribution plans	167	199	167	199
Bonus and incentive remuneration	660	788	663	803
Share-based payments	254	65	259	68
Other	126	94	127	94
Less: Staff costs included in other acquisition costs	(1,175)	(1,224)	(1,175)	(1,224)
	3,919	**3,681**	**4,038**	**3,802**
Auditors' remuneration				
Statutory audit services - current year	27	25	37	32
Other non-audit related services	4	3	5	3
	31	**28**	**42**	**35**
Operating and administration expenses include				
Amortisation of intangible assets	24	25	25	26
Asset management expenses	1,219	829	1,339	631
Depreciation of property and equipment	227	203	230	205
Technical and professional fees	691	930	691	930

Expenses to the value of R1,599 million were reallocated from Operating and administration expenses to Commission and other acquisition costs in the 2016 separate and consolidated disclosure to better reflect the function of the expenses.

6.2. Share-based payment liabilities

The group has employee compensation plans for all eligible employees. The Old Mutual plc Group Share Incentive Scheme implemented during 1999 and various senior employees share schemes implemented as part of the Old Mutual Black Economic Empowerment transaction in 2005, offer eligible employees of the group the right to acquire Old Mutual plc shares (plc shares) or a cash equivalent. The right to acquire plc shares or a cash equivalent vests depending on the type of plan under which the employee participates.

The services received in cash-settled share-based payment transactions with employees and the liability to pay for those services, are recognised at fair value to the extent that the employee rendered the services at the reporting date. 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 or loss for the period.

	Separate and Consolidated	
	2017 R m	2016 R m
Composition of share-based payment liabilities		
Share options	-	5
Restricted share awards	576	528
	576	**533**

Share options vest subject to the fulfilment of service conditions and escalating exercise prices or performance targets as prescribed by the Remuneration Committee of Old Mutual plc. The options outstanding at the end of the year vested over periods between 3 to 6 years from the date of grant.

Notes to the financial statements

6.2. Share-based payment liabilities (continued)

Restricted / Forfeitable share awards	Separate and Consolidated Number of awards (Millions)	Number of awards (Millions)
Outstanding at beginning of the year	26	25
Granted during the year	10	11
Forfeited during the year	(3)	(2)
Exercised during the year	(7)	(8)
Outstanding at end of the year	**26**	**26**

Restricted share awards and forfeitable share awards are granted to eligible employees in terms of the Management Incentive Share Plan and Old Mutual Plc Share Reward and Performance Share Plans. Restricted share awards are also granted to eligible senior management in terms of the Senior Black Management Plan. The share awards vest subject to the fulfilment of a specified period of employment and have a zero exercise price. The restricted and forfeitable share awards outstanding at the end of the year vest after 3 years from the date of the grant in terms of the Management Incentive Share Plan and Old Mutual Plc Share Reward and Performance Share Plans. Restricted share awards granted in terms of the Senior Black Management Plan vest in three equal tranches 4; 5 and 6 years from grant date.

The significant pricing inputs used in the valuation of the share-based payment liability are as follows:

	Separate and Consolidated	
	2017	**2016**
Share price (in Rands)	-	34.44
Exercise price (in Rands) - highest	-	15.80
Exercise price (in Rands) - lowest	-	15.80
Expected life (in years)	-	0.28

The expected life assumption is based on the average length of time that similar grants have remained outstanding in past behaviour patterns of the relevant employee. No inputs are presented for 2017 as there are no share options outstanding at year end.

	Separate and Consolidated	
Restricted / Forfeitable share awards	**2017**	**2016**
Number granted (millions)	**10**	11
Value of share awards (Rand millions)	**352**	442
Fair value per share (in Rands)	**38.00**	34.44

The share price at measurement date is used to determine the fair value of the restricted / forfeitable share. Expected dividends are not incorporated into the measurement of fair value as the holder of the restricted / forfeitable share is entitled to dividends throughout the vesting period of the share.

6.3. Post employment benefits

Defined benefit plan

The group provides pension benefits to permanent employees and post-retirement benefits to qualifying employees. Pension benefits have been designed and are administered in accordance with the Pension Funds Act, 1956 as amended, are accounted for in accordance with IAS 19 Employee Benefits, and include both defined contribution and defined benefit schemes. The assets of these schemes are held in separate trustee administered funds. Pension costs and contributions relating to defined benefit schemes are assessed in accordance with the advice of qualified actuaries. Actuarial advice confirms that the current level of contributions together with existing assets, are adequate to secure members' benefits over the remaining service lives of participating employees. The schemes are reviewed at least on a tri-annual basis. In the intervening years a qualified actuary reviews the continuing appropriateness of the assumptions applied. The actuarial assumptions used to calculate the defined benefit obligations of the group's defined benefit scheme vary according to the economic conditions.

	Separate and Consolidated			
		2017 R m		2016 R m
Obligations	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
At beginning of the year	208	1,263	210	1,223
Current service cost	2	19	2	20
Interest cost on benefit obligation	21	117	23	107
Actuarial gains arising from				
- experience adjustment	(12)	1	(26)	(37)
Benefits paid	(1)	(54)	(1)	(50)
At end of the year	**218**	**1,346**	**208**	**1,263**

		2017 R m		2016 R m
Plan assets	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
At beginning of the year	208	1,857	210	1,734
Expected return on plan assets	27	174	30	176
Benefits paid	(1)	(54)	(1)	(50)
Net actuarial (loss)/gains	(16)	33	(31)	(3)
At end of the year	**218**	**2,010**	**208**	**1,857**

		2017 R m		2016 R m
Net assets	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
Funded status of plans	**-**	**664**	-	594

6.3. Post employment benefits (continued)

	Separate and Consolidated			
		2017 R m		2016 R m
(Income)/expense recognised in income statement	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
Current service cost	2	19	2	20
Interest cost	(6)	(57)	(7)	(69)
Total	**(4)**	**(38)**	**(5)**	**(49)**

	Separate and Consolidated			
		2017		2016
Principal actuarial assumptions	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
Discount rates used	9%	10%	10%	10%
Expected return on plan assets	9%	9%	10%	10%
Future salary increases	7%	7%	8%	8%
Price inflation	6%	6%	7%	7%

	Separate and Consolidated			
		2017		2016
Plan asset allocation	**Defined pension benefits**	**Post-retirement benefits**	**Defined pension benefits**	**Post-retirement benefits**
Equity securities	57%	58%	56%	56%
Debt securities	27%	27%	28%	27%
Real estate	6%	6%	6%	7%
Other investments	10%	9%	10%	10%

			Separate and Consolidated	
Sensitivities			**2017 R m**	**2016 R m**
Assumption	Change in assumption	Impact on scheme liabilities		
Inflation rate	Decrease by 1.0%	Decrease	168	152
	Increase by 1.0%	Increase	205	201

6.3. Post employment benefits (continued)

The group contributes to the following post-employment defined benefit plans in South Africa:

- The defined pension benefits plan entitles a retired employee to receive a monthly pension payment, equal to 2% of final salary for each year of service that the employee provided.
- The post-retirement benefits plan provides for a flat amount of subsidy towards the medical aid contributions for employees in retirement, provided they were employed prior to 1998.

These defined benefit plans expose the group to actuarial risks, such as longevity risk and investment risk. The group has taken an appropriate insurance policy to provide for the benefits in the post-retirement benefits plan.

The assets of the plans are invested in insurance policies and related investment policies held by the insurers. Remeasurement of the defined benefit plan asset and liability, the return on plan assets (excluding interest) and the effect of the asset ceiling, are recognised immediately as other income.

Funding

Both plans are fully funded. The funding requirements are based on the fund's actuarial measurement framework set out in the funding policies of the plans. No contributions are expected to be made to either fund over the next twelve months.

The funding of the defined pension benefits plan is based on a separate actuarial valuation for funding purposes for which the assumptions may differ from the assumptions set out. Employees are required to contribute to the defined pension benefits plan.

The group has determined that, in accordance with the terms and conditions of the defined benefit plans, and in accordance with statutory requirements (including minimum funding requirements for the defined pension benefits plan) for the plans of the respective jurisdictions, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations. This determination has been made on a plan-by-plan basis.

As such, no decrease in the defined benefit asset was necessary at 31 December 2017 or 31 December 2016.

In respect of the group's defined benefit retirement plan, the projected unit credit method is used to determine the present value of the defined benefit obligations and the related current service cost, and where applicable, past service cost.

