MCEV disclosure for covered business in Emerging Markets

For the year ended 31 December 2015

Contents

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For the year ended 31 December 2015

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

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

The MCEV for 31 December 2015 has been calculated predominantly using a bond yield curve, rather than the swap curve as the reference rate (consistent with the basis used in June 2015). This aligns with the anticipated Solvency Assessment and Management (SAM) reporting basis, but departs from MCEV principles. The use of the bond curve is discussed further in section 6.

1.1 Headline MCEV results

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

- MCEV operating earnings of R7,529 million in 2015 are 48% higher than in 2014 driven by an increase in the expected return, a 24% increase in the value of new business (VNB), and the favourable impact of both experience variances and modelling changes in 2015.
- The growth in VNB of 24% compared to 2014 arose as a result of a 25% increase in the present value of new business premiums (PVNBP) driven by increased sales volumes.
- Experience variances (excluding development costs) were on the whole positive, with continued mortality profits being partially offset by expense losses arising from continued investment in the business. Persistency profits returned following some years of losses. A reclassification of profits from life wrapped business invested in Old Mutual Unit Trusts also contributed to the positive performance.
- In light of our experience variances, mortality and persistency assumption changes were much smaller than in 2014 (though still positive), whilst expense assumption changes were negative reflecting both our continued investments the business and provision for ongoing regulatory and financial reporting changes.
- In 2015 we took the opportunity to align the local statutory reserving basis for Retail Affluent investment contracts with the published reporting basis. This has a significant one-off impact on MCEV earnings of R623 million, contributing 1.1% to the uplift in the return.
- The overall annualised operating return on embedded value (RoEV) has increased to 13.5% from 9.9% at 31 December 2014, primarily due to the positive earnings mentioned above.
- Overall investment markets did not perform as well in 2015 compared to 2014 resulting in negative economic variances.

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 31 December 2015.

		Rm
Emerging Markets	**At 31 December 2015**	At 31 December 2014
Adjusted net worth (ANW)[1]	**25,063**	31,442
Free surplus	**5,953**	11,219
Required capital	**19,110**	20,223
Value of in-force (VIF)	**31,248**	24,502
Present value of future profits (PVFP)	**37,359**	30,736
Frictional costs	**(3,619)**	(3,749)
Cost of residual non-hedgeable risks (CNHR)	**(2,492)**	(2,485)
MCEV	**56,311**	55,944

[1]As of 31 December 2015, the allocation of debt instruments between business units is consistent between IFRS reporting and MCEV reporting.

The MCEV increased by 0.7% compared to 31 December 2014 due to favourable operating earnings which were mostly offset by large capital transfers, including net dividend payments.

In anticipation of SAM, a methodology change to align the local statutory reserving basis with the published reporting basis for Retail Affluent investment contracts was made. This reduced ANW by R3,647 million, resulted in a reduction in required capital of R2,559 million, and increased VIF by R4,271 million (refer to section 2.6 for further information).

Frictional costs and the cost of residual non-hedgeable risks remained largely flat with methodology changes being largely 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 31 December 2015

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

		Year ended 31 December 2015				Rm
	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	2.4	**(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	2.8	**(4,722)**	**-**	**(4,722)**	**-**	**(4,722)**
Foreign exchange variance	2.8	**309**	**415**	**724**	**280**	**1,004**
Other[2]	2.8	**(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[1]						**13.5%**

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

[2]Other closing movements 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.

2.1 Prior period comparatives

Analysis of change for covered business for the year ended 31 December 2014

		Year ended 31 December 2014				
	Note	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Opening MCEV		8,854	19,408	28,262	23,210	51,472
New business value	2.2	(2,116)	1,577	(539)	2,477	1,938
Expected existing business contribution (reference rate)		456	902	1,358	1,838	3,196
Expected existing business contribution (in excess of reference rate)		63	155	218	290	508
Transfers from VIF and required capital to free surplus		5,422	(2,149)	3,273	(3,273)	-
Experience variances (excluding development costs)	2.3	319	(130)	189	(359)	(170)
Experience variances - development costs		(412)	-	(412)	3	(409)
Assumption changes	2.5	912	138	1,050	(158)	892
Other operating variance	2.6	(845)	(1)	(846)	(9)	(855)
Operating MCEV earnings		3,799	492	4,291	809	5,100
Economic variances		(172)	211	39	459	498
Other non-operating variance		54	-	54	138	192
Total MCEV earnings		3,681	703	4,384	1,406	5,790
Closing adjustments		(1,316)	112	(1,204)	(114)	(1,318)
Capital and dividend flows		(1,393)	19	(1,374)	-	(1,374)
Foreign exchange variance		77	93	170	55	225
Other		-	-	-	(169)	(169)
Closing MCEV		11,219	20,223	31,442	24,502	55,944
Return on MCEV (RoEV)% per annum[1]						9.9%

