MCEV disclosure for covered business in Emerging Markets

For the six months ended 30 June 2016

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1 Summary of MCEV results and components of MCEV for covered business

The following section provides a summary of the headline Market Consistent Embedded Value (MCEV) results and components of MCEV for the covered business in Emerging Markets. All MCEV results are post tax and non-controlling interests, unless stated otherwise.

The MCEV for 30 June 2016 has been calculated predominantly using a bond yield curve as the reference rate. This aligns with the anticipated Solvency Assessment and Management (SAM) reporting basis, but departs from MCEV principles.

1.1 Headline MCEV results

This section gives a high level summary of headline MCEV results, with further detailed commentary provided in section 2.

- The overall annualised operating return on embedded value (RoEV) has increased to 14.8% at 30 June 2016 from 12.3% at 30 June 2015, primarily due to an increase in the expected return resulting from the higher one-year forward risk free reference rate and a 28% increase in the value of new business (VNB).
- MCEV operating earnings of R4,182 million for the six months to 30 June 2016 are 21% higher than the same period in 2015.
- The growth in VNB of 28% compared to June 2015 arose as a result of a 24% increase in the present value of new business premiums (PVNBP), driven by very strong Absolute Growth Portfolio smoothed bonus sales in South Africa.
- Experience variances (excluding development costs) were positive overall, with expense and other profits being partly offset by adverse risk experience. The adverse risk experience arose mainly on the Corporate Segment disability income business, linked to the tough economic environment. A review of asset management fees on life funds in Retail Affluent, the annual review of premium and cover levels in Mass Foundation and lower than expected tax payments on life profits also contributed to the positive performance.
- Economic variances were negative due to lower than expected investment returns in the first half of 2016, partly offset by the positive impact of a lower risk discount rate.

1.2 Components of MCEV for covered business

The following table sets out the components of Market Consistent Embedded Value for covered business as at 30 June 2016.

			Rm
Emerging Markets	**At 30 June 2016**	At 30 June 2015	At 31 December 2015
Adjusted net worth (ANW)[1]	**25,144**	28,604	25,063
Free surplus	**5,447**	7,485	5,953
Required capital	**19,697**	21,119	19,110
Value of in-force (VIF)	**32,622**	26,114	31,248
Present value of future profits (PVFP)	**38,484**	32,604	37,359
Frictional costs	**(3,523)**	(4,058)	(3,619)
Cost of residual non-hedgeable risks (CNHR)	**(2,339)**	(2,432)	(2,492)
MCEV	**57,766**	54,718	56,311

[1]At 30 June 2016 and 31 December 2015, debt issued by Emerging Markets has been deducted from ANW, and interest costs on debt have been included in expected existing business contributions for the first half of 2016.

The MCEV increased by 2.6% compared to 31 December 2015 due to favourable operating earnings which were partly offset by capital transfers, including net dividend payments.

Frictional costs have reduced since 31 December 2015 largely due to the lower yield curve reducing the tax-related frictional cost. The cost of residual non-hedgeable risks (CNHR) reduced with methodology changes being partly offset by growth in the covered business book.

2 Analysis of change in MCEV

Analysis of change in MCEV (post tax and non-controlling interest) for covered business for the year ended 30 June 2016

Commentary and additional information can be found in notes 2.2 to 2.8

						Rm
		Six months ended 30 June 2016				
	Note	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV		**5,953**	**19,110**	**25,063**	**31,248**	**56,311**
New business value	2.2	**(1,570)**	**961**	**(609)**	**1,771**	**1,162**
Expected existing business contribution (reference rate)		**205**	**638**	**843**	**1,539**	**2,382**
Expected existing business contribution (in excess of reference rate)		**34**	**116**	**150**	**214**	**364**
Transfers from VIF and required capital to free surplus		**3,523**	**(1,167)**	**2,356**	**(2,356)**	**-**
Experience variances (excluding development costs)	2.3	**57**	**128**	**185**	**160**	**345**
Experience variances - development costs	2.4	**(121)**	**-**	**(121)**	**-**	**(121)**
Assumption changes	2.5	**-**	**-**	**-**	**-**	**-**
Other operating variance	2.6	**(110)**	**-**	**(110)**	**160**	**50**
Operating MCEV earnings		**2,018**	**676**	**2,694**	**1,488**	**4,182**
Economic variances	2.7	**(174)**	**(86)**	**(260)**	**35**	**(225)**
Other non-operating variance		**4**	**-**	**4**	**3**	**7**
Total MCEV earnings		**1,848**	**590**	**2,438**	**1,526**	**3,964**
Closing adjustments		**(2,354)**	**(3)**	**(2,357)**	**(152)**	**(2,509)**
Capital and dividend flows	2.8	**(2,352)**	**0**	**(2,352)**	**0**	**(2,352)**
Foreign exchange variance	2.8	**(119)**	**(134)**	**(253)**	**(104)**	**(357)**
Other[1]	2.8	**117**	**131**	**248**	**(48)**	**200**
Closing MCEV		**5,447**	**19,697**	**25,144**	**32,622**	**57,766**
Return on MCEV (RoEV)% per annum[2]						**14.8%**

[1] Other closing adjustments relate to the impact of including Colombia on an MCEV basis and the simplification of MCEV reporting in certain African entities.

