# NEWS **RELEASE**

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*9 March 2017*

## Old Mutual plc preliminary results for the year ended 31 December 2016

Old Mutual plc, whose managed separation strategy aims to result in four strong independent businesses, today publishes its results for the year to 31 December 2016.

### Bruce Hemphill, Group Chief Executive, said:

*"We are delivering on our promises: we sold down part of our stake in OM Asset Management, materially reduced our debt, cut head office costs and made significant strides in preparing the businesses for independence. While the macroeconomic conditions have been tough in 2016, our businesses have performed resiliently, with a stronger performance in the second half, demonstrating the underlying strengths of the franchises. We expect 2017 to be a year characterised by the hard work required to get the businesses ready for separation in 2018. We are confident that the managed separation will unlock and deliver long-term shareholder value."*

## Summary financial results:

- Adjusted Net Asset Value (NAV) at 228.6p per share (2015: 178.9p per share), due to favourable currency movements and an increase in the market value of Nedbank;
- Pre-tax adjusted operating profit (AOP) of £1.7 billion, broadly flat year-on-year in constant and reported currency;
- AOP earnings per share (EPS) of 19.4p broadly flat (2015: 19.3p) in constant and reported currency, basic EPS of 11.9p (2015: 12.7p);
- IFRS pre-tax profit of £1.2 billion (2015: £1.2 billion), including impairments of £160 million in 2016 in respect of Ecobank Transnational Incorporated (ETI), Old Mutual Southern and East Africa (OMSEA) and Old Mutual Wealth Italy;
- Second interim dividend of 3.39p; total dividend of 6.06p, representing a cover ratio of 3.2 times on AOP;
- FUM (excluding Rogge) at £394.9 billion up 30%; NCCF of £6.4 billion, excluding Rogge (2015: £6.6 billion).

## Delivering the managed separation:

Managed separation aims to deliver value through the removal of plc central operational costs, by unlocking the conglomerate discount and by delivering enhanced performance of the underlying businesses.

Removal of plc central operational costs:

- Plc net operational cost savings identified of circa £95 million by 2019 from a base of 2015. The one-off costs to unlock these net operational savings will be circa £130 million.

Unlocking the conglomerate discount:

- Progressing preparations for the transactions needed to execute the managed separation which we expect to occur in 2018;
- Reduced stake in OMAM to 51% raising net proceeds of £230 million;
- Sold Old Mutual Wealth (OMW) Italy for net proceeds of £210 million;
- Materially reduced holding company debt by £385 million, reducing annual finance costs by £21 million in 2017;
- Expected one-off transaction advisory and listing costs (excluding capital items) estimated to be at least £100 million.

Enhanced business performance:

- Old Mutual Emerging Markets' (OMEM) future focus will be on sub-Saharan Africa and, following a review of its business, OMEM will be implementing a new target operating model designed to deliver meaningful cost savings and build a foundation for cost discipline while delivering business growth;
- OMEM Board strengthened by the appointment of Trevor Manuel as Chairman;
- OMW's strategy has been re-articulated, the perimeter simplified and is now implementing a new target operating model to support the investment case by driving top line growth and increasing operating leverage;
- OMW executive and non-executive capabilities strengthened by the recruitment of functional and industry specialists including the appointment of Glyn Jones as Chairman of OMW along with 5 other new non-executive Directors (NEDs).

## Old Mutual plc preliminary results for the year ended 31 December 2016

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Notes to the financial summary on the front page of this announcement

- All figures refer to core continuing operations. Core continuing operations exclude the results of the Bermuda business, which is classified as non-core.

  Constant currency figures are calculated by translating local currency prior-period figures at the prevailing exchange rates for the period under review.
- Adjusted operating profit (AOP) is an Alternative Profit Measure used alongside basic IFRS profit to assess underlying business performance. It is a non-IFRS measure of profitability that reflects the Directors' view of the underlying long-term performance of the Group. The calculation of AOP adjusts basic IFRS profit for a number of items as detailed in note C1 in the financial statements. AOP excludes the results of non-core operations, Old Mutual Bermuda but includes the results of the discontinued operation, Institutional Asset Management.