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

2.2 New business

Sales volumes were higher overall, mainly due to the significant growth in Retail Affluent of single and recurring savings business together with single premium savings growth and a significant inflation-linked annuity deal in Corporate Segment. Mass Foundation produced good growth in sales following the launch of the new range of funeral products. The following section provides additional detail on the drivers of new business value and new business information, by Emerging Markets business segment.

(a) Drivers of new business value

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

		%
	31 December 2015	31 December 2014
Margin at the end of comparative reporting period	**3.4**	4.0
Change in volume and new business expenses	**(0.1)**	(0.6)
Change in country and product mix	**(0.5)**	(0.4)
Change in operating assumptions[1]	**0.5**	0.1
Change in economic assumptions	-	0.1
Change in tax/regulation	-	0.2
Margin at the end of the reporting period	**3.3**	3.4

[1] Includes operating assumption changes, other operating variances and change in the treatment of OMUT.

The negative 0.5% impact of change in country and product mix impact primarily reflects the impact of:

- a less profitable mix of business in Corporate Segment (particularly due to the large inflation-linked annuity deal, where anticipated credit spreads are not reflected on an MCEV basis, and a lower proportion of Group Assurance sales compared to 2014);
- an increased proportion of lower margin savings sales of Tax Free Savings Account, Wealth and XtraMax relative to Greenlight and Max recurring premium sales in Retail Affluent; and
- a lower proportion of Group Assurance and Absolute Secure Growth portfolio sales in Namibia

being partly offset by a higher proportion of sales of more profitable risk business in Mass Foundation in 2015.

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 now reflected in VNB of R142 million, increasing the PVNBP margin by 0.2%, as well as the favourable impact of December 2015 assumption changes, increasing the PVNBP margin by 0.3%. These included lower expense assumptions in Mass Foundation, mortality assumption changes in Retail Affluent and lower termination assumptions in Corporate Segment pre-retirement business.

(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

Year ended 31 December 2015 **Rm**

	Annualised recurring premiums	Single premiums	PVNBP	PVNBP capitali-sation[1]	APE[2]	VNB[3]	PVNBP margin
South Africa	5,709	35,268	64,417	5.1	9,237	**2,190**	3.4%
Retail Affluent	1,801	16,944	24,689	4.3	3,495	**653**	2.6%
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%
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 unit trust component of 2-IN-ONE savings product, which is not modelled on an MCEV basis
[3] The VNB and margins are calculated using start of period economic assumptions, where the risk free rate is defined as being based on the swap curve. Using the start of period government bond curve rather than the start of period risk free swap curve would have had a negligible impact on the PVNBP margin.
[4] Other African Countries include Malawi, Swaziland, Nigeria and Ghana
[5] Asia and Latin America includes Mexico only

Emerging Markets covered business new business

Year ended 31 December 2014 **Rm**

	Annualised recurring premiums	Single premiums	PVNBP	PVNBP capitali-sation[1]	APE[2]	VNB	PVNBP margin
South Africa	5,165	23,770	51,664	5.4	7,541	1,702	3.3%
Retail Affluent	1,403	13,699	20,794	5.1	2,773	426	2.0%
Mass Foundation	2,891	29	11,300	3.9	2,893	1,035	9.2%
Corporate	871	10,042	19,570	10.9	1,875	241	1.2%
Rest of Africa	628	1,453	4,463	4.8	773	246	5.5%
Namibia	353	884	2,718	5.2	441	211	7.8%
Zimbabwe	117	440	1,050	5.2	161	81	7.7%
Kenya	55	-	146	2.7	55	(22)	-14.8%
Other African Countries[3]	103	129	549	4.1	116	(24)	-4.6%
Asia & Latin America[4]	223	1,025	1,406	1.7	325	(10)	-0.7%
OMEM Covered Business	6,016	26,248	57,533	5.2	8,639	1,938	3.4%

[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 unit trust component of 2-IN-ONE savings product, which is not modelled on an MCEV basis
[3] Other African Countries include Malawi, Swaziland, Nigeria and Ghana
[4] Asia and Latin America includes Mexico only

South Africa: Increased sales were the main driver of the increase in VNB, as discussed above.