The current service cost is recognised as an expense, immediately in profit or loss. Net interest income/expense on the net defined benefit plan asset/liability is determined by multiplying the net defined benefit plan asset/liability with the applicable discount rate, both at the beginning of the financial year and recognised immediately in profit or loss.

Past service costs arising from plan amendments or curtailment are recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled directly. The projected unit credit method is used to determine the present value of the defined benefit obligation. If such aggregate is negative, the asset is limited to the lower of the asset or the total of the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

Remeasurement of the defined benefit plan asset and liability, the return on plan assets (excluding interest) and the effect of the asset ceiling, are recognised immediately in other comprehensive income.

Current and deferred tax

Notes to the financial statements

7. Taxation

Current tax

Included within the tax charge are charges relating to:

- Normal income tax,
- Taxes payable on behalf of policyholders
- Dividends withholding 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 any adjustment to tax payable in respect of previous years.

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.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

The amount of deferred tax 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.

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable, being where on the basis of all available evidence it is considered more likely than not that there will be suitable taxable profits against which the reversal of the deferred tax asset can be deducted.

Significant accounting estimate and judgments – uncertain tax positions

The group in the ordinary course of business enters into transactions that expose the group to tax, legal and business risks.

Notes to the financial statements

7.1. Income tax expense

Major components of the tax expense

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Current tax				
Income tax				
Current year	1,801	1,800	2,048	2,035
Prior year adjustments	(27)	(68)	(9)	(66)
Capital gains tax	260	1,336	272	1,405
Dividends withholding tax	153	160	153	160
	2,187	**3,228**	**2,464**	**3,534**
Deferred tax				
Originating and reversing temporary differences - current year	1,432	(37)	1,486	181
Changes in tax rates	-	401	-	401
Prior year adjustments	43	-	19	-
	1,475	**281**	**1,505**	**582**
Total tax expense	**3,662**	**3,509**	**3,969**	**4,116**

Reconciliation of tax rate on profit before tax

	Separate		Consolidated	
	2017 %	2016 %	2017 %	2016 %
Standard rate of tax	28.0	28.0	28.0	28.0
Prior year adjustments				
Shareholders	(0.5)	(1.3)	(0.3)	-
Policyholder	0.4	0.6	0.4	(0.6)
Exempt income	(2.0)	(1.1)	(1.1)	(1.8)
Disallowed expenses (including movement in provisions)	1.7	(0.8)	1.4	(0.7)
Capital gains tax - rates	(1.1)	1.9	(1.1)	1.7
Policyholder tax	7.1	3.3	6.7	5.6
Movement in deferred tax not recognised	-	-	0.7	-
Other	0.2	(0.1)	0.2	(0.3)
Effective tax rate	**33.8**	**30.4**	**34.9**	**31.9**

Notes to the financial statements

7.2. Deferred tax

	Separate		Consolidated	
Deferred tax asset	**2017 R m**	**2016 R m**	**2017 R m**	**2016 R m**
Income tax losses	21	118	117	216
Other	-	383	302	323
Deferred tax asset	**21**	**501**	**419**	**539**
Deferred tax liability				
Capital gains tax - shareholders	(3,397)	(3,042)	(3,403)	(3,044)
Capital gains tax - policyholders	(1,409)	(1,436)	(2,573)	(2,533)
Investment contracts	(351)	(18)	(639)	(18)
Other	(354)	-	(464)	-
	(5,511)	**(4,496)**	**(7,079)**	**(5,595)**
Reconciliation of net deferred tax liability				
At beginning of the year	(3,995)	(3,691)	(5,056)	(4,286)
Income statement charge	(1,475)	(281)	(1,505)	(582)
Other movements	(1)	-	(80)	(165)
Charged to other comprehensive income	(19)	(23)	(19)	(23)
At end of the year	**(5,490)**	**(3,995)**	**(6,660)**	**(5,056)**

Capital Gains Tax

The revised capital gains tax rates were effective on 1 January 2017 for shareholder assets and resulted in an increase of R 400 million in deferred tax liabilities and an increase in the effective tax rate for the company in 2016.

7.3 Tax paid on income

	Separate		Consolidated	
	2017 R m	**2016 R m**	**2017 R m**	**2016 R m**
Tax paid:				
Balance payable at beginning of the year	(1,448)	(526)	(1,475)	(803)
Current tax expense	(2,187)	(3,228)	(2,464)	(3,534)
Balance payable at end of the year	1,169	1,448	1,183	1,475
	(2,466)	**(2,306)**	**(2,756)**	**(2,862)**

Group structure and related parties

Notes to the financial statements

8.1 Investment in principal subsidiaries, joint ventures and associates

	Separate 2017 R m		
	Number of issued ordinary shares	% interest	Carrying value
Unlisted - joint venture			
Old Mutual Guodian Life Insurance Company Ltd	-	50%	2,137
Unlisted - associate			
NMT Capital (Pty) Ltd	150	20%	-
Unlisted - subsidiaries			
Old Mutual Technology Holdings Ltd	11,000	100%	1
Rodina Investments (Pty) Ltd	100,000	100%	22
Community Property Holdings (Pty) Ltd	1,289,889,368	100%	3,100
Old Mutual Alternative Solutions Ltd	45,000,001	100%	98
Old Mutual Health Insurance Ltd	15,000,000	100%	21
Agility Broker Services (Pty) Ltd	50,000	100%	-
Old Mutual Alternative Risk Transfer Ltd	100	100%	77
South Africa Celestis Brokers Services (Pty) Ltd	100	100%	-
Old Mutual Wealth (Pty) Ltd	120	100%	6,440
Old Mutual Real Estate Holding Company (Pty) Ltd	1,223,657,627	100%	13,493
22 Seven Digital (Pty) Ltd	2,541	100%	-
Grand Central Airport (Pty) Ltd	9,000	100%	265
			25,654

	Separate 2016 R m		
	Number of issued ordinary shares	% interest	Carrying value
Unlisted - joint venture			
Old Mutual Guodian Life Insurance Company Ltd	-	50%	1,755
Unlisted - associate			
Real People Investment Holdings Ltd and its subsidiary	85,998	30%	57
NMT Capital (Pty) Ltd	150	20%	-
Unlisted - subsidiaries			
Old Mutual Technology Holdings Ltd	11,000	100%	1
Rodina Investments (Pty) Ltd	100,000	100%	20
Community Property Holdings (Pty) Ltd*	1,108,417,261	100%	2,638
Old Mutual Alternative Solutions Ltd	45,000,001	100%	132
Old Mutual Health Insurance Ltd	15,000,000	100%	21
Agility Broker Services (Pty) Ltd	50,000	100%	-
Old Mutual Alternative Risk Transfer Ltd	100	100%	51
South Africa Celestis Brokers Services (Pty) Ltd	100	100%	-
Old Mutual Wealth (Pty) Ltd	120	100%	6,441
Old Mutual Real Estate Holding Company (Pty) Ltd	843,539,115	100%	12,225
22 Seven Digital (Pty) Ltd	2,541	100%	-
			23,341

Notes to the financial statements

8.1. Investment in principal subsidiaries, joint ventures and associates (continued)

	Country of incorporation	% interest held	Carrying value	Gross share of profit/(loss)
			Consolidated 2017 R m	
Unlisted - associates				
Kabokweni Plaza Shareblock (Pty) Ltd	Republic of South Africa	46%	92	12
Triangle Real Estate India Fund Managers Private Limited	India	50%	5	3
Pioneer Property Zone Private Ltd	India	50%	-	-
Two Rivers Lifestyle Centre Limited	Kenya	50%	516	(24)
Newtown Motor Dealership (Pty) Ltd	Republic of South Africa	50%	96	1
Richmond Park Development Company (Pty) Limited	Republic of South Africa	38%	45	(1)
KDGC (Pty) Limited	Republic of South Africa	50%	1	-
Old Mint (Pty) Limited	Republic of South Africa	50%	1	-
Squarestone Growth LLP	Republic of South Africa	32%	302	11
NMT Capital (Pty) Ltd	Republic of South Africa	20%	-	-
Unlisted - joint venture				
Old Mutual Guodian Life Insurance Company Ltd	Republic of China	50%	1,164	(41)
			2,222	**(39)**

Notes to the financial statements

8.1. Investment in associates, joint ventures and structured entities (continued)

				Consolidated 2016 R m
	Country of incorporation	% interest held	Carrying value	Gross share of profit/(loss)
Unlisted - associates				
Kabokweni Plaza Shareblock (Pty) Ltd	Republic of South Africa	49%	89	9
Real People Investment Holdings Ltd	Republic of South Africa	30%	57	-
Triangle Real Estate India Fund Managers Private Ltd	India	50%	5	-
Pioneer Property Zone Private Ltd	India	50%	-	-
Two Rivers Lifestyle Centre Ltd	Kenya	50%	902	-
Newtown Motor Dealership (Pty) Ltd	Republic of South Africa	50%	54	-
NMT capital (Pty) Ltd	Republic of South Africa	20%	-	-
Unlisted - joint venture				
Old Mutual Guodian Life Insurance Company Ltd	Republic of China	50%	1,005	(41)
			2,112	**(32)**

On 6 October 2017, OMLACSA, through its subsidiaries Old Mutual Real Estate Holding Company (Pty) Ltd (OMREHC) and K2012150042 (South Africa) (Pty) Ltd (K2012), subscribed for 98.9% of Bedford Square Properties (Pty) Ltd and 96.8% of Win Twice Properties (Pty) Ltd, as these two companies own the land and buildings which comprises the Bedford Shopping Centre.