  The adjusting items applied in calculating AOP seek to remove the impact of strategic activities; short-term valuation movements; IFRS accounting treatments that are not reflective of the operating activity; and non-operating items. Due to the long-term nature of the majority of the Group's business, management believes that AOP is an appropriate alternative basis by which to assess the underlying operating results of these businesses and the Group as a whole and that it enhances the comparability and understanding of the financial performance of the Group.

  In the current year the amendments made to the AOP policy were to include the results of core discontinued operations in AOP and to exclude the impairment of investments in associated undertakings from AOP.

  In 2017, the Group will continue to assess the appropriate AOP treatment of one-off costs related to the managed separation. There were no material costs which required such consideration in the current year.

  The directors have reviewed the policy of determining AOP and are of the opinion that it is broadly in line with that of the peer group and is an appropriate basis on which to analyse the operating performance of the businesses.

  In addition to IFRS profit, the Group uses a number of alternative performance measures to assess the results of the business. Some measures are applicable to the Group as a whole, such as Adjusted Operating Profit, Free Surplus Generation Return on IFRS Equity and Adjusted Return on Equity. Others are more specific to the business lines within the component businesses of the Group, for example Net Client Cash Flows and Covered Sales. Definitions of the principal alternative performance measures (APM) adopted by the Group and its businesses, explanations of why they are relevant, and details of where to find the basis for calculating each measure are included in pages 35 to 36.
- MCEV information is subject to departures from MCEV Principles (Copyright© Stichting CFO Forum Foundation 2008) due to the use of the government bond yield curve in the majority of Emerging Markets.
- Old Mutual plc ('the Company' or 'plc') is a company incorporated in England and Wales and is the ultimate Parent Company of the Group companies. Plc Head Office collectively refers to the plc Parent Company and the other centre companies of the Group, which typically own and manage the Group's interests.
- The Group's reported segments are Old Mutual Emerging Markets, Nedbank, Old Mutual Wealth, Institutional Asset Management and plc Head Office, (which includes the plc Parent Company and the other centre companies of the Group, which typically own and manage the Group's interests).

### Cautionary statement

This announcement may contain certain forward-looking statements with respect to certain of Old Mutual plc's plans and its current goals and expectations relating to its future financial condition, performance and results and in particular estimates of future cash flows and costs. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances which are beyond Old Mutual plc's control including amongst other things, international and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, the policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing and impact of other uncertainties of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in the jurisdictions in which Old Mutual plc and its affiliates operate. As a result, Old Mutual plc's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Old Mutual plc's forward looking statements.

Old Mutual plc undertakes no obligation to update the forward-looking statements contained in this presentation or any other forward-looking statements it may make.

### Notes to editors

A webcast of the presentation on the preliminary results and Q&A will be broadcast live at 11:00 am UK time (1.00 pm South African time) today on the Company's website www.oldmutualplc.com. Analysts and investors who wish to participate in the call should dial the following numbers and quote the pass-code 39483558#:

| | |
|---|---|
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Playback (available for 30 days from 9 March 2017), using pass-code 682764#:

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Copies of these results, together with high-resolution images and biographical details of the directors of Old Mutual plc, are available in electronic format to download from the Company's website at www.oldmutual.com.

The following documents, containing financial data for 2016 and 2015, are also available from the Company's website.

- Presentation slides
- Appendix slides
- Financial Disclosure Supplement
- OMEM MCEV Supplementary information

### Sterling exchange rates

| | | **2016** | **2015** | **Appreciation / (depreciation) of local currency against sterling** |
|---|---|---|---|---|
| South African Rand | Average Rate | 19.93 | 19.52 | (2%) |
| | Closing Rate | 16.96 | 22.82 | 26% |
| US Dollar | Average Rate | 1.36 | 1.53 | 11% |
| | Closing Rate | 1.23 | 1.47 | 16% |

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# Part 2 – Detailed Business Review