Namibia: Continued strong sales have driven the stable VNB. Changes in the mix of business towards a lower proportion of Group Assurance and Absolute Secure Growth Portfolio sales compared to 2014, have resulted in a lower PVNBP margin.

Zimbabwe: VNB increased due to higher sales in general, however, the PVNBP margin has decreased due to a higher proportion of low margin savings 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 Other African Countries has improved due to the higher proportion of sales in Malawi. Model improvements during 2015 resulted in a lower PVNBP margin for Asia & Latin America.

The increased proportion of shorter duration products being sold, such as Mass Foundation's 2-IN-ONE savings product and Retail Affluent's Tax Free Savings Account, is reflected in the lower PVNBP capitalisation factor.

MCEV disclosure for covered business in Emerging Markets

For the year ended 31 December 2015

(c) Additional new business written by Emerging Markets

The Emerging Markets part of the disclosure supplement sets out the information for non-covered business sales, which relate to unit trust sales and third party flows into segregated funds.

New business single premiums of R3,349 million (2014: R2,745 million), annualised recurring premiums of R1,304 million (2014: R602 million), and APE of R1,639 million (2014: R877 million) in respect of the life business in Colombia, India and China for the twelve months ended 31 December 2015 have been excluded from the above tables, as these businesses are not modelled on an MCEV basis.

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 R13,782 million (2014: R14,073 million) 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. In addition, annualised new business recurring premiums of R391 million (2014: R189 million) in respect of the unit trust component of the new Mass Foundation 2-IN-ONE savings product is also excluded from the tables above, as this business is not modelled on an MCEV basis.

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)

Rm

	Year ended 31 December 2015			Year ended 31 December 2014		
	Adjusted net worth	Value of in-force	**MCEV**	Adjusted net worth	Value of in-force	**MCEV**
Persistency	186	(127)	**59**	(12)	(186)	**(198)**
Risk	564	(92)	**472**	837	(76)	**761**
Expenses	(133)	(63)	**(196)**	(271)	(31)	**(302)**
Other	(51)	123	**72**	(365)	(66)	**(431)**
Experience variances	566	(159)	**407**	189	(359)	**(170)**

There were positive experience variances (excluding development costs) of R407 million in 2015 mainly due to continued strong positive mortality experience variances, partly offset by negative expense variances.

(a) Persistency variance

Persistency experience variance has improved significantly in Mass Foundation following the assumption changes made at December 2014. Positive net worth variances have emerged in Mass Foundation, Retail Affluent and Namibia. The negative VIF experience variances reflect the impact of adverse persistency experience on retail savings business, partly offset by better than expected retention on Corporate Segment business.

(b) Risk variance

The favourable mortality experience seen in recent years has continued into 2015 across all segments, although at lower levels than in 2014 following assumption changes made in December 2014. Retail Affluent risk profits were in line with 2014 due to an improved Greenlight disability variance. Losses emerged in Corporate Segment permanent health insurance mainly due to a higher number of disability income benefit claims, but this was mostly offset by strong profits on the group life assurance book.

(c) Expense variance

Expense variance consists mainly of central operating costs supporting the wider Emerging Markets business, partially offset by expense profits in the South African and Namibian business units. The negative expense variances in 2015 are lower than in 2014 due to improved efficiencies in Corporate Segment, Mass Foundation and Rest of Africa, notwithstanding the lower variance on tax relief on expenses following the assumption change made in 2014.

(d) Other experience variances

Other experience variances are positive in 2015. The 2014 variance included the capitalised impact of lowering the fees on certain products in Retail Affluent which was not repeated in 2015. Other experience variances also improved due to margins earned on life wrapped products invested in Old Mutual Unit Trusts being included for the first time. The recognition of the capitalised value of future earnings from these products is included as part of other closing adjustments (i.e. not part of operating MCEV earnings).