[2] Return on MCEV is calculated as the annualised operating MCEV earnings after tax divided by opening MCEV. The operating assumption changes and other operating variances are not annualised.

2.1 Prior period comparatives

Analysis of change for covered business for the six months ended 30 June 2015

						Rm
		Six months ended 30 June 2015				
	Note	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV		11,219	20,223	31,442	24,502	55,944
New business value	2.2	(1,541)	1,131	(410)	1,317	907
Expected existing business contribution (reference rate)		314	546	860	1,105	1,965
Expected existing business contribution (in excess of reference rate)		44	79	123	122	245
Transfers from VIF and required capital to free surplus		3,006	(1,111)	1,895	(1,895)	-
Experience variances (excluding development costs)	2.3	359	58	417	89	506
Experience variances - development costs		(203)	-	(203)	-	(203)
Assumption changes	2.5	-	-	-	-	-
Other operating variance	2.6	61	14	75	(40)	35
Operating MCEV earnings		2,040	717	2,757	698	3,455
Economic variances	2.7	77	(18)	59	822	881
Other non-operating variance		11	137	148	43	191
Total MCEV earnings		2,128	836	2,964	1,563	4,527
Closing adjustments		(5,862)	60	(5,802)	49	(5,753)
Capital and dividend flows		(4,684)	-	(4,684)	-	(4,684)
Foreign exchange variance		(4)	60	56	49	105
Other[1]		(1,174)	-	(1,174)	-	(1,174)
Closing MCEV		7,485	21,119	28,604	26,114	54,718
Return on MCEV (RoEV)% per annum[2]						12.3%

[1] Other closing adjustments include the liability in respect of OMLAC(SA) subordinated debt issued in 2014 which is now reflected in the Emerging Markets adjusted net worth. The associated financing costs of the subordinated debt issued in 2014 and 2015 are also included.

[2] Return on MCEV is calculated as the annualised operating MCEV earnings after tax divided by opening MCEV. The operating assumption changes and other operating variances are not annualised.

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Analysis of change for covered business for the year ended 31 December 2015

						Rm
		Year ended 31 December 2015				
	Note	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV		11,219	20,223	31,442	24,502	55,944
New business value	2.2	(2,655)	1,951	(704)	3,098	2,394
Expected existing business contribution (reference rate)		632	1,102	1,734	2,245	3,979
Expected existing business contribution (in excess of reference rate)		87	159	246	269	515
Transfers from VIF and required capital to free surplus		5,797	(2,172)	3,625	(3,625)	-
Experience variances (excluding development costs)	2.3	436	130	566	(159)	407
Experience variances - development costs		(494)	-	(494)	2	(492)
Assumption changes	2.5	497	61	558	(702)	(144)
Other operating variance	2.6	442	(4,069)	(3,627)	4,497	870
Operating MCEV earnings		4,742	(2,838)	1,904	5,625	7,529
Economic variances	2.7	(1,183)	1,129	(54)	(141)	(195)
Other non-operating variance		(30)	41	11	(14)	(3)
Total MCEV earnings		3,529	(1,668)	1,861	5,470	7,331
Closing adjustments		(8,795)	555	(8,240)	1,276	(6,964)
Capital and dividend flows		(4,722)	-	(4,722)	-	(4,722)
Foreign exchange variance		309	415	724	280	1,004
Other[1]		(4,382)	140	(4,242)	996	(3,246)
Closing MCEV		5,953	19,110	25,063	31,248	56,311
Return on MCEV (RoEV)% per annum[2]						13.5%

[1] Other closing adjustments include the liability in respect of OMLAC(SA) subordinated debt issued in 2014 which is now reflected in the Emerging Markets adjusted net worth. The associated financing costs of the subordinated debt issued in 2014 and 2015 are also included.

[2] Return on MCEV is calculated as the operating MCEV earnings after tax divided by opening MCEV.

2.2 New business

Sales volumes were higher overall, mainly as a result of very strong Absolute Growth Portfolio smoothed bonus sales in South Africa, as well as good group assurance risk sales, umbrella fund savings sales and Mass Foundation savings and risk sales. The following section provides additional detail on the drivers of new business value and new business information by Emerging Markets business segment.

The capital required to support new business reduced from June 2015 to June 2016, despite increased sales. This is due to the methodology changes made at December 2015, which caused a reduction in capital requirements for both in-force and new business.

(a) Drivers of new business value

Drivers of new business value for covered business (PVNBP margin)

			%
	30 June 2016	30 June 2015	31 December 2015
Margin at the end of comparative reporting period	**3.2**	3.0	3.4
Change in volume and new business expenses	-	(0.3)	(0.1)
Change in country and product mix	**(0.3)**	0.1	(0.5)
Change in operating assumptions[1]	**0.5**	0.1	0.5
Change in economic assumptions	**(0.1)**	-	-
Change in tax/regulation	-	0.3	-
Margin at the end of the reporting period	**3.3**	3.2	3.3

[1] Includes operating assumption changes, other operating variances and a change in the treatment of OMUT for 31 December 2015 and 30 June 2016.