The purchase price of R900 million has been allocated based on a provisional estimate of the fair value of assets acquired and liabilities assumed at the date of acquisition determined in accordance with IFRS 3 'Business Combinations'. The provisional allocation required significant assumptions and it is possible that the preliminary estimates may change materially as the purchase price allocations are finalised. The transaction also includes a contingent consideration payable or receivable, based on turnover and operating income reaching certain milestones within 12 months of acquisition date.

The carrying value of assets and liabilities in OMLACSA's consolidated statement of financial position on acquisition date approximates the fair value of these items determined by the group. The goodwill of R72 million which was recognised on the acquisition, is attributable to expected future synergies and includes the carrying amount of the contingent consideration.

Community Property Holdings (Pty) Ltd and Old Mutual Real Estate Holding Company (Pty) Ltd are property loan stock companies. These types of companies unitise their portfolio of property holdings and the units acquired by investors are hybrid instruments comprising part debt and part equity.

The investment in Two Rivers Lifestyle Centre Ltd was impaired by R282 million.

During the year, Old Mutual Real Estate Holding Company (Pty) Ltd and its subsidiaries acquired the following:
A 37.5% shareholding in Richmond Park Development Company (Pty) Ltd on 9 June 2017.
A 31.87%% shareholding in Squarestone Growth LLP on 1 June 2017.

The shareholding in Real People Investment Holdings Ltd was diluted to 2.53% as a result of a recapitalisation process. As a result, the investment is no longer classified as an associate.

Notes to the financial statements

Structured entities

The group's involvement in structured entities includes:

- Investment funds – the nature of the entity is to manage client funds through the investment in assets, in order to generate fees from managing assets on behalf of third-party investors.
- Investment in unlisted debt and equity investments.

The table below sets out the interest held by the group in unconsolidated entities. The maximum exposure to loss is equal to sum of the carrying amount of the assets held.

	Consolidated 2017 R m	Consolidated 2016 R m
	Investment securities	Investment securities
Pooled investments - Investment funds	109,560	101,137
Other	3,669	3,918
Total	**113,229**	**105,055**

The process for identifying structured entities has been changed in 2017. This resulted in more structured entities being identified and consolidated. The unconsolidated balance of structured entities has also increased. The December 2016 balance has been restated from R16,680 million for Pooled Investments to R101,137 million under the new method. Other balances have been restated from R1,592 million to R3,918 million.

Analysis of capital advances to group undertakings

	Separate and Consolidated	
	2017 R m	2016 R m
Old Mutual Portfolio Holdings (Pty) Ltd	1,897	2,030
Old Mutual Group Holdings (SA) (Pty) Ltd	1,081	1,081
Old Mutual (South Africa) Management Incentive Trust	-	53
Old Mutual Capital Holding (Pty) Ltd	5,841	6,850
	8,819	**10,014**

Of the R5.8 billion due by Old Mutual Capital Holding (Pty) Ltd, R3.9 billion is unsecured but interest is levied at market related rates and have fixed terms of repayment with a last date of repayment of 31 March 2021. The remainder of the amounts due by this fellow subsidiary is unsecured, interest free and have fixed terms of repayment with a final tranche of repayment by 24 December 2018. In arriving at the carrying value of this portion of the loan cash flows are discounted to present value using interest rates applicable to characteristic of similar loans.

The amounts due from Old Mutual Group Holdings (SA) (Pty) Ltd and Old Mutual Portfolio Holdings (Pty) Ltd are unsecured and interest free. The borrowers are in the process of repaying these advances and final repayment is expected during 2018.

The capital advance previously made to the Old Mutual (South Africa) Management Incentive Trust was unsecured, interest free and had no fixed repayment terms.

Notes to the financial statements

8.2. Amounts due (to)/by group companies

	Separate 2017 R m	Separate 2016 R m	Consolidated 2017 R m	Consolidated 2016 R m
Amounts due by group companies	6,019	10,253	4,550	8,884
Amounts due to group companies	(1,100)	(902)	(2,796)	(1,648)
	4,919	**9,351**	**1,754**	**7,236**

Subsidiaries and associates	Separate 2017 R m	Separate 2016 R m	Consolidated 2017 R m	Consolidated 2016 R m
Rodina Investments (Pty) Ltd	(2)	(1)	-	-
Old Mutual Alternative Risk Transfer Ltd	3	2	-	-
South Africa Celestis Brokers Services (Pty) Ltd	(1)	1	-	-
Old Mutual Investment Services (Pty) Ltd	293	563	-	-
Old Mutual Unit Trust Managers (RF) (Pty) Ltd	17	13	-	-
Old Mutual Real Estate Holding Company (Pty) Ltd	588	407	-	-
Masthead (Pty) Ltd	2	2	-	-
Acsis (Pty) Ltd	27	35	-	-
Old Mutual Wealth (Pty) Ltd	515	338	-	-
Old Mutual Alternative Solutions Ltd	2	2	-	-
Real People Home Improvement Finance (RF) (Pty) Ltd	-	591	-	591
22 Seven Digital (Pty) Ltd	8	8	-	-
Old Mutual Technology Holdings (Pty) Ltd	(3)	(1)	-	-
Old Mutual Wealth Services Company (Pty) Ltd	2	7	-	-
Fairheads Bond Managers (Pty) Ltd	14	2	-	-
Grand Central Airport (Pty) Ltd	(1)	1	-	-
Old Mutual International (Guernsey) Ltd	(170)	-	-	-
	1,294	**1,970**	**-**	**591**

The shareholding in Real People Home Improvement Finance (RF) (Pty) Ltd was significantly diluted from 30% to 2% as a result of a recapitalisation exercise. Refer to note 8.1.

Holding companies	Separate 2017 R m	Separate 2016 R m	Consolidated 2017 R m	Consolidated 2016 R m
Old Mutual Emerging Markets Ltd	(135)	(98)	(135)	(98)
Old Mutual Group Holdings (SA) (Pty) Ltd	2,671	6,638	2,464	5,937
Old Mutual plc	101	13	101	13
	2,637	6,553	2,430	5,852
Old Mutual plc - subordinated loan	(70)	(72)	(70)	(72)
	2,567	**6,481**	**2,360**	**5,780**

Notes to the financial statements

8.2. Amounts due (to)/by group companies (continued)

	Separate		Consolidated	
Fellow subsidiaries	**2017 R m**	**2016 R m**	**2017 R m**	**2016 R m**
Old Mutual Property (Pty) Ltd	2	2	2	2
Old Mutual (South Africa) Foundation	27	6	27	6
Old Mutual (Africa) Holdings (Pty) Ltd	240	249	240	249
Old Mutual Capital Holdings (Pty) Ltd	112	316	112	316
Old Mutual International (Guernsey) Ltd	-	(2)	-	(2)
Old Mutual Investment Group (Pty) Ltd	7	(1)	(11)	(14)
Old Mutual Alternative Investments Holdings (Pty) Ltd	108	108	108	108
Royal Skandia Life Assurance Ltd	(58)	30	(58)	30
Old Mutual (South Africa) Share Trust	248	187	248	187
Old Mutual (South Africa) Dividend Access Trust	(620)	(617)	(620)	(617)
Old Mutual Investment Administrators (Pty) Ltd	40	39	40	39
Old Mutual Specialised Finance (Pty) Ltd	21	147	(1,603)	147
Old Mutual Finance (Pty) Ltd	45	48	45	48
Old Mutual Life Assurance Company (Namibia) Ltd	273	198	273	198
Old Mutual Life Holdings (Kenya) Ltd	42	-	42	-
Old Mutual South Africa Broad Based Employee Share Trust	(77)	(69)	(77)	(69)
Old Mutual Black Distributors Trust	33	30	33	30
Old Mutual Education Trust	7	41	7	41
Old Mutual Corporate Real Estate Asset Management (Pty) Ltd	10	9	10	9
K2013236459 South Africa (Pty) Ltd	396	102	396	102
Old Mutual Transaction Services (Pty) Ltd	8	12	8	12
Global Edge Technologies (Pty) Ltd	37	13	37	13
OM Zimbabwe Holdco Ltd	34	22	34	22
Old Mutual Holdings Ltd	42	20	42	20
Old Mutual Insure Ltd	39	15	39	15
Mexico Old Mutual Life S.A. de C. V.	4	10	4	10
Other	63	10	41	(12)
	1,083	925	(581)	890
Old Mutual International (Guernsey) Ltd - subordinated loan	(25)	(25)	(25)	(25)
	1,058	**900**	**(606)**	**865**