2.4 Experience variances – development costs

Development cost variances have increased mainly due to 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 the Old Mutual Group;
- Development of distribution channels; and
- Investment in information technology to improve customer experience and deliver efficiencies.

2.5 Assumption changes

Experience driven assumption changes Rm

	Year ended 31 December 2015			Year ended 31 December 2014		
	Adjusted net worth	Value of in-force	**MCEV**	Adjusted net worth	Value of in-force	**MCEV**
Persistency	-	8	**8**	(520)	(73)	**(593)**
Risk	270	52	**322**	1,579	(90)	**1,489**
Expenses	288	(762)	**(474)**	(9)	5	**(4)**
Assumption changes	558	(702)	**(144)**	1,050	(158)	**892**

(a) Persistency assumption changes
In light of the positive persistency experience variances in 2015, no material persistency assumption changes were made. Experience will continue to be monitored closely given the difficult economic environment in South Africa and Zimbabwe.

(b) Risk assumption changes
2015 assumption changes mainly relate to the increase in mortality rates used to value the annuity component of the Retail Affluent Capital Preservation Option offering. For a number of years, mortality experience has been heavier than assumptions and therefore the assumptions have been adjusted accordingly.

(c) Expense assumption changes
The positive ANW expense assumption change reflects reserving basis changes due to Mass Foundation having capacity to take on more business without substantially increasing cost and therefore achieving economies of scale.

The negative VIF expense assumption change reflects the allowance for central once-off and project expenditure over the business planning period which have been allocated to covered business, and expense provisions in Corporate Segment in respect of retirement fund administration and consulting businesses. The most material central project expenditure relates to the continued investment in the business through the OMEM IT transformation program and several regulatory compliance projects, including IFRS 4 and IFRS 9.

2.6 Other operating variance

Other operating variances mainly relate to the methodology change to align the statutory reserving basis (consistent with local regulatory basis) with the published reporting basis for Retail Affluent investment contracts in order to achieve operational efficiencies in reporting. This increased the statutory liability for Retail Affluent investment contracts to the account balance value of policyholder funds, consistent with the basis used for IFRS reporting. The change led to an increase in MCEV of R623 million, made up of:

- The deferral of reported profits, decreasing ANW (by R3,647 million) and increasing PVFP by R3,399 million;
- Capital requirements were reduced by R2,599 million, since the liability for these contracts increased, leading to a lower frictional cost (R421 million); and
- The strategic allocation of assets backing required capital was changed to include a higher proportion of equity, the income on which is taxed at a lower rate than the cash previously allocated to capital. This has resulted in a reduction of R451 million in frictional costs.

In addition to the above, we have aligned the management actions allowed for in the Zimbabwe required capital calculation to those used in the South African business. This reduced required capital by R1,522 million.

Other operating variances are significantly positive in 2015 mainly due to the items above. This compares to a large negative in 2014 where we shared some of the lightening of mortality rates with policyholders in our Mass Foundation by granting special cover increases over the next five years.

MCEV disclosure for covered business in Emerging Markets

For the year ended 31 December 2015

2.7 Economic variances

Analysis of economic variances

Rm

	Year ended 31 December 2015			Year ended 31 December 2014		
	Adjusted net worth	Value of in-force	MCEV	Adjusted net worth	Value of in-force	MCEV
Investment variance on in-force business	609	(327)	**282**	538	697	**1,235**
Investment variance on adjusted net worth	(675)	0	**(675)**	(495)	0	**(495)**
Impact of economic assumption changes	12	186	**198**	(4)	(238)	**(242)**
Economic Variances	(54)	(141)	**(195)**	39	459	**498**

For the purposes of analysing the movement in the MCEV arising from economic changes the move from the use of the swap curve to the bond curve as the risk free reference rates was the last item analysed. This means that investment variances and assumption changes, have, until this final step, been assessed against the swap curve as opposed to the bond curve.