## Group Executive Review

| Group highlights [1] | 2016 | 2015 (constant currency) | change | 2015 (as reported) | change |
|---|---|---|---|---|---|
| IFRS profit pre-tax (£m) [2] | **1,216** | | | 1,201 | 1% |
| IFRS profit post-tax attributable to equity holders of the parent (£m) [2] | **570** | | | 614 | (7%) |
| Adjusted operating profit (pre-tax, £m) | **1,667** | 1,653 | 1% | 1,663 | - |
| Adjusted operating earnings per share (pence) | **19.4p** | 19.3p | 1% | 19.3p | 1% |
| Adjusted return on equity [3] | **13.3%** | | | 14.2% | (90 bps) |
| Adjusted net asset value per share (pence) [4] | **228.6** | 221.5p | 3% | 178.9p | 28% |
| Gross sales (£bn) | **31.7** | 30.9 | 3% | 31.2 | 2% |
| Total customer numbers (millions) | **19.4** | | | 18.9 | 3% |
| Total dividend for the year (pence) | **6.06** | | | 8.90p | (32%) |

[1] The figures in the table are in respect of core and non-core continuing operations only, unless otherwise stated

[2] A full reconciliation of IFRS profit to AOP is shown later in Part 2 of this announcement

[3] ROE is calculated as AOP (post-tax and NCI) divided by average ordinary shareholders' equity (i.e. excluding the perpetual preferred callable securities).

[4] The adjusted Plc NAV per ordinary share uses an MCEV valuation basis for Old Mutual Emerging Markets covered business and the UK Heritage business in OMW as well as the market value of listed subsidiaries. Other businesses and other assets are included at IFRS NAV

## Group Review

### A resilient performance in the face of a challenging and uncertain external environment in our key markets

The external environment proved testing throughout 2016 with significant currency volatility, lower average equity markets and political uncertainty and shocks. The average value of the rand was down 2% against sterling for the full year while the average value of the US dollar was 11% higher. The average of the FTSE-100 for the year was 2% lower than 2015; the average of the JSE SWIX was 1% lower; and in the US, the average of the S&P 500 index was 2% up. AOP pre-tax was £1.7 billion, broadly flat in both constant and reported currencies. IFRS pre-tax profit was up 1% to £1.2 billion (2015: £1.2 billion). However, the IFRS post-tax profit attributable to equity holders of the parent was down 7% to £570 million for the year (2015: £614 million), largely due to impairments at ETI, OMSEA and OMW Italy and higher policyholder tax charges.

This is a resilient performance, and a much improved second half, given the overall flat markets and the external challenges the businesses had to face in our main markets. In the UK, investors remained cautious following the result of the "Brexit" vote although we experienced more normalised flows in the fourth quarter and also changes in regulation with regard to pension exit fees. In South Africa, the consumer remained under pressure due to weak economic growth, but this was mitigated by strict expense management, higher asset based fee income as well as assumption and basis changes. South Africa is our largest single market and the outlook for economic growth is improving but remains weak compared to previous periods.

## Managed Separation

In March 2016, we announced a new strategy for Old Mutual to unlock and create significant long-term value for our shareholders which is currently trapped within the Group structure. We believe the current structure inhibits efficient funding of future growth plans for the individual businesses, restricting them from reaching their full potential. The four underlying businesses – OMEM, Nedbank, OMW and OMAM – have benefitted from significant investment and each has strong growth prospects in sizeable markets, with good competitive positions and strong balance sheets. We intend to unlock value through the separation of the four underlying businesses from each other, so that each business:

- Can deliver enhanced performance relative to its peers and allow the market to value it appropriately;
- Is accountable directly to its shareholders for its level of returns and cash generation from capital employed;
- Has direct access to its natural shareholder base, and its local regulator is its lead regulator.

We intend to conduct this managed separation in a manner that creates maximum value for shareholders over time and intend for it to be materially complete by the end of 2018. As previously stated, implementation will require a balance to be struck between value, cost, time and risk relative to our broad stakeholder interests. The managed separation is complex to execute and negotiating the macro-environment in South Africa requires careful management.