The subordinated loan from Old Mutual International (Guernsey) Ltd is unsecured, interest free and may be repaid subject to one day's notice once all the conditions of the subordination agreement have been met.

The amount due by Old Mutual Group Holdings (SA) (Pty) Ltd (a Holding company) is unsecured and interest free. The borrower is in the process of repaying this loan and repayment is expected to occur in 2018.

All other amounts due by or to group companies above are unsecured, interest free and are not subject to fixed terms of repayment.

Notes to the financial statements

8.3. Related party disclosures

The company's immediate holding company is Old Mutual Emerging Markets Ltd, incorporated in South Africa, which holds 100% of the company's ordinary shares. The ultimate holding company is Old Mutual plc, incorporated in the United Kingdom.

The company's principal subsidiaries, joint ventures and associates, together with amounts due by or to them, are listed in notes 8.1 and 8.2.

Other group companies consist of fellow subsidiaries and associates.

	Separate 2017			
	Holding company	Fellow subsidiaries	Subsidiaries	Associates
Income statement				
Interest income	-	2,645	1	-
Dividend income	-	1,006	95	2
Fee income/(expense)	-	(219)	1,271	-
Insurance contract premiums income/(expense)	-	175	-	-
Reinsurance contract premiums income/(expense)	-	11	-	-
Claims and policyholder benefits income/(expense)	-	31	-	-
Statement of financial position				
Cash and short-term securities	-	10,935	-	-
Zero coupon bonds held	-	2,971	-	-
Credit linked notes including interest	-	2,138	-	-
Collateral owing	-	3,366	-	-
Call loans including interest	-	784	-	-
Bonds including interest	-	(4,049)	-	-
Preference shares	-	-	-	62
Statement of changes in equity				
Dividend expense	(6,841)	-	-	-

	Separate 2016			
	Holding company	Fellow subsidiaries	Subsidiaries	Associates
Income statement				
Interest income	-	1,244	11	-
Dividend income	-	1,487	-	3
Fee income/(expense)	-	(327)	834	-
Insurance contract premiums income/(expense)	-	130	-	-
Reinsurance contract premiums income/(expense)	-	10	-	-
Claims and policyholder benefits income/(expense)	-	26	-	-
Statement of financial position				
Cash and short-term securities	-	11,036	-	-
Zero coupon bonds held	-	3,378	-	-
Credit linked notes including interest	-	3,308	-	-
Collateral owing	-	(16,907)	-	-
Call loans including interest	-	10,205	-	-
Bonds including interest	-	1,077	-	-
Preference shares	-	-	-	64
Statement of changes in equity				
Dividend expense	(4,924)	-	-	-

Notes to the financial statements

8.3. Related party disclosures (continued)

	Consolidated 2017			
	Holding company	Fellow subsidiaries	Subsidiaries	Associates
Income statement				
Interest income	-	1,505	-	-
Dividend income	-	1,006	-	2
Fee expense	-	(219)	-	-
Insurance contract premiums income	-	175	-	-
Reinsurance contract premiums income	-	11	-	-
Claims and policyholder benefits income	-	31	-	-
Statement of financial position				
Cash and short-term securities	-	9,854	-	-
Zero coupon bonds held	-	2,971	-	-
Credit linked notes including interest	-	2,138	-	-
Collateral owing	-	3,366	-	-
Call loans including interest	-	784	-	-
Bonds including interest	-	(4,049)	-	-
Statement of changes in equity				
Dividend expense	(6,841)	-	-	-

	Consolidated 2016			
	Holding company	Fellow subsidiaries	Subsidiaries	Associates
Income statement				
Interest income	-	352	-	-
Dividend income	-	897	-	3
Fee expense	-	(327)	-	-
Insurance contract premiums income	-	130	-	-
Reinsurance contract premiums income	-	10	-	-
Claims and policyholder benefits income	-	26	-	-
Statement of financial position				
Cash and short-term securities	-	11,358	-	-
Zero coupon bonds held	-	3,378	-	-
Credit linked notes including interest	-	3,308	-	-
Collateral owing	-	(16,907)	-	-
Call loans including interest	-	10,205	-	-
Bonds including interest	-	1,077	-	-
Statement of changes in equity				
Dividend expense	(4,924)	-	-	-

At 31 December 2017 government and corporate bonds with a fair value of R685 million (2016: R13 003 million) including interest and equities with a fair value of R820 million (2016: R3 129 million) had been lent to Old Mutual Specialised Finance (Pty) Ltd.

Included in the Statement of Financial Position is R1,634 million (2016: R16,907 million) collateral owing to Old Mutual Specialised Finance (Pty) Ltd.

Included in dividend income from associates above, is R2 million of preference share dividends received from NMT Capital (Pty) Ltd. The Company has invested in preference shares to the value of R62 million in NMT Capital. The Company has also invested in ordinary and preference share capital of NMT Group (Pty Ltd) of R142 milion, and the preference share capital of Amabubesi Capital Travelling (Pty) Ltd of R18 million, RZT Zeply 4971 (Pty) Ltd of R13 million, RZT Zeply 4973 (Pty) Ltd of R13 million and STS Capital (Pty) Ltd of R13 million, all of which are considered to be related parties of NMT Capital (Pty) Ltd. Preference share dividends totalling R8 million was received by the Company in the year under review.

Notes to the financial statements

8.3. Related party disclosures (continued)

Directors emoluments

R'000

2017	Fees	Salary	Bonus	Retirement and other benefits	Total excluding share-based payments	IFRS 2 fair value of unvested shares at year end owed to director	Number of shares vested	Class of share	Exercise price paid by director for share options exercised
R T Mupita	-	471	-	453	924	-	-	-	-
I G Williamson	-	3,611	2,887	1,264	7,762	8,674	56,627	Ordinary	-
B M Rapiya	1,305	-	-	-	1,305	-	-	-	-
D Macready	-	4,054	6,741	860	11,655	15,599	-	Ordinary	-
P D de Beyer	3,780	-	-	-	3,780	-	-	-	-
N T Moholi	1,979	-	-	-	1,979	-	-	-	-
C W N Molope	1,761	-	-	-	1,761	-	-	-	-
TM Mokgosi-Mwantembe	272	-	-	-	272	-	-	-	-
IS Sehoole	343	-	-	-	343	-	-	-	-
PC Baloyi	1,197	-	-	-	1,197	-	-	-	-
AK Essien	1,136	-	-	-	1,136	-	-	-	-
I Kgaboesele	573	-	-	-	573	-	-	-	-
JR Lister	292	-	-	-	292	-	-	-	-
S Magwentshu-Rensburg	272	-	-	-	272	-	-	-	-
T Manuel	7,167	-	-	-	7,167	-	-	-	-
P G M Truyens	2,477	-	-	-	2,477	-	-	-	-
PM Moyo	-	6,213	9,966	448	16,627	3,881	-	Ordinary	-
M G Ilsley	-	705	-	45	750	1,574	-	Ordinary	-
	22,554	**15,054**	**19,594**	**3,070**	**60,272**	**29,728**	**56,627**		**-**

2016	Fees	Salary	Bonus	Retirement and other benefits	Total excluding share-based payments	IFRS 2 fair value of unvested shares at year end owed to director	Number of shares vested	Class of share	Exercise price paid by director for share options exercised
R T Mupita	-	5,812	-	288	6,100	15,781	184,068	Ordinary	-
I G Williamson	-	3,437	2,829	170	6,436	5,344	73,595	Ordinary	-
B M Rapiya	134	1,699	-	107	1,940	-	225,484	Ordinary	3,112
D Macready	-	4,502	6,733	225	11,460	7,047	-	Ordinary	-
P D de Beyer	2,796	-	-	-	2,796	-	-	-	-
N T Moholi	1,731	-	-	-	1,731	-	-	-	-
C W N Molope	1,714	-	-	-	1,714	-	-	-	-
P G M Truyens	2,461	-	-	-	2,461	-	-	-	-
	8,836	**15,450**	**9,562**	**790**	**34,638**	**28,172**	**483,147**		**3,112**

Notes to the financial statements

8.3. Related party disclosures (continued)

2017

Bonus awards to Mr M P Moyo and Mr I G Williamson in respect of Old Mutual are made up of an award of restricted shares of 40% and a cash component of 60%. Mr D Macready's bonus award is paid all in cash.