(a) Investment variance on in-force business

The positive impact on ANW of investment variance on in-force business consists mainly of:

- Positive performance on non-profit annuity portfolios due to the yield pick up on credit asset portfolios backing these liabilities, partly offset by mark to market losses as a result of the credit asset revaluations of parastatal assets; and
- Higher than expected net investment returns; as well as the capitalisation of higher asset-based margins (calculated off higher fund values)

The negative VIF impact of investment variance on in-force business mainly arises on non-profit annuity portfolios which are backed by government bonds. It reflects a widening of the difference between the long term bond and swap yields (which are below bond yields) resulting in a lower future expected investment growth assumption relative to that expected on the reserving basis (based on bonds). This variance will not emerge in future following the change in the risk free reference rate to government bonds referred to in 2.7 (c). In addition, the fall in Zimbabwe market values over 2015 resulted in a decrease in VIF due to the capitalisation of lower asset-based capital charges.

(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 due to the fall in markets towards the end of 2015. Following the acquisition of UAP, the investment return was also earned off a lower base.

(c) Effect of economic assumption changes

The positive economic assumption changes mainly relate to:

- An increase in swap rates, on which the economic assumptions are based. This resulted in a decrease in VIF of R549 million mainly due to the negative impact of higher discount rates, partly offset by the positive impact of higher projected investment growth assumptions. Most of the move in the swap rates over 2015 occurred in December.
- A reduction in the Investment Guarantee Reserve ('IGR') over 2015 mainly due to higher swap yield curves and market movements in equity and swaption volatilities resulting in an increase in the discretionary IGR margin and VIF of R94 million.
- The change in the risk free reference rate in South Africa and Namibia from one based on the swap curve to one aligned to the anticipated Solvency Assessment and Management (SAM) rules which mainly use the government bond curve (positive impact of R653 million).

2.8 Closing adjustments

(a) Capital and dividend flows
Capital and dividend flows relate to

- Net dividends paid from OMEM covered business of R1,477 million, compared to R1,342 million in 2014.
- The funding of the continued expansion into Africa, particularly through the purchase of UAP of R2,973 million, the bulk of which is relates to non-life business and is hence not included in MCEV.

(b) Foreign exchange variance
The foreign exchange variance relates mainly to the appreciation of the US Dollar relative to the Rand, increasing the value of the Zimbabwe business.

(c) Other closing adjustments
Significant net transfer items relate mainly to:

- Repayment of the subordinated debt issued in 2005 of R3.0 billion, the liability for which was included at an Old Mutual plc level.
- Recognising the liability to repay the subordinated debt issued by OMLAC(SA) in 2014 in the Emerging Markets ANW of R996 million (as opposed to the inclusion at an Old Mutual plc level previously).
- The cost of financing the subordinated debt during the period of R386 million.
- The valuation of profit margins earned on life wrapped products invested in Old Mutual Unit Trusts (VIF of R740 million), which was previously included in non-covered business.
- The debt issued in 2015 had no material impact on MCEV, since the recognition of the liability was offset by debt proceeds.

2.9 Operating MCEV earnings by territory

		Rm
	Year ended 31 December 2015	Year ended 31 December 2014
South Africa	6,572	4,505
Rest of Africa	1,065	696
Namibia	716	399
Zimbabwe	469	424
Kenya	(44)	(9)
Other African Countries	(76)	(118)
Asia & Latin America	(108)	(101)
OMEM MCEV Operating Earnings	7,529	5,100

- **South Africa:** The increase in MCEV operating earnings relates mainly to the positive impact of improved experience variances, a higher expected return, a higher VNB, and positive methodology changes, as discussed throughout section 2 above.
- **Namibia:** The increase in MCEV operating earnings relates mainly to improved persistency experience variances, a higher expected return and positive methodology changes.
- **Kenya:** The decrease in MCEV operating earnings for Kenya relates mainly to development expenses incurred in 2015 to support the integration of UAP into the Old Mutual Group.
- **Asia & Latin America:** Negative MCEV operating earnings is driven by negative assumption changes and other operating variances (resulting from modelling improvements and corrections in 2015). We continue to build scale in the Mexican life business and as such the VNB is currently negative.

MCEV disclosure for covered business in Emerging Markets

For the year ended 31 December 2015

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.