Operating assumption changes have had a significant positive impact of 0.5% on PVNBP margins. This is mainly due to the inclusion of OMUT margins received on Retail Affluent life wrapped business (reflected in VNB from December 2015) as well as the favourable impact of December 2015 assumption changes. These included lower expense assumptions in Mass Foundation, mortality assumption changes in Retail Affluent and lower termination assumptions in Corporate Segment pre-retirement business.

The negative 0.3% impact of change in country and product mix impact primarily reflects the impact of lower margins on the Mass Foundation risk book following the taxation changes and an increased proportion of lower margin Retail Affluent savings sales in South Africa and Namibia.

As VNB is based on opening economic assumptions, there was a slight decrease in the PVNBP margin as a result of the change from the December 2014 to December 2015 economic basis.

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(b) Value of new business and new business profitability

The tables below provide information on the value of new business and new business profitability metrics by Emerging Markets business segment.

Emerging Markets covered business new business

Six months ended 30 June 2016 **Rm**

	Annualised recurring premiums	Single premiums	PVNBP	PVNBP capitali-sation[1]	APE[2]	VNB	PVNBP margin
South Africa	3,010	16,850	31,711	4.9	4,695	**1,094**	3.5%
Retail Affluent	850	10,218	13,641	4.0	1,872	**203**	1.5%
Mass Foundation	1,586	22	6,070	3.8	1,588	**602**	9.9%
Corporate	574	9,533	14,923	9.4	1,527	**289**	1.9%
Eliminations of intra-Group sales[3]		(2,923)	(2,923)		(292)		
Rest of Africa	444	981	2,616	3.7	542	**92**	3.5%
Namibia	181	518	1,308	4.4	233	**78**	5.9%
Zimbabwe	100	361	776	4.2	136	**49**	6.4%
Kenya	66	-	130	2.0	66	**(30)**	-23.3%
Other African Countries[4]	97	102	402	3.1	107	**(5)**	-1.3%
Asia & Latin America[5]	205	724	1,352	3.1	277	**(24)**	-1.8%
OMEM covered business	3,659	18,555	35,679	4.7	5,514	**1,162**	3.3%

[1] The PVNBP capitalisation factors are calculated as follows: (PVNBP - single premiums)/annualised recurring premiums.

[2] Annual Premium Equivalent (APE) is calculated as annualised recurring premiums plus 10% of single premiums. For Mass Foundation, this excludes the 'short term pocket' of the 2-IN-ONE savings product, which is not valued on an MCEV basis.

[3] Sales of Corporate products through the retail platform are included in both Retail Affluent and Corporate sales but eliminated on consolidation.

[4] Other African Countries includes Malawi, Swaziland, Nigeria and Ghana.

[5] Asia and Latin America includes Mexico and Colombia only.

Emerging Markets covered business new business

Six months ended 30 June 2015 **Rm**

	Annualised recurring premiums	Single premiums	PVNBP	PVNBP capitali-sation[1]	APE[2]	VNB	PVNBP margin
South Africa	2,584	13,304	25,129	4.6	3,914	797	3.2%
Retail Affluent	869	9,405	13,122	4.3	1,810	201	1.5%
Mass Foundation	1,493	17	5,418	3.6	1,495	505	9.3%
Corporate	222	4,857	7,564	12.2	707	91	1.2%
Eliminations of intra-Group sales[3]		(975)	(975)		(98)		
Rest of Africa	411	878	2,975	5.1	499	133	4.5%
Namibia	174	464	1,493	5.9	220	94	6.3%
Zimbabwe	118	235	865	5.3	141	52	6.0%
Kenya	27	-	77	2.9	27	(10)	-12.6%
Other African Countries[4]	92	179	540	3.9	111	(3)	-0.6%
Asia & Latin America[5]	119	451	681	1.9	164	(23)	-3.3%
OMEM covered business	3,114	14,633	28,785	4.5	4,577	907	3.2%

[1] The PVNBP capitalisation factors are calculated as follows: (PVNBP - single premiums)/annualised recurring premiums.

[2] Annual Premium Equivalent (APE) is calculated as annualised recurring premiums plus 10% of single premiums. For Mass Foundation, this excludes the 'short term pocket' of the 2-IN-ONE savings product, which is not valued on an MCEV basis.

[3] Sales of Corporate products through the retail platform are included in both Retail Affluent and Corporate sales but eliminated on consolidation.

[4] Other African Countries includes Malawi, Swaziland, Nigeria and Ghana.

[5] Asia and Latin America includes Mexico only.

Emerging Markets covered business new business

Year ended 31 December 2015 **Rm**

	Annualised recurring premiums	Single premiums	PVNBP	PVNBP capitali-sation[1]	APE[2]	VNB	PVNBP margin
South Africa	5,709	35,268	64,417	5.1	9,237	2,190	3.4%
Retail Affluent	1,801	19,560	27,305	4.3	3,757	653	2.4%
Mass Foundation	3,241	35	11,677	3.6	3,246	1,204	10.3%
Corporate	667	18,289	28,051	14.6	2,496	333	1.2%
Eliminations of intra-Group sales[3]		(2,616)	(2,616)		(262)		
Rest of Africa	880	2,088	6,011	4.5	1,088	257	4.3%
Namibia	375	1,052	2,938	5.0	480	207	7.1%
Zimbabwe	239	563	1,748	5.0	295	122	7.0%
Kenya	91	-	202	2.2	92	(29)	-14.3%
Other African Countries[4]	175	473	1,123	3.7	221	(43)	-3.9%
Asia & Latin America[5]	280	983	1,510	1.9	378	(53)	-3.5%
OMEM covered business	6,869	38,339	71,938	4.9	10,703	2,394	3.3%

[1] The PVNBP capitalisation factors are calculated as follows: (PVNBP - single premiums)/annualised recurring premiums.