The 2017 emoluments of Mr M P Moyo include income earned as an Executive Director of NMT Capital (Pty) Ltd, an associate of the company, until May 2017. Mr M P Moyo became a Non-executive Director of NMT Capital following his appointment as Chief Executive Officer of the company and does not receive any fees in this regard.

Bonuses disclosed are the cash component of the total variable pay. The restricted share awards granted as part of the incentive arrangements are retained until the third anniversary of the award date provided the directors remain employed by the group until the third anniversary of the award date. There are no corporate performance targets applicable to these restricted shares.

2016

The bonus award to Mr I G Williamson is made up of an award in restricted shares, of 40% and a cash component of 60%. Mr D Macready's bonus award is paid all in cash.

The bonus disclosed is the cash component of the variable pay. The restricted share awards granted as part of the incentive arrangements are retained until the third anniversary of the award date provided the directors remain employed by the group until the third anniversary of the award date. There are no corporate performance targets applicable to these restricted shares.

Other financial disclosures

Notes to the financial statements

9.1. Other assets

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Accrued interest on cash collateral	1,147	1,033	1,147	1,033
Other accrued interest and rent	1,948	2,121	1,970	2,155
Outstanding settlements	4,496	2,104	6,582	3,574
Prepayments	1,280	202	1,294	187
Other	2,342	1,094	3,432	2,222
	11,213	**6,554**	**14,425**	**9,171**

The December 2016 consolidated balance for Outstanding settlements included an amount of R2,007 million which should have been set off against an Outstanding settlement liability as the asset and liability were settled simultaneuosly. The asset and liability were set off on the Statement of financial position.

9.2 Cash and cash equivalents

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Bank balances	8,204	6,841	16,703	15,848
Collateral held	4,177	18,242	4,177	18,242
	12,381	**25,083**	**20,880**	**34,090**

The carrying value of other assets approximates fair value.

9.3. Other liabilities

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Amounts owed to policyholders	3,261	3,559	3,501	3,569
Amounts owed to intermediaries	387	373	391	374
Accruals	1,362	916	1,545	1,021
Outstanding settlements	4,760	3,048	8,461	6,560
Other	456	1,118	1,174	2,135
	10,226	**9,014**	**15,072**	**13,659**

The December 2016 consolidated balances for Outstanding settlements included an amount of R2,007 million which should have been set off against an Outstanding settlement asset as the asset and liability were settled simultaneuosly. The asset and liability were set off on the Statement of financial position.

Notes to the financial statements

9.4. Non-current assets held for sale

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Investment property				
Old Mutual Head Office on Stella Road	384	701	384	701
Portfolio of properties owned by the company	-	767	-	767
Mutual Square	200	-	200	-
Portfolio of properties owned by Community Property Company (Pty) Ltd	-	-	-	229
Sugarmill land	-	-	93	
Subsidiary				
Grand Central Airport (Pty) Ltd	-	265	-	265
Associate				
UAP Holdings Ltd	636	877	636	877
	1,220	**2,610**	**1,313**	**2,839**

Old Mutual completed the development of a head office in Sandton on a portion of an erf on Stella Road in 2017. A sale agreement is in place for an undeveloped portion of an erf at Stella Road and transfer is expected to occur within the following year. This erf, valued at R384 million, was classified as Non-current asset held for sale at 31 December 2017. Another erf on Stella Road which was classified as Non-current asset held for sale at 31 December 2016 has been transferred to Investment property, at a carrying value of R473m, as it is no longer likely that the erf will be sold within the next year.

On completion of the development on Stella Road, operations previously housed in Mutual Square were transferred to Stella Road. The old head office at Mutual Square is in the process of being sold and has been classified as Non current asset held for sale.

Grand Central Airport (Pty) Ltd was acquired in the prior year with the intention of disposing it with other investment property included in the portfolio and was therefore held as Non-current assets held for sale at the 31 December 2016. The sale was not completed during 2017 and the company has been transferred out of Non-current assets held for sale.

It is intended that the investment in UAP Holdings Ltd, which is incorporated in Kenya, is to be sold to Old Mutual Kenya Holdings Ltd within the following year. The company is awaiting regulatory approval to dispose of the investment.

During 2017 Community Property Company (Pty) Ltd completed the disposal of the properties they had agreed to sell to the Public Investment Corporation.

K2012150042 (South Africa) (Pty) Ltd is in the process of disposing of Sugarmill, a piece of land that it owns.

All items are categorised into level 3 of the fair value hierarchy. Refer to note 4.1 for information regarding valuation techniques used in the determination of fair values for investment property. The investment in UAP Holdings Ltd has been measured at fair value using a discounted cash flow valuation that takes into account the recent over-the-counter transactions of this share.

Notes to the financial statements

9.5. Share capital and premium and reserves

	Separate and Consolidated	
	2017 R m	2016 R m
Authorised share capital		
10 000 000 ordinary shares of R1 each	10	10
10 redeemable preference shares of R1 each	-	-
	10	**10**
Issued share capital and premium		
8 000 001 ordinary shares	8	8
1 redeemable preference share of R1	-	-
Share premium	6,415	6,415
	6,423	**6,423**

Subject to the restrictions imposed by the Companies Act of South Africa, as amended, the unissued shares are under the control of the directors, until the forthcoming annual general meeting.

The preference share may be redeemed by the company by giving 30 days written notice to the holder. The preference shareholder has the right to receive a dividend of R100 per share or an additional amount at the discretion of the company's directors. The preference shareholder has full voting rights.

Reserves comprise:

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Retained earnings	44,403	43,961	37,433	36,830
Property revaluation reserve	73	159	73	159
Currency translation reserve	20	43	51	48
	44,496	**44,163**	**37,557**	**37,037**

Notes to the financial statements

9.6. Notes to the statement of cash flows

	Separate		Consolidated	
	2017 R m	**2016 R m**	**2017 R m**	**2016 R m**
Cash used in operations				
Profit before tax	10,850	11,523	11,371	12,886
Adjustments for non-cash movements included in profit				
Depreciation and amortisation	251	228	254	231
Dividend income	(5,351)	(6,802)	(6,505)	(7,269)
Interest income	(20,548)	(18,238)	(22,220)	(19,914)
Interest expense	1,696	1,588	2,299	2,179
Net fair value gains	(41,970)	(8,173)	(52,771)	(8,998)
Movements in policyholder liabilities	42,985	5,177	41,498	3,734
Share-based payments charge	43	(164)	43	(164)
Charges to provisions and post employment benefits obligations	(266)	(978)	(267)	(1,018)
Fair value adjustment on the non-current assets held for sale	241	-	241	-
Changes in working capital				
Deferred acquisition costs	(202)	(53)	(248)	(168)
Deferred revenue on investment contracts	116	(15)	192	84
Loans and advances	13	8	13	8
Other assets	(4,659)	567	(5,254)	5,936
Other liabilities	1,212	95	1,413	(2,869)
Re-insurance contracts	317	(9)	219	(91)
Net movement in loans to/from group companies	4,432	(1,291)	5,482	(1,122)
Collateral owing	(17,845)	11,181	(17,845)	11,181
	(28,685)	**(5,356)**	**(42,085)**	**(5,374)**

Notes to the financial statements

9.7. Provisions

	Charitable donations	Provision for enhanced benefits	Provision for claw-back of prescribed claims	Other provisions	Separate 2017 R m Total
Opening balance	757	174	218	313	1,462
Transfer to other liabilities	-	-	-	(93)	(93)
Utilised or reversed during the year	(110)	-	(23)	(130)	(263)
Investment return and repayments	70	-	-	-	70
Charge	-	4	-	86	90
	717	**178**	**195**	**176**	**1,266**