Since announcing the strategy, Old Mutual plc has had three fundamental areas of focus to give effect to the managed separation. These are: ensuring the businesses are ready for their independent futures; executing a number of transactions, including material reduction of holding company debt; and winding down the plc Head Office and related balance sheet contingencies.

**Ensuring business readiness for separation**

We have previously highlighted that the timing of our delivery of the managed separation will be driven by the readiness of the underlying businesses for independence and, during 2017 we will be taking further steps to that end. In relation to the two unlisted businesses OMEM and OMW, which require the most preparation, we are: clarifying and tightening their strategies; reviewing their portfolios; setting stretch targets; implementing new operating models; strengthening their Boards and governance arrangements; while maintaining a rigorous focus on operational performance. While this is a complex task, we are progressing well.

At OMEM:

- We have concluded that the future focus of the business will be sub-Saharan Africa, with potential portfolio optimisation opportunities covering approximately R3.4 billion of the OMEM NAV;
- OMEM will be implementing a new target operating model which will deliver meaningful cost savings and build a foundation for cost discipline while delivering business growth;
- We have strengthened the Board of OMEM with the appointment of Trevor Manuel as Chairman;
- We have made good progress in the search for a new OMEM CEO.

At OMW:

- We believe OMW has a strong strategic position in an attractive market; OMW's strategy has been re-articulated, the perimeter simplified and a new target operating model agreed to support the investment case by driving top line growth and increasing operating leverage;
- Target Net Client Cash Flow (NCCF) of above 5% of opening FUM (excluding Heritage business);
- Continuing with UK Platform transformation, but facing raised project pressure which could potentially increase timescales and cost;
- OMW executive and non-executive capabilities have been strengthened by the recruitment of functional and industry specialists including the appointment of Glyn Jones as Chairman of OMW Board along with 5 other new NEDs.

**Executing transactions to effect the managed separation**

We indicated at our AGM on 28 June 2016 that our current plan for the managed separation envisages one or more transactions which will ultimately deliver two separate entities, listed on both the London and Johannesburg stock exchanges, into the hands of Old Mutual's shareholders. One will consist principally of the OMW operations, with the primary means of achieving this being through a demerger, and the other will consist principally of the OMEM operations through the creation of a new South African holding company. We anticipate these transactions taking place in 2018.

Following the listing of the new South African holding company, we intend to distribute, in an orderly manner, a significant proportion of our shareholding in Nedbank to the shareholders on the register of the new holding company at that time. The new holding company will retain an appropriate strategic minority stake in Nedbank, with the exact level still to be determined with Nedbank.

We have previously indicated that our strategy for OMAM is to continue our phased reduction of plc's stake. On 20 December 2016 we announced that, via a public offering and a private share repurchase by OMAM, plc's holding in OMAM had reduced to 51% from 66% with the transactions realising net proceeds of £230 million. On 9 August 2016, we announced that we had agreed to sell OMW Italy for net proceeds of £210 million. The transaction completed on 9 January 2017 and represents the final part of the divestment of OMW's continental European businesses, allowing it to focus on its core UK and cross-border markets.

We have materially reduced holding company debt by £385 million, £112 million of debt in October 2016 and £273 million in February 2017.

We continue to review our levels of capital, debt and liquidity requirements during the managed separation process given the legal construct of Old Mutual plc and its associated risks and constraints.

With respect to the use of proceeds from disposals, we intend to use the full flexibility afforded by our capital management policy for the purposes for which it was designed, in particular but not exclusively, to fund the costs of the managed separation, to provide for continuing investments and capacitation of our business for independence.

Changing intra-group arrangements allowed us to accelerate the monetisation of plc Head Office seed investments and the DTA asset to be received over 2017 to 2018 up to a potential £240 million.

### Wind down of the plc Head Office

A key part of the managed separation is the eventual closure of the current London plc head office, which we expect to occur in 2018. Since announcing the strategy, we have made good progress in transitioning the capabilities needed by listed companies from plc to OMEM and OMW. We have reduced the London head office headcount by circa 50%, resulting in run rate operational savings in excess of £10 million per annum from 2017.