[2] Annual Premium Equivalent (APE) is calculated as annualised recurring premiums plus 10% of single premiums. For Mass Foundation, this excludes the 'short term pocket' of the 2-IN-ONE savings product, which is not valued on an MCEV basis.

[3] Sales of Corporate products through the retail platform are included in both Retail Affluent and Corporate sales but eliminated on consolidation.

[4] Other African Countries includes Malawi, Swaziland, Nigeria and Ghana.

[5] Asia and Latin America includes Mexico only.

Commentary on the new business written in the six months ended 30 June 2016 (and compared to new business written in the six months ended 30 June 2015) is provided below.

South Africa: Increased sales were the main driver of the increase in VNB. This together with the operating assumption and methodology changes made at December 2015 resulted in a higher PVNBP margin.

Namibia: Changes in the mix of business towards a higher proportion of lower margin life-wrapped unit trust business, relative to Absolute Secure Growth Portfolio sales, have resulted in a lower VNB and a lower PVNBP margin.

Zimbabwe: VNB decreased due to lower overall sales, however, the PVNBP margin has increased due to a higher proportion of smoothed bonus business and credit life products.

Kenya, Other African countries and Asia & Latin America: We continue to build scale in these other businesses and as such the VNB is currently negative. The PVNBP margin for Kenya has reduced as a result of a higher proportion of low margin 2-in-ONE savings sales. The PVNBP margin for Other African Countries has improved relative to December 2015 due to a more profitable mix of business but has reduced relative to June 2015 due to the lower volume of sales in Malawi. The inclusion of Colombia life business in MCEV has improved the PVNBP margin for Asia & Latin America.

The recurring premium PVNBP capitalisation factor increased relative to June 2015 due to the increased proportion of longer duration Corporate Absolute Growth Portfolio sales, partly offset by the impact of the higher yield curve at December 2015 (compared to December 2014) as PVNBP is based on opening economic assumptions.

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(c) Additional new business written by Emerging Markets

This table shows the additional long-term business written, but excluded from covered business.

Total long-term business sales

Rm

	Six months ended 30 June 2016			Six months ended 30 June 2015			Year ended 31 December 2015		
	Annualised Recurring Premium	Single Premiums	APE	Annualised Recurring Premium	Single Premiums	APE	Annualised Recurring Premium	Single Premiums	APE
Covered business	3,659	18,555	**5,514**	3,114	14,633	**4,577**	6,869	38,339	**10,703**
Other long-term business	1,053	2,738	**1,327**	827	702	**897**	1,694	3,349	**2,029**
South Africa	240		**240**	184		**184**	390		**390**
Asia & Latin America	813	2,738	**1,087**	643	702	**713**	1,304	3,349	**1,639**
Total long-term business	4,712	21,293	**6,841**	3,941	15,335	**5,474**	8,563	41,688	**12,732**

The other long-term business relates to business where profits arise in the life business, but which are not valued on an MCEV basis. In South Africa, this relates to the ‘short-term pocket’ of the Mass Foundation 2-IN-ONE savings product. In Asia & Latin America, this includes India and China for all periods; and includes Colombia for 31 December 2015, as Colombia is included in covered business for the first time at 30 June 2016. Sales from these businesses are shown as part of long-term business APE sales in the Emerging Markets part of the financial disclosure supplement.

Non-covered life sales

The Emerging Markets part of the financial disclosure supplement sets out the information for additional non-covered business sales, which relate to unit trust sales and third party flows into segregated funds. This includes the value of new pension fund asset management business and certain individual unit trust linked retirement annuities written by the Emerging Markets long-term business of R6,822 million (30 June 2015: R6,595 million; 31 December 2015: R13,782 million), which is excluded from VNB (as well as APE and PVNBP) above as the profits in this business arise outside of the covered business in the asset management business.

Premium increases

The new business figures presented above also exclude premium increases on covered business arising from indexation arrangements in respect of existing business, as these are already included in the value of in-force business.

2.3 Experience variances (excluding development costs)

Experience variances (excluding development costs)

	Six months ended 30 June 2016			Six months ended 30 June 2015		Rm	Year ended 31 December 2015		Rm
	Adjusted net worth	Value of in-force	MCEV	Adjusted net worth	Value of in-force	MCEV	Adjusted net worth	Value of in-force	MCEV
Persistency	(2)	(4)	**(6)**	91	124	**215**	186	(127)	**59**
Risk	(54)	(53)	**(107)**	395	(2)	**393**	564	(92)	**472**
Expenses	108	11	**119**	(74)	(66)	**(140)**	(133)	(63)	**(196)**
Other	133	206	**339**	5	33	**38**	(51)	123	**72**
Experience variances	185	160	**345**	417	89	**506**	566	(159)	**407**

There were positive experience variances (excluding development costs) of R345 million mainly due to improved expense and other experience variances, partly offset by negative disability and mortality variances. The tough economic environment is placing sustained financial pressure on policyholders, and we are seeing the effect of this via a deterioration in risk and persistency experience.