	Charitable donations	Provision for enhanced benefits	Provision for claw-back of prescribed claims	Other provisions	Separate 2016 R m Total
Opening balance	978	352	274	753	2,357
Transfer to other liabilities	-	-	-	(237)	(237)
Utilised or reversed during the year	(278)	(178)	(56)	(196)	(708)
Investment return and repayments	57	-	-	-	57
Charge	-	-	-	(7)	(7)
	757	**174**	**218**	**313**	**1,462**

	Charitable donations	Provision for enhanced benefits	Provision for claw-back of prescribed claims	Other provisions	Consolidated 2017 R m Total
Opening balance	757	174	218	347	1,496
Transfer to other liabilities	-	-	-	(93)	(93)
Utilised or reversed during the year	(110)	-	(23)	(131)	(264)
Investment return and repayments	70	-	-	-	70
Charge	-	4	-	86	90
	717	**178**	**195**	**209**	**1,299**

Notes to the financial statements

9.7. Provisions (continued)

	Charitable donations	Provision for enhanced benefits	Provision for claw-back of prescribed claims	Other provisions	Consolidated 2016 R m Total
Opening balance	978	352	274	827	2,431
Transfer from other liabilities	-	-	-	(237)	(237)
Utilised or reversed during the year	(278)	(178)	(56)	(168)	(680)
Investment return and repayments	57	-	-	-	57
Charge	-	-	-	(75)	(75)
	757	**174**	**218**	**347**	**1,496**

Charitable donations

This provision relates to obligations of the group in connection with the closure of the Old Mutual South Africa Unclaimed Shares Trust in 2006. An agreement was entered into in 2006 in terms of which the group will provide donations to the Masisizane Fund, which has been set up as a charitable organisation for the enhancement of good causes.

Provision for enhanced benefits

This provision is held in respect of obligations which have arisen as a result of changes in legislation and updated interpretations of existing legislation impacting the life insurance industry.

Provision for claw-back of prescribed claims

This provision is held to allow for the possible future payment of claims that have been previously reversed. Due to the nature of the provision, the timing of the expected cash outflows are uncertain. Estimates are reviewed annually and adjusted, as appropriate, for new circumstances.

Other provisions

Other provisions includes provisions for items such as restructuring, administration related and legal claims. The timing of resolution of these claims is uncertain and it is expected that most of these provisions will be utilised over a number of years from the reporting date.

Notes to the financial statements

9.8. Intangible assets

	Separate		Consolidated	
	2017 R m	2016 R m	2017 R m	2016 R m
Carrying amount at beginning of the year	606	184	692	271
Additions	554	447	648	447
Amortisation	(24)	(25)	(25)	(26)
Disposals	(14)	-	(14)	-
Acquisition of subsidiary	-	-	72	-
Carrying amount at end of the year	**1,122**	**606**	**1,373**	**692**
Cost	1,630	1,090	1,899	1,190
Accumulated amortisation and impairment loss	(508)	(484)	(526)	(498)
Carrying amount at end of the year	**1,122**	**606**	**1,373**	**692**

Intangible assets in the separate accounts consist of developmental expenditure. In the consolidated accounts, the balance of intangibles includes developmental expenditure of R1,182 million and goodwill of R191 million.

Intangible assets are measured at cost on initial recognition. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets include software which has been internally generated and goodwill.

The cost of intangible assets includes the directly attributable costs necessary to acquire, develop and complete the asset to be able to operate as intended by management. Subsequent expenditure on intangible assets is expensed, unless probable that the expenditure will result in future economic benefits being received by the group and the cost can be measured reliably.

Intangible assets are amortised over their useful life on a straight-line basis. The amortisation period, residual values and the amortisation method are reviewed at each reporting date. Changes in expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates.

Research costs are expensed as incurred. An intangible asset arising from development expenditure is recognised only when the group meets the following recognition criteria: demonstration of the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development.

The carrying value of intangible assets is reviewed for indicators of impairment annually. If indicators of impairment exist, the particular asset is tested for impairment. An intangible asset that is not yet available for use or has an indefinite useful life are tested for impairment on an annual basis.

Notes to the financial statements

9.9. Contingencies and commitments

Commitments

The group entered into several contracts with an estimated value of R451 million relating to external technology service providers to procure various services and IT Software products and solutions.

Commitments relating to investment properties have been made totalling R90 million for the company and R1,176 million for the group.

The group entered into agreements where it has committed to provide capital to funds and partnerships that it has invested in. The total undrawn commitment is R7,792 million at 31 December 2017.

Collateral

Guarantees and assets pledged as collateral security

The group encumbered its investment in N3TC in favour of a group of funders (including commercial banks and financial institutions) as security for financing issued in the year to the value of R335 million.

Old Mutual Real Estate Holding Company (Pty) Ltd and K201250042 (Pty) Ltd have provided back-to-back corporate guarantees for the loan of OMP Africa Holdco (Pty) Ltd to the value of $100 million or R2,200 million. The guarantee becomes payable on default of the loan. In the event of default, the lender may demand payment from Old Mutual Real Estate Holding Company (Pty) Ltd first, and should they fail to make payment, the lender may demand payment from K201250042 (Pty) Ltd. At 31 December 2017, OMP Africa Holdco (pty) Ltd had drawn R870m on their facility.

Assets are pledged as collateral under repurchase agreements with other financial institutions. The group enters into derivative instruments such as option contracts, interest rate swap agreements and other financial agreements in the normal course of business.

The group has evaluated the extent of the possibility of the guarantees being called on and has provided appropriately.

Other uncertainties

Consumer protection

The group is committed to treating customers fairly and supporting its customers in meeting their lifetime goals and treating customers fairly is central to how our businesses operate. We routinely engage with customers and regulators to ensure that we meet this commitment, but there is the risk of regulatory intervention across various jurisdictions, giving rise to the potential for customer redress which can result in retrospective changes to policyholder benefits, penalties or fines. The possible financial effect (amount and timing of possible cash flows) of future regulatory changes or actions cannot be reliably determined at the reporting date.

Uncertain tax positions

The Revenue authorities in the jurisdictions in which the group operates routinely review historic transactions undertaken and tax law interpretations made by the group. The group is committed to conducting its tax affairs in accordance with the tax legislation of the jurisdictions in which they operate. All interpretations made by management are made with reference to the specific facts and circumstances of the transaction and the relevant legislation.

There are occasions where the group's interpretation of tax law may be challenged by the Revenue authorities. The financial statements include provisions that reflect the group's assessment of liabilities which might reasonably be expected to materialise as part of their review. The board is satisfied that adequate provisions have been made to cater for the resolution of known tax uncertainties and that the resources required to fund such potential settlements are sufficient. Uncertain tax positions unknown to the company and group at year-end could result in higher or lower tax payments in the future.

Due to the level of estimation required in determining tax provisions amounts eventually payable may differ from the provision recognised.

Implications of the Old Mutual Group Managed Separation strategy

The group routinely monitors and reassesses contingent liabilities arising from matters such as litigation, and warranties and indemnities relating to past acquisitions and disposals. The adoption of the Managed Separation strategy on 11 March 2016 does not affect the nature of such items; however it is possible that the group may seek to resolve certain matters as part of the implementation of the Managed Separation strategy.

Notes to the financial statements

9.10. Events after the reporting period

The company is obligated to provide post-employment benefits in the form of medical aid contributions to existing employees and pensioners. During a previous financial period the company entered into an insurance policy issued by the MMI Holdings Ltd group of companies ('MMI') to fund the obligation. In turn MMI reinsured some of the insurance risks with the company. Due to the nature of the insurance policy issued by MMI, the insurance policy is treated as a qualifying insurance policy and included in the plan assets of the company. At 31 December 2017 the surplus asset held in the post-retirement medical aid fund was approximately R 664m (consisting of plan assets of R 2 010m and an obligation of R 1 346m).

The company has been negotiating with MMI the transfer of the qualifying insurance policy and related policyholder assets to Old Mutual Alternative Risk Transfer Ltd ('OMART'), a 100% subsidiary of the company. An agreement was reached and the effective date of the transfer was on the 31st of January 2018. The accounting treatment and disclosure in the company and consolidated financial statements for the financial year ended 31 December 2017 were left unchanged from previous financial periods.