		Rm
	At 31 December 2015	At 31 December 2014
OMEM IFRS Net Asset Value	**41,159**	**38,645**
Less IFRS net asset value for non-covered business	(18,303)	(13,349)
IFRS net asset value for Covered Business[1]	**22,856**	**25,296**
Adjustment to include long-term business on a statutory basis	(941)	2,667
Inclusion of Group equity and debt instruments held in life funds	3,799	4,083
Goodwill	(156)	(129)
Other[2]	(495)	(475)
Adjusted net worth attributable to ordinary equity holders of the parent	**25,063**	**31,442**
Value of in-force business	**31,248**	**24,502**
MCEV	**56,311**	**55,944**

[1]The liability to repay the OMLAC(SA) subordinated debt issued in 2005 is not included the IFRS net asset value as it is not allocated to Emerging Markets MCEV covered business.

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

The increase in IFRS net asset value of non-covered business is driven by the acquisition of UAP, retained earnings in CABS and currency movements increasing the value of CABS, which is reported in US Dollars.

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. 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.

		Rm
	Year ended 31 December 2015	Year ended 31 December 2014
OMEM Life and Savings AOP post-tax & NCI	**5,831**	**5,052**
Less AOP Life and Savings post-tax & NCI of non-covered business	(257)	(95)
OMEM AOP post-tax & NCI for covered business	5,574	4,957
Alignment of Statutory basis to IFRS basis (ANW impact)	(3,647)	-
OMUT Life profits included in asset management[1]	111	-
Other Adjustments[2]	(134)	(666)
Adjusted Net Worth operating earnings	**1,904**	**4,291**
Alignment of Statutory basis to IFRS basis (Impact on Value of in-force)	4,271	-
Other Value of in-force operating earnings[3]	1,354	809
Covered business MCEV operating earnings	**7,529**	**5,100**

[1] Included in the asset management AOP after tax is R111m of profits relating to life-wrapped business invested in OMUT unit trusts. These profits have been accounted for as covered business in MCEV reporting for full year 2015. The VIF as at 31 December 2015 in respect of these future profits is R882 million, made up of R740 million in respect of in-force business and R142 million in respect of new business.

[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 year as set out in section 2, other than the impact of the Alignment of the Statutory basis to the IFRS basis.

The adjustment reflects the alignment of the statutory liability basis to the IFRS liability basis for Investment Contracts which impacted ANW earnings but not IFRS earnings. The impact of this change on ANW earnings and VIF earnings is discussed in section 2.6.

The growth in VIF earnings is driven mainly by the increased VIF contribution from new business and the impact of capitalising future profits from life-wrapped business invested in OMUT unit trusts, partially offset by the negative VIF impact of assumption changes.

4 Expected return for following period

The following table sets out the expected existing business contribution for the year ending 31 December 2016, based on the 31 December 2015 closing MCEV.

					Rm
	Year ended 31 December 2016				
	Free surplus	Required capital	Adjusted net worth	Value of in-force	MCEV
Expected existing business contribution (reference rate)	710	1,387	2,097	3,141	5,238
Expected existing business contribution (in excess of reference rate)	134	254	388	446	834

MCEV disclosure for covered business in Emerging Markets

For the year ended 31 December 2015

5 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 year ended 31 December 2015 and the year ended 31 December 2014 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.
- **Equity/property market value 10% increase/decrease:** Equity and property market value increasing/decreasing by 10%, with all pre-tax investment and economic assumptions unchanged.
- **10bps increase of liquidity spreads:** Recognising the present value of an additional 10bps of liquidity spreads assumed on corporate bonds over the lifetime of the liabilities (annuities and Fixed Bonds only), with credited rates and discount rates changing commensurately.
- **50bps contraction on corporate bond spreads**.
- **25% increase in equity/property and swaption implied volatilities:** 25% multiplicative increase in implied volatilities.
- **10% decrease in discontinuance rates/10% decrease in maintenance expenses:** Maintenance expense levels decreasing by 10%, with no corresponding decrease in policy charges.
- **5% decrease in mortality/morbidity rates:** Mortality and morbidity assumptions for assurances decreasing by 5%, with no corresponding decrease in policy charges.
- **5% decrease in annuitant mortality assumption:** Mortality assumption for annuities decreasing by 5%, with no corresponding increase in policy charges.
- **Minimum capital requirement:** Required capital equal to the minimum statutory requirement.
- **NHR capital diversification:** Residual non-hedgeable risk capital reduced to incorporate diversification benefits between hedgeable and non-hedgeable risks for covered business.
- **VNB on closing economic assumptions:** Value of new business calculated on economic assumptions at the end of the reporting period.