(a) Persistency variance

Persistency experience variance has deteriorated, particularly on the savings business in Mass Foundation and Retail Affluent, which reflects the impact of the tough economic environment on policyholders. This has been largely offset by better than expected retention on Corporate Segment smoothed bonus business.

(b) Risk variance

The negative risk experience variance is mainly due to adverse Corporate Segment disability income and group life assurance experience, which is not unexpected in the current tough economic environment. Losses emerged in Corporate Segment due to a higher than expected average size and number of disability income benefit claims as well as an increase in the average size of group life assurance claims. Retail Affluent risk profits are lower than for 2015 due to a small negative mortality experience variance, following a number of years of positive variances, as well as lower disability profits. Mass Foundation risk profits were in line with 2015.

(c) Expense variance
Expense variances have improved significantly since 2015 following the assumption changes made at December 2015. The positive variance is largely as a result of lower than expected project expenditure in the first half of 2016 and improved efficiencies in South Africa and Rest of Africa.

(d) Other experience variances
Other experience variances are positive in 2016 and include the positive impacts of a review of asset management fees on life funds in Retail Affluent, the annual review of premium and cover levels in Mass Foundation and lower than expected tax payments on life profits.

2.4 Experience variances – development costs

Development cost variances have reduced mainly due to lower than expected project expenditure in South Africa in the first half of 2016, partly offset by continued investment in the business in South Africa and Rest of Africa. It includes:

- Initiatives to support the expansion into Africa and building the Old Mutual brand;
- The integration of UAP into Old Mutual Emerging Markets;
- Development of alternative products and distribution capabilities; and
- Investment in information technology to improve customer experience and deliver efficiencies.

2.5 Assumption changes

There were no experience-driven assumption changes for the six months ended 30 June 2016.

2.6 Other operating variance

Other operating variance mainly relates to the positive impact of a correction to the calculation of the Corporate Segment CNHR, largely offset by the negative impact of various other methodology changes and modelling improvements.

2.7 Economic variances

Analysis of economic variances

	Six months ended 30 June 2016			Six months ended 30 June 2015			Year ended 31 December 2015		Rm
	ANW	VIF	**MCEV**	ANW	VIF	**MCEV**	ANW	VIF	**MCEV**
Investment variance on in-force business	334	(142)	**192**	291	106	**397**	609	(327)	**282**
Investment variance on adjusted net worth	(647)	-	**(647)**	(219)	-	**(219)**	(675)	-	**(675)**
Impact of economic assumption changes	53	177	**230**	(13)	716	**703**	12	186	**198**
Economic Variances	(260)	35	**(225)**	59	822	**881**	(54)	(141)	**(195)**

(a) Investment variance on in-force business
The positive investment variance on in-force business relates to:

- The positive ANW impact of the favourable performance on non-profit annuity portfolios mainly due to the yield pick up on credit asset portfolios backing these liabilities; partly offset by
- The negative VIF impact of lower than expected investment returns on policyholder funds resulting in lower future expected asset-based fee income on most investment and smoothed bonus products in South Africa, Namibia and Zimbabwe.

(b) Investment variance on ANW
The negative investment variance on ANW relates mostly to lower than expected investment return on shareholder funds following negative equity market returns in Zimbabwe and lower than expected returns on the shareholder portfolio in South Africa. The investment return was also earned off a lower base following dividend payments.

(c) Effect of economic assumption changes
The positive economic assumption changes mainly relate to:

- A decrease in bond rates, on which the economic assumptions are primarily based. This resulted in an increase in VIF mainly due to the positive impact of lower discount rates and inflation assumptions, partly offset by the negative impact of lower projected investment growth assumptions.
- Improvements to the economic methodology used to value inflation-linked annuities, which increased the ANW.
- This was partially offset by an increase in the Investment Guarantee Reserve (IGR) for the six months ended 30 June 2016, mainly due to lower swap yield curves and market movements in equity and swaption volatilities resulting in a reduction in VIF.

2.8 Closing adjustments

(a) Capital and dividend flows

Capital and dividend flows relate mainly to net dividends paid from OMEM covered business of R1,945 million, compared to R1,180 million for 2015.

(b) Foreign exchange variance

The foreign exchange variance relates mainly to the appreciation of the Rand relative to other Emerging Markets currencies, including the depreciation of the US Dollar relative to the Rand which decreased the value of the Zimbabwe business.

(c) Other closing adjustments

Significant net transfer items relate mainly to:

- The inclusion of the Colombia life business in MCEV (R386 million), which was previously reported as asset management business.
- The simplification of MCEV reporting in the smaller African countries, which reduced VIF (R191 million).