In the financial statements for the financial year ending 31 December 2018 the insurance policy will not qualify as a qualifying insurance policy. The change in the classification of the insurance policy will result in the insurance policy and post-retirement medical aid obligation being disclosed as separate items on the balance sheet of the company. In the consolidated financial statements for the financial period ending 31 December 2018 the insurance and reinsurance policies between the company and OMART will be eliminated resulting in the consolidated balance sheet and income statement reflecting the obligation to employees and pensioners as well as the assets held by OMART to back the policyholder liability to the company.

10.1 New and amended standards adopted

The company has adopted the following standards and amendments for the first time in their annual reporting period commencing 1 January 2017:

Amendments to IAS 12 *Income Taxes*

The amendment clarified the recognition requirements of deferred tax assets for unrealised losses on debt instruments measured at fair value. The amendment did not have a significant impact on the financial statements.

Amendments to IAS 7 *Statement of Cash Flows*

The amendments required additional disclosure in relation to liabilities arising from financing activities. The amendments did not have a significant impact on the financial statements.

Amendments to IFRS 12 *Disclosure of Interests in other entities*

The amendment clarifies the scope of IFRS 12 with respect to interests in entities classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.* The amendments did not have a significant impact on the financial statements.

10.2 New standards and interpretations not yet adopted

At the date of authorisation of these financial statements, the following standards and amendments to standards which are relevant to the group have been issued by the International Accounting Standards Board (IASB). The group will apply the standards and amendments on the relevant effective dates.

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 for financial years commencing on or after 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 (FVTOCI). These elements of the final standard, and a description of the expected impact on the group's statement of financial position and performance, are discussed in detail below.

The group will implement IFRS 9 with effect from 1 January 2018, with the impact of the cumulative adjustment reflected as an adjustment to opening retained income.

10.2 New standards and interpretations not yet adopted (continued)

(a) Classification and measurement

All financial assets under IFRS 9 are to be initially recognised at fair value, including directly attributable transactions costs (for financial assets not measured at fair value through profit or loss).

Financial assets are to be classified based on (i) the business model within which the financial assets are managed and (ii) the contractual cash flow characteristics of the financial assets (whether the cash flows represent 'solely payment 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'). Financial assets are measured at fair value through other comprehensive income 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'). Movements in the carrying amount of these financial assets should be taken through 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.

Other financial assets are measured at 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 and 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.

The group currently designates certain fixed-rate assets and liabilities, which are economically hedged through interest rate swaps, at FVTPL. This option remains available under IFRS 9. The group did not adopt the revised hedge accounting principles in IFRS 9 and will continue to apply hedge accounting principles in IAS 39 while the IASB's macro-hedge accounting project continues.

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 either (i) profit or loss (FVTPL); or (ii) other comprehensive income (FVOCI). 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.

Based on the assessment of financial assets at 31 December 2016, the group does not expect the impact of the changes to classification and measurement of financial assets to be significant to the group's statement of financial position and performance.

(b) Impairment

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 FVTOCI, lease receivables and certain loan commitments as well as financial guarantee contracts.

Notes to the financial statements

10.2 New standards and interpretations not yet adopted (continued)

The IFRS 9 Impairment Implementation continued to progress during 2017. The following were the main areas of focus for 2017:

- Development, build and testing of models with respect to a substantial portion of the group's portfolios, leveraging off the aforementioned IT framework;
- Finalisation of the reporting and disclosure framework, and completion of the supporting business rules; and
- Documentation and implementation of the relevant control environment and related governance processes.

The group has estimated that the impact of adopting IFRS 9's ECL model on the group's opening retained income at 1 January 2018 and is not material.

Cumulative impact on the equity of the group on transition to IFRS 9

The group has estimated that the net impact of adopting IFRS 9 is a transitional after-tax impact on the group's opening retained income at 1 January 2018, and is not material.

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 to be 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. The standard also specifies how to account for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Some of the key areas considered during the implementation project are the following:

- Whether the group is acting as principal or agent with regards to advisor fees or commission income

If the group is acting as a principal, any financial advice fees or commission income are recognised as revenue and the amount payable to the financial advisor is recognised as an expense. If the group is acting as an agent, any fee income related to acting as an agent will be recognised as the service is rendered (i.e. no separate revenue and expense will be recognised, only the net fee or commission income).

- Accounting treatment of fees received at the commencement of the contract with the customer

The recognition of fees, received at the commencement of the contracts, as revenue should be deferred and recognised as and when the performance obligation(s) are satisfied.

- Whether contracts with customers include significant finance components

Where a significant finance component is included in a contract with a customer, the promised amount of consideration should be adjusted for the effects of a significant financing component. In instances where fees are received in advance a significant finance component could exist.

- Accounting treatment of variable fees or commission income

Variable revenue is included in the transaction price only if highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Fee revenue that takes into account the performance of the underlying assets or business could be subject to recognition and measurement uncertainties.

- Significant new disclosures

The standard requires additional disclosures to be provided.

The group has estimated that the impact of adopting IFRS 15 on the group's opening retained income at 1 January 2018 is not material.

Notes to the financial statements

10.2 New standards and interpretations not yet adopted (continued)

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.

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 and 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 will be used.

IFRS 17 Insurance Contracts

The IASB issued IFRS 17 in May 2017 as a replacement for the IFRS 4 Insurance Contracts.

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.

11.1 Group accounting

In the company financial statements the company’s investments in its subsidiaries, associates and joint arrangement companies are accounted for as financial assets through profit and loss and carried at fair value.

Consolidation procedures

The financial statements include 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 commencement of control or up to the date of disposal.

For subsidiaries acquired that are under common control, the company recognises the difference between the consideration transferred and the net asset value of the subsidiaries acquired as previously recognised by the transferring entity.

Intra-group balances and transactions, income and expenses and all profits and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are only eliminated to the extent that there is no evidence of impairment.

Subsidiaries

Subsidiary undertakings are those entities 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.

Where the group acts as a fund manager to a number of investment funds determining whether the group controls such an investment usually focuses on the assessment of decision making rights as a fund manager, the investor's rights to remove the fund manager and the aggregate economic interests of the group in the fund in the form of interest held and exposure to variable returns. Discretion is exercised when decisions regarding the relevant activities of these funds are being made. For funds managed by the group where the investors have the right to remove the group as fund manager without cause, the fees earned by the group, are considered to be market related. These agreements include only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's-length basis. The group has concluded that it acts as agent on behalf of the investors in all instances. The group is considered to be acting as principal where the group is the fund manager and is able to make investment decisions on behalf of the unit holders to earn a variable fee, and there are no or weak kick out rights that would remove the group as fund manager.

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

Notes to the financial statements

11.1 Group accounting (continued)

The assets of consolidated funds are accounted for in accordance with the appropriate accounting policies for the assets in question. The interest of investors from outside the group in these funds are reported as a financial liability in the statement of financial position as, 'Third-party interests in consolidated funds'. As stated in note 3.3.6, 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.

Associates and Joint Ventures

An associate is an 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. This is generally demonstrated by the group holding in excess of 20%, but less than 50%, of the voting rights. All the other factors, contractual or otherwise, are assessed in determining whether the group has the ability to exercise significant influence.

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 unanimous consent of the parties sharing control.

The results, assets and liabilities of associates and joint ventures are incorporated in the consolidated 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. Dividends declared by associates and joint ventures reduce the carrying value of the equity accounted investments in associates and joint ventures.

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. For the period of time that an investment in an associate is classified as held for sale, equity accounting ceases until the investment is sold or the classification is no longer applicable. Investments in associates held by policyholder investment-linked insurance funds are accounted for as financial assets fair valued through profit or loss.

Step acquisition of investments in associates and joint ventures is accounted for by measuring the previously held interest and the consideration paid for the additional interest at fair value. The fair value adjustment on the previously held interest is recognised in profit or loss.

11.2 Foreign currency translation

Foreign currency transactions and balances other than in respect of foreign operations

Transactions in foreign currencies are converted into South African Rands, the group's 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 of monetary items during the period of foreign currency assets and liabilities are recognised in profit or 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 or loss if the changes in fair value of the non-monetary item are recognised in profit or loss.

Translation foreign operations

The assets and liabilities of foreign operations are translated from their respective functional currencies into the group's presentation currency (South African Rands) using the year-end exchange rates, and their income and expenses using the average exchange rates for the year. Cumulative exchange differences from translation of functional currencies to the presentation currency are included as a separate component of shareholders' equity in the foreign currency translation reserve. Upon the disposal of a foreign operation, the cumulative amount of exchange differences deferred in shareholders' equity is recognised in profit or loss.