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	**31 December 2015**	31 December 2014
Central assumptions	**56,311**	55,944
Value given changes in:		
Economic assumptions 100bps increase	**56,017**	55,520
Economic assumptions 100bps decrease	**56,704**	56,279
Equity/property market value 10% increase	**57,963**	57,431
Equity/property market value 10% decrease	**54,650**	54,447
10bps increase of liquidity spreads	**56,443**	56,092
50bps contraction on corporate bond spreads	**56,468**	56,095
25% increase in equity/property implied volatilities	**55,277**	54,809
25% increase in swaption implied volatilities	**56,250**	55,923
10% decrease in discontinuance rates	**57,801**	57,233
10% decrease in maintenance expenses	**58,212**	57,849
5% decrease in mortality/morbidity rates	**58,101**	57,685
5% decrease in annuitant mortality assumption	**56,180**	55,893
Minimum capital requirement	**57,096**	56,638
NHR capital diversification	**56,749**	56,364

VIF	31 December 2015	31 December 2014
		Rm
Central assumptions	**31,248**	24,502
Value given changes in:		
Economic assumptions 100bps increase	**30,944**	24,065
Economic assumptions 100bps decrease	**31,653**	24,852
Equity/property market value 10% increase	**32,504**	25,543
Equity/property market value 10% decrease	**29,982**	23,451
10bps increase of liquidity spreads	**31,380**	24,650
50bps contraction on corporate bond spreads	**31,248**	24,502
25% increase in equity/property implied volatilities	**30,214**	23,367
25% increase in swaption implied volatilities	**31,187**	24,481
10% decrease in discontinuance rates	**32,738**	25,791
10% decrease in maintenance expenses	**33,149**	26,407
5% decrease in mortality/morbidity rates	**33,038**	26,243
5% decrease in annuitant mortality assumption	**31,117**	24,451
Minimum capital requirement	**32,033**	25,196
NHR capital diversification	**31,686**	24,922

VNB	31 December 2015	31 December 2014
		Rm
Central assumptions	**2,394**	1,938
Value given changes in:		
Economic assumptions 100bps increase	**2,281**	1,845
Economic assumptions 100bps decrease	**2,497**	2,014
Equity/property market value 10% increase	**2,394**	1,938
Equity/property market value 10% decrease	**2,394**	1,938
10bps increase of liquidity spreads	**2,395**	1,947
50bps contraction on corporate bond spreads	**2,401**	1,938
25% increase in equity/property implied volatilities	**2,394**	1,938
25% increase in swaption implied volatilities	**2,394**	1,938
10% decrease in discontinuance rates	**2,869**	2,365
10% decrease in maintenance expenses	**2,555**	2,098
5% decrease in mortality/morbidity rates	**2,593**	2,127
5% decrease in annuitant mortality assumption	**2,376**	1,928
Minimum capital requirement	**2,442**	1,998
NHR capital diversification	**2,427**	1,969
Closing economic assumptions	**2,278**	1,928

Increasing/decreasing all pre-tax investment and economic assumptions by 100bps, with credited rates and discount rates changing commensurately, but keeping projected inflation unchanged would change the VIF to R31,108m (100bps increase) and R31,428m (100bps decrease) respectively.

6 Methodology

The following section provides information on the methodology used to calculate MCEV results. The methodology used to calculate MCEV at 31 December 2015 is consistent with 31 December 2014 unless explicitly noted in this disclosure.

6.1 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 October 2009 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.

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 31 December 2015. 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 (Zimbabwe, Kenya, Malawi, Swaziland, Nigeria and Ghana) has been included on an MCEV basis, although simplified approaches have been used where appropriate to the size of the business, or where insufficient market data is available to perform full bottom-up MCEV calculations.

Note also that detailed consolidated disclosure information has not been prepared for the Old Mutual Group 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 Group 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.

6.2 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) Adjusted net worth (ANW)

The ANW is the market value of shareholders' assets held in respect of the covered business after allowance for the liabilities which are determined by local regulatory reserving requirements. In a change from the approach adopted in 2014, we have allowed for the liability to repay and finance the subordinated debt allocated to the covered business in the ANW.

(c) 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.