2.9 Operating MCEV earnings by territory

			Rm
	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
South Africa	3,942	3,153	6,572
Rest of Africa	261	366	1,065
Namibia	299	296	716
Zimbabwe	146	167	469
Kenya	(27)	18	(44)
Other African Countries	(157)	(115)	(76)
Asia & Latin America	(21)	(64)	(108)
OMEM MCEV Operating Earnings	4,182	3,455	7,529

- **South Africa:** The increase in MCEV operating earnings relates mainly to the positive impact of a higher expected return, a higher VNB and positive modelling changes, partly offset by less favourable experience variances, as discussed in section 2 above.
- **Namibia:** The slight increase in MCEV operating earnings relates mainly to a higher expected return and improved persistency experience variances, largely offset by less favourable risk experience, negative modelling changes and a lower VNB.
- **Zimbabwe:** The decrease in MCEV operating earnings relates mainly to the negative impact of modelling changes, partly offset by a higher expected return and improved experience variances in aggregate.
- **Kenya:** The decrease in MCEV operating earnings for Kenya is driven by the negative VNB and higher expenses incurred in 2016 to support the expansion into East Africa (particularly the integration of UAP into Old Mutual Emerging Markets) as well as the development and distribution of new products.
- **Asia & Latin America:** Continuing MCEV operating losses are mainly due to the negative VNB as we continue to build scale in the Mexican and Colombian life businesses. (MCEV operating earnings in 2015 included a negative impact from modelling improvements and corrections).

3 Reconciliation to IFRS

3.1 Reconciliation of IFRS NAV to MCEV ANW for covered business

The table below provides a reconciliation of the IFRS net asset value (NAV) to the MCEV adjusted net worth for the covered business.

	At 30 June 2016	At 30 June 2015	At 31 December 2015
			Rm
OMEM IFRS Net Asset Value	**41,290**	**38,694**	**41,159**
Less IFRS net asset value for non-covered business	(18,400)	(16,696)	(18,303)
IFRS net asset value for Covered Business[1]	**22,890**	**21,998**	**22,856**
Adjustment to include long-term business on a statutory basis	(1,021)	2,631	(941)
Inclusion of Group equity and debt instruments held in life funds	3,880	4,474	3,799
Goodwill	(150)	(125)	(156)
Other[2]	(455)	(374)	(495)
Adjusted net worth attributable to ordinary equity holders of the parent	**25,144**	**28,604**	**25,063**
Value of in-force business	**32,622**	**26,114**	**31,248**
MCEV	**57,766**	**54,718**	**56,311**

[1]The liability to repay the OMLAC(SA) subordinated debt issued in 2005 of R3.0bn is not included in the IFRS net asset value at 30 June 2015 as it is not allocated to Emerging Markets MCEV covered business. This debt was recycled in the second half of 2015. The debt that replaced it is included in the MCEV of covered business.

[2]Adjustment to allow for non-controlling interest in Zimbabwe.

The increase in IFRS net asset value of non-covered business since 30 June 2015 is driven by the consolidation of UAP into Old Mutual Emerging Markets, retained earnings in CABS and favourable currency movements.

The adjustment to include long-term business on a statutory solvency basis has reduced following the alignment of the statutory liability basis to the IFRS liability basis for Retail Affluent Investment Contracts at 31 December 2015. The remaining adjustment reflects deferred acquisition costs and deferred tax differences.

3.2 Reconciliation of operating MCEV earnings to IFRS AOP

This table reconciles IFRS AOP Post-tax & Non-controlling Interests (NCI) to Operating MCEV Earnings.

	Six months ended 30 June 2016	Six months ended 30 June 2015	Year ended 31 December 2015
			Rm
OMEM Life and Savings AOP post-tax & NCI	**2,830**	**2,992**	**5,831**
Less AOP Life and Savings post-tax & NCI of non-covered business	(126)	(152)	(257)
OMEM AOP post-tax & NCI for covered business	2,704	2,840	5,574
Alignment of Statutory basis to IFRS basis (ANW impact)	-	-	(3,647)
OMUT Life profits included in asset management[1]	-	-	111
Other Adjustments[2]	(10)	(83)	(133)
Adjusted Net Worth operating earnings	2,694	**2,757**	**1,904**
Alignment of Statutory basis to IFRS basis (Impact on Value of in-force)	-	-	4,271
Other Value of in-force operating earnings[3]	1,488	698	1,354
Covered business MCEV operating earnings	**4,182**	**3,455**	**7,529**

[1] At 31 December 2015, profits of R111m relating to life-wrapped business invested in OMUT unit trusts was included in the asset management AOP after tax.

[2] Other adjustments include the impacts of differences between IFRS and MCEV reporting, including the different treatment of economic variances (which are included in IFRS AOP but not MCEV operating earnings)

[3] This represents the VIF earnings for the period as set out in section 2.

The growth in VIF earnings is driven mainly by the increased VIF contribution from new business and the positive impact of modelling changes.

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4 MCEV sensitivity information

The tables below show the sensitivity of the MCEV, the value of in-force business and the value of the new business for the six months ended 30 June 2016, six months ended 30 June 2015 and year ended 31 December 2015 to the following:

- **Economic assumptions 100bps increase/decrease:** Increasing/decreasing all pre-tax investment and economic assumptions (projected investment returns and inflation) by 100bps, with credited rates and discount rates changing commensurately.
- **10bps increase of liquidity spreads:** Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities (annuities and Fixed Bonds only), with credited rates and discount rates changing commensurately.