We expect further incremental reductions in head office employee numbers as we progress with the managed separation. Costs for winding down the head office and its activities are expected to be in the upper end of our guided range of £50 million and £65 million. We will continue to take steps to manage down the residual balance sheet exposures and legacy contingencies with potential cash outflow to crystallise these of circa £130 million.

### Managed separation and business standalone costs update

At our Capital Markets Day in October 2016, we committed to providing updates on the costs of the managed separation and business standalone costs, as well as the associated cost savings. These cost estimates are subject to revision as the managed separation process continues and further updates will be given in due course.

Through the winding down of the plc Head Office, we will save circa £95 million of central costs. The one-off costs to achieve these savings are expected to be in the region of £130 million. This includes the costs associated with closing the head office and also the costs to OMEM and OMW as they take on the full costs of certain activities previously done at a group level, as well as building capabilities the businesses will need as listed entities. Operational costs of circa £30 million previously incurred by the plc, of which only £19 million was recharged in 2016, will now be borne directly by OMEM and OMW. They will also incur combined incremental costs of £20 million per annum as a result of being standalone businesses.

We believe there will be significant further shareholder value benefits in both removing the conglomerate discount and through enhanced business performance leading to a more appropriate valuation once the businesses are placed in the hands of shareholders who are best placed to own and value those businesses. We expect the Group wide advisory costs of managed separation to be at least £100 million. Transaction specific costs relating to capital items will be incurred and deducted from proceeds where possible as is our usual practice.

The one-off costs in 2016 for plc and the underlying businesses to execute the managed separation transactions, for standalone business readiness and the wind down of the plc Head Office amounted to £31 million.

## Business review

### Old Mutual Emerging Markets

OMEM has a strong franchise, particularly in South Africa, and it is focused on providing a wide offering to a diverse customer base in markets that have significant financial services opportunities.

OMEM delivered a robust set of results amidst challenging operating conditions. AOP of R12.3 billion was up 3% on 2015, after improved results were achieved in the second half of 2016. IFRS profit of R10.7 billion was 3% lower than 2015 largely due to a R1.3 billion impairment of goodwill in OMSEA, part of our Rest of Africa operations, given economic and operational developments in Zimbabwe and East Africa. The growth in AOP was supported by the Life & Savings operations in South Africa, which delivered a strong improvement in Return on Embedded Value from 13.6% in 2015 to 15.7% in 2016.

Higher asset based fee income, lower expenses and the net positive impact of assumption changes were partly offset by less favourable risk underwriting experience and higher new business strain. Net positive assumption changes in South Africa of R1.3 billion (2015: R0.8 billion) included the positive impact of transferring classes of the existing risk business into a new fifth tax fund following the change in tax legislation on risk businesses. The other lines of business in South Africa delivered lower profits as a result of the tougher macroeconomic environment. In the Rest of Africa profits were 18% higher at R1.7 billion due to the full year inclusion of UAP and positive currency movements in Zimbabwe. Excluding UAP, profits were 12% ahead of the prior year.

NCCF was positive at R17.0 billion, with solid growth in covered sales in all regions and large inflows into Old Mutual Investment Group's (OMIG) Liability Driven Investment boutique in the second half of the year. Outflows were under pressure due to higher partial disinvestments from savings solutions by mainly retail customers as well as an increase in disability claims in both the retail and corporate segments.

Despite the tough environment we maintained a strong Present Value of New Business Premiums (PVNBP) margin of 3.2% in 2016 marginally below the prior year mainly due to the strengthening of operating and methodology assumption changes in South Africa. Sales volumes contributed positively to the new business margin through improved distribution efficiencies in the Mass Foundation Cluster (MFC) and Corporate, partly offset by higher distribution costs in Retail Affluent.

The balance sheet remains strong, well-diversified and resilient. It is expected to be able to withstand a number of shocks, including a possible South African sovereign credit rating downgrade.