Notes to the financial statements

11.3 Impairment of non-financial assets

The recoverable amount of non-financial assets (other than financial assets, deferred tax assets and investment properties) is the greater of the fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised whenever the carrying amount of the asset exceeds its recoverable amount. Impairment losses are recognised in the income statement. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss will not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior years.

11.4 Comparative figures

Where appropriate comparative figures are reclassified in line with current year presentation. Details are shown in the appropriate section.

In the current year, deferred acquisition costs that were previously offset against deferred revenue on investment contracts have been reclassified into the deferred acquisition costs line in the statement of financial position. Comparatives have been restated.

11.5 Dividend distribution

Dividend distributions to the group's shareholders are recognised in the period in which the dividend distribution is authorised and approved by the group's shareholders.

11.7 Revenue

Revenue comprises premium income from insurance contracts (net of outward reinsurance premiums) and investment contracts with discretionary participating features, fee income from investment management service contracts, commission income and investment income (excluding investment losses). Revenue is accounted for in accordance with the following accounting policies.

Premiums receivable under insurance contracts and investment contracts with a discretionary participating feature are stated gross of commission, and exclude taxes and levies. Premiums are recognised when due for payment.

Outward reinsurance premiums are recognised when due for payment.

Fees charged for investment management services provided in conjunction with an investment contract are recognised as income in the income statement 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 periods between 5 and 10 years as the services are rendered.

Commission income is accounted for on an earned basis.

Dividend income is recognised in full on the ex-dividend date as investment income. Dividends from certain redeemable preference shares are recognised as income on a time proportion basis, taking account of the principal outstanding and the effective rate over the period to maturity, when it is probable such income will accrue to the group.

11.9 Share capital

Ordinary and preference share capital are classified as equity if they are non-redeemable by the holder, and if dividends are discretionary. Coupon payments on preference share equity instruments are recognised as distributions within equity.

11.10 Non-current assets held-for-sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held-for-sale or held-for-distribution and subsequent gains and losses on remeasurement are recognised in profit or loss. Once classified as held-for-sale, intangible assets and property and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

Notes to the financial statements

11.11 Cash and cash equivalents

Cash and cash equivalents comprises balances with banks and are carried at amortised cost. 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 through consolidation of funds. It excludes cash balances held in policyholder investment portfolios. Cash balances include cash collateral held.

11.12 Classification of current and non-current assets and liabilities

An asset is classified as current if the group expects to realise it within the twelve months after the reporting date, or it is held for trading. Cash and cash equivalent are classified as current. All other assets are classified as non-current. A liability is classified as current if the group expects to settle its obligation within twelve months after reporting date, or the liability is held for the purpose of trading. A liability is also classified as current if the group does not have an unconditional right to defer settlement of the liability for at least twelve months after reporting date. All other liabilities are classified as non-current.

12. Statutory capital adequacy requirements (CAR)

The CAR has been calculated in accordance with SAP 104 issued by the Actuarial Society of South Africa and Board Notice 14 of 2010 issued by the FSB. These provide a buffer against future experience being worse than assumed in the statutory valuation method (as calculated in accordance with SAP104 and Board Notice 14 of 2010).

The CAR is the greater of two calculations, viz. the Ordinary Capital Adequacy Requirement (OCAR*) and the Termination Capital Adequacy Requirement (TCAR*), which are calculated as follows:

- The TCAR ensures that a long-term insurer is in a position to survive a very selective "run-on-the-bank" scenario, and requires that the insurer holds capital equal to the amount by which excess assets would drop on the immediate termination (lapse or surrender) of all policies with a statutory liability less than the benefit amount payable on immediate termination.

- The OCAR formula comprises a factor-based approach that isolates each major risk category and establishes what capital needs to be held in respect of that risk. The results are summed with an adjustment ("summing and squaring" approach) to allow for diversification between the risks. The OCAR also allows for the effect of a fall in the fair value of the assets backing it as well as any credit risk associated with these assets (this is referred to as the "grossing up factor").

At 31 December 2017, the TCAR exceeded the OCAR, and thus the capital adequacy requirements have been based on the OCAR.

(* As defined by SAP 104)

The investment resilience is the single most significant component of the company's OCAR. The calculation of this component is based on the adverse investment scenario specified in SAP 104 occurring at the valuation date, offset by the management actions assumed to be taken by the company to reduce policy liabilities under these circumstances. The investment scenario includes assuming a 30% decline in equity values, a 20% decline in foreign currency denominated assets other than equities, a 15% decline in property values and a 25% relative increase or decrease in fixed-interest yields to maturity and in real yields to maturity on inflation-linked bonds. The management action that is assumed to be taken is the minimum that the company would be willing to take under such conditions, and in assuming this action, the company does not limit itself to only taking this action under such circumstances.

The board has approved the management actions that would be taken in adverse investment conditions. These include reducing surrender values in accordance with underlying asset values, reducing interim bonuses (if necessary to zero), declaring low or, if necessary, negative bonuses, and if the circumstances warrant it, removing part or all of non-vested balances. In addition, the board has also approved that a portion of the discretionary margins in the valuation basis would be released in the calculation of both the OCAR (under adverse investment conditions) and TCAR (under adverse termination experience). The nature and extent of the action that would be taken will depend on the severity of the decline in asset values and the circumstances at that time.

Notes to the financial statements

12. Statutory capital adequacy requirements (continued)

The offsetting management actions that are assumed in calculating the OCAR vary depending on circumstances at the valuation date. The following management actions have been assumed in calculating the OCAR as at 31 December 2017, if asset values had declined as specified as at 31 December 2017, and had not subsequently recovered:

- A negative bonus of 6.0% followed by future bonus rates reduced by 4.1% per year in each of the following three years for Absolute Smoothed Growth and Absolute Stable Growth products.
- Future bonus rates would have been reduced by 3.4% per year in each of the following three years for Personal Finance and Wealth and Investment smoothed bonus products.
- Future bonus rates would have been reduced by 4.6% per year in each of the following three years for Mass and Foundation Cluster products.
- Future bonus rates would have been reduced by 2.9% per year in each of the following three years for products which only have vested bonuses (excluding with-profit annuities).
- Future bonus rates would have been reduced by 1.6% per year in each of the following three years for with-profit annuities (excluding Platinum 1999 and Platinum 2003).
- Future bonus rates would have been reduced by 1.6% per year in each of the following three years for Platinum 1999 with-profit annuities.
- Future bonus rates would have been reduced by 2.2% per year in each of the following three years for Platinum 2003 with-profit annuities.
- A removal of non-vested bonuses of up to 6.0% of fund value for the Guaranteed Fund, followed by future bonus rates reduced by 3.4% per year in each of the following three years for Old Mutual Corporate pre-retirement smoothed bonus products.

For 31 December 2016 the following management actions were assumed, if assets had declined and subsequently not recovered:

- A negative bonus of 6.0% followed by future bonus rates reduced by 4.9% per year in each of the following three years for Absolute Smoothed Growth and Absolute Stable Growth products.
- Future bonus rates would have been reduced by 3.4% per year in each of the following three years for Personal Finance and Wealth and Investment smoothed bonus products.
- Future bonus rates would have been reduced by 4.9% per year in each of the following three years for Mass and Foundation cluster smoothed bonus products.
- Future bonus rates would have been reduced by 3.2% per year in each of the following three years for products which only have vested bonuses (excluding with-profit annuities).
- Future bonus rates would have been reduced by 1.1% per year in each of the following three years for with-profit annuities (excluding Platinum 1999 and Platinum 2003).
- Future bonus rates would have been reduced by 1.4% per year in each of the following three years for Platinum 1999 with-profit annuities
- Future bonus rates would have been reduced by 1.7% per year in each of the following three years for Platinum 2003 with-profit annuities.
- A removal of non-vested bonuses of up to 6.0% of fund value for the Guaranteed Fund, followed by future bonus rates reduced by 4.5% per year in each of the following three years for Old Mutual Corporate pre-retirement smoothed bonus products

The management actions assumed above have been approved by specific resolution by the board of directors.

For the purpose of grossing up the intermediate ordinary capital adequacy requirements (IOCAR*) to determine the OCAR, it has been assumed that assets backing the capital adequacy requirements are invested 30% in local equities, and 70% in local cash (December 2016: 30% local equities and 70% local cash).