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 the market value of the Group's investments in banking in South Africa. On consolidation these investments are shown separately. This applies to both required capital and free surplus in respect of Emerging Markets's holding in Nedbank.

(d) Free surplus

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

(e) Value of in-force (VIF) covered business

VIF is the allowance for the future profits net of reinsurance expected to emerge from in-force covered business, after allowing for the cost of non-hedgable risk, the frictional cost of required capital and the time value of options and guarantees. The results are adjusted for default risk of reinsurers where material.

(f) Present value of future profits

The PVFP is calculated as the discounted value of future distributable earnings (taking account of local statutory reserving requirements) that are expected to emerge from the in-force covered business, including the value of contractual renewal of in-force business, on a best estimate basis where assumed earned rates of return and discount rates are equal to the risk free reference rates.

(g) Financial options and guarantees

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

The time value of financial options and guarantees describes that part of the value of financial options and guarantees that arises from the variability of future investment returns on assets to the extent that it is not already included in the local statutory reserves. For Emerging Markets, the full market consistent value of financial options and guarantees is already reflected in the local statutory reserves, so no additional allowance is required.

The calculation of the value of financial options and guarantees (including the allowance in ANW and VIF components of MCEV) is based on market consistent stochastic modelling techniques.

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

(h) Frictional costs of required capital

From the shareholders' perspective there is a cost due to restrictions on the distribution of required capital that is locked in entities within the Group. An allowance has been made for the frictional costs in respect of the taxation on investment return and investment costs on the assets backing the required capital for covered business, where material.

The run-off pattern of the required capital is projected on an approximate basis over the lifetime of the underlying risks.

(i) 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 R16,186 million at 31 December 2015 (R15,603 million at 31 December 2014). The risk considered include mortality and morbidity, persistency and expense risk (among others), but excludes market risks.

(j) Participating business

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

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

(k) 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. Risk business sold as from 1 January 2016 will be allocated to this fund, where investment returns will roll up gross of tax and the insurer will be taxed purely on the profit generated in the fund. 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. This has not yet been allowed for in the MCEV calculations as at 31 December 2015.

(l) New business and renewals

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

VNB includes contractual renewals and voluntary increments that are not allowed for in PVFP. Where increases are allowed for in PVFP, variations from this expectation are classified as experience variance, rather than new business.

The key principles applied in calculating VNB are noted below:

- Economic assumptions at the start of the reporting period are used, except for OMLAC(SA)'s Non-Profit Annuity products where point of sale assumptions are used that are consistent with the pricing basis.
- Demographic and operating assumptions at the end of the reporting period are used.
- VNB is calculated at point of sale and rolled forward to the end of the reporting period.
- Generally a stand-alone approach is used unless a marginal approach would better reflect the additional value to shareholders created through the activity of writing new business.
- Expense allowances include all acquisition expenses, including any acquisition expense overruns. Strategic business development expenses are excluded.
- VNB is calculated net of tax, reinsurance and non-controlling interests.
- Economic and operating variances are not attributed to VNB.

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

7 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 2014 calculations unless explicitly stated as a change in this disclosure note.

7.1 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. From 31 December 2015 onwards, the Bond curve is used in MCEV reporting.

A liquidity premium adjustment has been applied to OMLAC(SA)'s Immediate Annuity business and Fixed Bond business. For OMLAC(SA)'s Immediate Annuity business the adjusted risk free reference rates were derived at 31 December 2015 by adding 60bps of liquidity premium for this business (2014: 55bps) to the reference rates used for setting investment return and discounting assumptions. For OMLAC(SA)'s Fixed Bond products 60bps of liquidity premium was added to the reference rates (2014: 50bps).

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. For 31 December 2015 we show the risk free rates and associated inflation based on both government bonds and swaps.

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

		%
	Risk free rate	**Expense inflation**
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**
At 31 December 2015 (swap curve)		
1 year	7.7	6.6
5 years	9.3	8.1
10 years	9.9	8.7
20 years	10.2	9.0
At 31 December 2014 (swap curve)		
1 year	6.6	6.3
5 years	7.6	6.9
10 years	8.3	7.5
20 years	9.1	8.2

(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 31 December 2015 is 29% (31 December 2014: 29%).

7.2 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).
- Unallocated Old Mutual Group 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 31 December 2015 are R173 million (31 December 2014: R172 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 the Group.