Free surplus generated by operations rose 12% to R6.3 billion, representing 73% of post-tax AOP, of which R4.7 billion (2015: R3.7 billion), was remitted to plc.

### Nedbank

Nedbank is a strong business with good risk adjusted returns. It has a particularly strong corporate and commercial business and has a great opportunity in retail as well as an attractive pan-African opportunity via ETI.

Nedbank Group's managed operations produced an excellent performance for the year ended 31 December 2016, driven by net interest income (NII) and non-interest revenue (NIR) growth, while historic loan origination practices and focused credit risk management enabled the credit loss ratio (CLR) to remain below the midpoint of the through-the-cycle target range.

Headline earnings grew 5.9% to R11.5 billion and, excluding the impact of ETI, its managed operations grew headline earnings by 16.2% to R11.8 billion. IFRS profit before tax was down 1% to R14.6 billion with operational growth being more than offset by the R1.0 billion impairment provision of ETI. Diluted headline earnings per share (DHEPS) increased 4.8% to 2,350 cents (2015: 2,242 cents) and headline earnings per share (HEPS) grew by 5.1% to 2,400 cents (2015: 2,284 cents). Excluding ETI, DHEPS was up 15.1%.

Return on average ordinary shareholders' equity (ROE), excluding goodwill, of 16.5% (2015: 17.0%) and ROE of 15.3% (2015: 15.7%) reflect a slightly lower return on assets of 1.23% (2015: 1.25%), mostly resulting from the loss in equity-accounted earnings from ETI. The carrying value of Nedbank Group's strategic investment in ETI decreased from R7.8 billion to R4.0 billion during the year, due to a combination of foreign currency translation losses arising from naira devaluation and therefore ETI's balance sheet decreasing in US dollars, the rand strengthening against the US dollar, our share of losses incurred by ETI during the 12 months to 30 September 2016 as well as an impairment provision of R1.0 billion.

Economic profit (EP) decreased to R1.6 billion (2015: R2.5 billion) due to the impact of ETI and a higher cost of equity (COE) of 14.2% (2015: 13.0%). Its Tier 1 capital ratio of 13.0% (December 2015: 12.0%) and average liquidity coverage ratio (LCR) for the fourth quarter of 109.3% (December 2015 quarterly average: 88.5%) are both well above regulatory requirements of 8.375% and 70.0%, respectively. On a pro forma basis its net stable funding ratio (NSFR) was above 100%.

The balance sheet remains strong, well-diversified and resilient. It is expected to be able to withstand a number of shocks, including a possible South African sovereign credit rating downgrade.

On an IFRS basis Old Mutual plc, via OMEM, received R3.0 billion (2015: R2.9 billion) of dividends, in respect of its 55% ownership of Nedbank.

### Old Mutual Wealth

OMW is a developing business with a unique franchise. It has the right strategic model and compelling growth opportunities in the large UK wealth management market. Old Mutual will continue to invest in OMW throughout the managed separation process.

Pre-tax AOP of £260 million for 2016 was 15% lower than prior year (2015: £307 million). Managed separation and standalone costs and expenses associated with strengthening the executive management team were £12 million and profits in the Heritage closed book of business were reduced by £26 million following the restructuring of Heritage fees, including the move to 1% exit fees on certain products, and legal and other costs. IFRS post-tax loss was £4 million, compared to a profit of £42 million in 2015. Adjusting items between AOP and IFRS profit include UK Platform transformation costs of £102 million (2015: £97 million) and the £46 million goodwill impairment as a result of the sale of the Italian business. We saw increased revenues from higher funds under management in our asset management business partially offset by modest revenue margin pressure in UK Platform, Quilter Cheviot and International. Higher overall costs in the period were incurred following investment in growth initiatives such as OMGI desk builds and distribution, the effect of a full year of ownership of Quilter Cheviot as well as from higher operating costs directly associated with the increase in FUM based revenues.