For each sensitivity illustrated, all other assumptions have been left unchanged except where they are directly affected by the revised conditions. Sensitivity scenarios therefore include consistent changes in cash flows directly affected by the changed assumption(s), for example future bonus participation in changed economic scenarios.

			Rm
MCEV	**30 June 2016**	30 June 2015	31 December 2015
Central assumptions	**57,766**	54,718	56,311
Value given changes in:			
Economic assumptions 100bps increase	**57,565**	54,183	56,017
Economic assumptions 100bps decrease	**57,782**	55,072	56,704
10bps increase of liquidity spreads	**57,939**	54,853	56,443

			Rm
VIF	**30 June 2016**	30 June 2015	31 December 2015
Central assumptions	**32,622**	26,114	31,248
Value given changes in:			
Economic assumptions 100bps increase	**32,411**	25,565	30,944
Economic assumptions 100bps decrease	**32,648**	26,468	31,653
10bps increase of liquidity spreads	**32,795**	26,249	31,380

			Rm
VNB	**30 June 2016**	30 June 2015	31 December 2015
Central assumptions	**1,162**	907	2,394
Value given changes in:			
Economic assumptions 100bps increase	**1,102**	863	2,281
Economic assumptions 100bps decrease	**1,224**	959	2,497
10bps increase of liquidity spreads	**1,167**	912	2,395

5 Methodology

The following section provides information on the methodology used to calculate MCEV results. The methodology used to calculate MCEV at 30 June 2016 is consistent with 31 December 2015 unless explicitly noted in this disclosure.

5.1 Basis of preparation and coverage

MCEV is a measure of the consolidated value of shareholders' interests in the covered business and consists of the sum of the shareholders' adjusted net worth in respect of the covered business and the value of the in-force covered business.

(a) Compliance with CFO Forum MCEV Principles

The Market Consistent Embedded Value Principles (Copyright © Stichting CFO Forum Foundation 2008) issued in June 2008 and updated in May 2016 by the CFO Forum (the Principles or MCEV Principles) have been used as the basis for preparing the MCEV disclosure information for the covered business in Emerging Markets.

We have not changed our MCEV methodology in light of the May 2016 updates to the CFO Forum MCEV Principles, which allows (but does not require) the alignment of MCEV and Solvency II methodologies and assumptions.

Apart from Principle 14 and the methodology disclosure requirements, the Principles have been materially complied with in the preparation of MCEV information for the Emerging Markets business at 30 June 2016. Principle 14 requires the use of a swap curve as the reference curve, however a government bond curve has been used predominantly as the reference curve in South Africa for consistency with the planned new regulatory solvency reporting regime (SAM) which is expected to confirm the standard use of a government bond curve as the risk free rate. Where the liabilities are hedged with swaps then the risk free rate will remain as swaps as per the SAM requirements, however this is only a small percentage of covered business. The reference curve and resulting Embedded Value is still considered to be market consistent as it is derived directly from market indicators. Namibia uses the same reference curve as South Africa.

The covered business within certain African entities (Kenya, Malawi, Swaziland, Nigeria and Ghana) has been included in MCEV at their respective ANW values only. No VIF for these entities have been recognised. However, the VNB for these entities have been calculated allowing for VIF.

Note also that detailed consolidated disclosure information has not been prepared for Old Mutual plc as required by the Principles.

(b) Scope of covered business

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

Some types of business are legally written by a life company but are classified as asset management under IFRS because 'long-term business' only serves as a wrapper. This business is excluded from covered business, for example some individual unit trusts and some market-linked business written by asset management companies in South Africa through the life company, as profits from this business arise in the asset management and asset administration companies.

The detailed methodology and assumptions made in presenting this information are set out in the following sections. The MCEV for Emerging Markets is presented after an adjustment to include the market value of life fund investments in Group equity and debt instruments.

Note that the Life insurance business in Colombia was included in MCEV covered business for the first time at 30 June 2016.

5.2 Methodology

(a) Introduction

The MCEV represents the present value of shareholders' interests in the earnings that are distributable from assets allocated to the in-force covered business after sufficient and appropriate allowance for the aggregate risks in the covered business.

The MCEV consists of the sum of the following components:

- Adjusted net worth, which excludes acquired intangibles and goodwill, consisting of:
  - free surplus allocated to the covered business; and
  - required capital to support the covered business.
- Value of in-force covered business, consisting of
  - Present value of future profits (PVFP) from in-force covered business; less
  - Time value of financial options and guarantees; less
  - Frictional costs of required capital; less
  - Cost of residual non-hedgeable risks (CNHR)

(b) Required capital

Required capital is the market value of assets that is attributed to support the covered business, over and above that required to back regulatory liabilities for covered business, whose distribution to shareholders is restricted.

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For Emerging Markets, capital is determined with reference to internal management objectives. The required capital in respect of OMLAC(SA)'s covered business is partially covered by a portion of the market value of the investment in Nedbank (R2.6bn as at June 2016) which is excluded from the OMEM ANW as this investment is shown separately on consolidation.

(c) Cost of residual non-hedgeable risks (CNHR)

An allowance is made in the CNHR to reflect uncertainty in the best estimate of shareholder cash flows as a result of both symmetric and asymmetric non-hedgeable risks since these risks cannot be hedged in deep and liquid capital markets and are managed, inter alia, by holding risk capital.