NCCF performance was robust at £5.2 billion. This was 25% lower than prior year (2015: £6.9 billion) but a strong performance given the challenging market context where UK net retail sales for the whole of the industry amounted to £4.7 billion. Integrated net inflows were £1.8 billion, an increase of 6% from 2015 (£1.7 billion). Investors have remained cautious on the global economic and political developments – particularly relevant for our UK client base was the Brexit vote. We experienced more normalised levels of flows following the US presidential election result as markets began to stabilise in the short-term, with Q4 2016 net inflows of £1.1 billion. Net flows are 6% of opening funds under management, excluding the closed book, demonstrating robust growth in a difficult environment.

Funds under management were £123.5 billion, up 18% from the end of 2015 driven by positive NCCF of £5.2 billion in the period and positive market performance of £13.9 billion. Average funds under management were 11% ahead of the prior year, as the market rallied notably in the second half of the year.

We are continuing with our UK platform transformation. We gave guidance at the October 2016 Capital Markets Day as to timing and cost. Costs to 31 December 2016 amount to £279 million, which have been expensed and which reflect the benefit of a £30 million receivable from our suppliers. Whilst progress continues to be made, this remains a complex project, and there are certain pressures which, potentially, could increase timescales and costs. We are in active negotiations on these areas to reduce delivery and cost risk and to ensure we achieve the best outcome for the business. At this point, because of commercial confidentiality and the ongoing negotiations, it would be inappropriate to disclose further details on these areas. We expect to be able to update the market by the time of the Old Mutual plc AGM in May 2017.

A robust platform that meets customer needs is vital for our future and we continue to invest in the existing platform to maintain high levels of service and resilience.

### OM Asset Management

OMAM has high quality investment Affiliates and we are delighted with the acquisition of Landmark Partners. We remain fully supportive of OMAM's strategy while continuing the phased reduction of our stake.

OMAM had a strong finish to 2016, notwithstanding a challenging equity market environment in the first half of the year. AOP of $195 million was down 15% compared to 2015, largely on lower performance fees. IFRS profit before tax was 16% lower at $176 million. The difference from the AOP result includes the impact of adjustments made for long-term incentive plans for senior Affiliate employees.

OMAM's FUM ended the period at $240.4 billion, up $28.0 billion, or 13%, from 2015 (31 December 2015: $212.4 billion) due to improving markets in H2 2016 and the acquisition of Landmark Partners ($8.8 billion of FUM) in the third quarter. While net client cash flows for the year were $(1.6) billion, a favourable mix shift resulted in positive annualised revenue flows of $11.0 million, representing 1.5% of beginning of period run rate management fee revenue, with inflows in higher fee non-US, emerging markets, and alternative products offsetting losses in lower fee US sub-advisory assets.

OMAM's Affiliates have produced competitive long-term investment performance. While OMAM's value-oriented strategies faced headwinds through much of 2016, the Affiliates continued to generate long-term track records of relative outperformance. OMAM's aggregate investment performance is reported as weighted by the revenue generated by its products. As of 31 December 2016, assets representing 49%, 55%, and 73% of revenue were outperforming benchmarks on a one-, three- and five-year basis, respectively.

Old Mutual plc received $25.4 million (2015: $25.3 million) of dividends in respect to its shareholding in OMAM and an additional payment of $41.4 million in respect of the Deferred Tax Asset Agreement previously entered into.

### Capital management policy

We announced a new capital management policy in March 2016 in respect of returns to shareholders for the period of the managed separation. The aim is to provide flexibility, recognising the need to balance complex considerations, including costs and cash demands associated with the managed separation, continuing to invest in the businesses to drive enhanced performance and further increasing their capital strength. Given this, we previously indicated taking a conservative approach to the full year dividend.

We have today announced the second interim dividend for 2016 under the new policy which is 3.39p, the rand equivalent is 53.55 cents. This will be paid on 28 April 2017.