CNHR is calculated using a cost of capital approach, i.e. it is determined as the present value of capital charges for all future non-hedgeable risk capital requirements. A cost of capital charge of 2.0% has been applied to non-hedgeable capital over the life of the contracts.

The amount of diversified economic capital held in respect of residual non-hedgeable risks in Emerging Markets is R16,196 million at 30 June 2016 (R15,757 million at 30 June 2015, R16,186 million at 31 December 2015). The risks considered include mortality and morbidity, persistency and expense risk (among others), but excludes market risks.

(d) Taxation

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

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

The Taxation Laws Amendment Act of 2014 introduced a fifth tax fund for Life insurers in South Africa, where investment returns roll up gross of tax and the insurer is taxed purely on the profit generated in the fund. Risk business sold as from 1 January 2016 has been allocated to this fund and the impact of this change has been allowed for in the VNB calculation.

The Taxation Laws Amendment Act of 2015 introduced a one-off option to transfer blocks of existing risk business that share similar contractual terms, to this new tax fund on 1 January 2016. The draft Taxation Laws Amendment Bill of 2016, released on 8 July 2016, introduces further taxation changes (some of which are retrospective in nature). These tax changes have not yet been allowed for in the MCEV calculations as at 30 June 2016 and will be incorporated by 31 December 2016.

6 MCEV assumptions

The following section provides details of the economic and non-economic assumptions used in the MCEV calculations. The assumptions have been derived in a consistent manner to 31 December 2015 calculations unless explicitly stated as a change in this disclosure note.

6.1 Economic assumptions

Economic assumptions for South Africa are set out in the following sections. In other territories, economic assumptions are determined with reference to local economic conditions.

(a) Risk free reference rates and inflation

The risk free reference rates, reinvestment rates and discount rates are determined as set out in the basis of preparation. For Emerging Markets the swap yield curve is sourced internally (using market data provided by the Bond Exchange of South Africa) and is checked for reasonability relative to the Bloomberg swap yield curve, whereas the government bond curve is published by the Financial Services Board in South Africa and validated internally.

A liquidity premium adjustment has been applied to OMLAC(SA)'s Immediate Annuity business and Fixed Bond business. For OMLAC(SA)'s Immediate Annuity and Fixed Bond business, the adjusted risk free reference rates were derived at 30 June 2016 by adding 60bps of liquidity premium (30 June 2015: 60bps, 31 December 2015: 60bps) to the reference rates used for setting investment return and discounting assumptions.

The risk free reference spot yields (excluding any applicable liquidity adjustments) at various terms are provided in the table below. Expense inflation rates have been derived by comparing real rates of return against nominal risk free rates, with adjustments for higher anticipated inflation rates where appropriate.

Risk free reference spot yields (excluding liquidity adjustments) and expense inflation

		%
	Risk free rate	**Expense inflation**
At 30 June 2016 (bond curve)		
1 year	**7.9**	**6.8**
5 years	**8.5**	**7.2**
10 years	**9.2**	**7.7**
20 years	**10.1**	**8.5**
At 30 June 2015 (swap curve)		
1 year	7.2	6.9
5 years	8.1	7.0
10 years	8.5	7.1
20 years	9.5	7.8
At 31 December 2015 (bond curve)		
1 year	8.2	6.6
5 years	9.7	8.0
10 years	10.1	8.5
20 years	10.8	9.0

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

The expected asset returns in excess of the risk free reference rates have no impact on the calculated MCEV other than the calculation of the expected existing business contribution in the analysis of MCEV earnings. Real world economic assumptions are determined with reference to one-year forward risk free reference rates applicable to the currency of the liabilities at the start of the reporting period. All other economic assumptions, for example future bonus rates, are set at levels consistent with the real world investment return assumptions.

Pre-tax real world economic assumptions are determined as follows:

- The equity risk premium is 3.7%.
- The cash return equals the one year risk free reference rate.
- The property risk premium is 1.5%.
- Returns on corporate bonds reference actual yields from assets held.

(c) Effective tax rates

The weighted average effective tax rate that applies to the cash flow projections in OMLAC(SA) at 30 June 2016 is 29% (30 June 2015: 29%, 31 December 2015: 29%).

6.2 Non-economic assumptions

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

These assumptions are based on the covered business being part of a going concern. Favourable changes in maintenance expenses, such as productivity improvements, are generally not included beyond what has been achieved by the end of the reporting period.

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

- All expected maintenance expense overruns affecting the covered business are allowed for in the calculations.
- The MCEV makes provision for future development costs and one-off expenses relating to in-force covered business that are known with sufficient certainty, based on three-year business plans. The provision is reduced to the extent that projects have associated benefits that are directly quantifiable and are considered to emerge within a reasonable timeframe (e.g. over the business plan period).
- Notional unallocated Old Mutual plc holding company expenses have been included to the extent that they are allocated to the covered business. The future expenses attributable to the long-term business in Emerging Markets at 30 June 2016 are R102 million (30 June 2015: R82 million; 31 December 2015: R173 million). The allocation of these expenses is based on the proportion that the management expenses incurred by the covered businesses bears to the total management expenses incurred by Old Mutual plc.