We had previously indicated that in 2015 and in the first half of 2016, that plc Head Office cash contributed to paying dividends to shareholders and that dividends going forwards will reflect the capacity for distributions from the underlying businesses. This will continue to apply for dividends in respect of 2017 and we maintain our target of dividend cover of 2.5-3.5 times AOP for the full year. The expected cover for the 2017 first Interim dividend is 3.0 times AOP earnings for that interim period. For 2017, dividends paid in currencies other than sterling will be converted at the average effective exchange rate after taking into account hedging activities and timing of remittances for the relevant period.

We will be reviewing our rolling hedging of non-sterling remittances from the underlying businesses in light of the uncertainties of managed separation.

### Adjusted plc NAV per ordinary share

Adjusted plc NAV per ordinary share was 228.6p as at 31 December 2016 compared to 178.9p at 31 December 2015. The increase is largely due to rand and US dollar currency translation gains on the capital value of the businesses of 42.6p and net gains due to the changes in the market value of Nedbank and OMAM of 14.2p and other net underlying movements of 2.0p, less 9.1p due to dividend payments.

### Board changes

Further to the announcement made on 15 September 2015, Paul Hanratty stepped down from the Board of Old Mutual plc on 12 March 2016. On 1 January 2016, Trevor Manuel joined the Board of Old Mutual plc and became a member of the Board Risk Committee.

### Outlook

All of our businesses have seen a reasonable start to the year and we continue to move quickly to execute the managed separation from a position of strength. 2017 will be a year of continued preparation for the independence of the businesses, for the future closure of the plc Head Office in 2018 and, if appropriate and in part dependent on stakeholders and markets, for the settlement of certain residual liabilities and contingencies. OMEM and OMW are likely to incur increased recurring and one-off costs as part of their specific readiness preparations, and taking on in full costs which have previously been borne by plc Head Office as well as the direct one-off costs of managed separation.

While the macroeconomic and political environment remains uncertain in our three largest markets of South Africa, the UK and the US, our businesses are well positioned to navigate these challenges and have the following outlook:

- OMEM sees the economic outlook as improving but expects consumers to remain under pressure. However the business is strong with a wide offering to a diverse customer base and expects further progress this year.
- Nedbank expects to see diluted headline earnings growth in excess of nominal GDP in 2017;
- OMW anticipates continued equity market and currency uncertainty, with the geo-political landscape increasing in complexity and as the impact of the UK's exit from the EU is progressed in 2017 and 2018. OMW's investment in distribution and building asset management capabilities will continue. Investments will be primarily organic but minor "in-fill" acquisitions may also be considered if these fit into the core business, are readily integrated, enable good customer outcomes and are demonstrably incremental to shareholder value. OMW targets NCCF above 5% of opening FUM (excluding Heritage business) and anticipates continued sales growth from its UK Platform products and the Cirilium fund range from its own advisers in 2017 as it expands its distribution network. Taking all of this into account, it expects 2017 to be another year of transition with our costs increasing as it separates the business from Old Mutual plc. Consequently, it anticipates operating leverage benefits emerging in later years with an improving operating margin in the medium term as it transitions and grow its business while absorbing the additional costs that will be incurred.
- OMAM remains committed to working closely with Affiliates to enhance and expand their businesses, and to accessing specialised and non-U.S. markets on their behalf through its Global Distribution initiative. In addition, the company will continue to identify and develop relationships with at-scale asset management boutiques with strong investment and executive talent and a vision to enhance and expand their business by partnering with OMAM.

Plc's wind down activities to close the head office includes on one hand the realisation of assets while meeting plc Head Office obligations. The associated value outcome will be partially market and third party-dependent.

# Part 2 – Detailed Business Review

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# REVIEW OF FINANCIAL PERFORMANCE

## Analysis of performance for the period ended 31 December 2016

In addition to IFRS profit, the Group uses a number of Alternative Performance Measures (APMs) to assess the performance of the business. Some measures are applicable to the Group as a whole, such as Adjusted Operating Profit, Free Surplus Generation, Return on IFRS Equity and Return on Adjusted Equity. Others are more specific to the business lines within the component business, for example Net Client Cash Flows and Covered APE Sales. Definitions of the principal APMs, explanations of why they are relevant, and details of the basis for calculating each measure are included in pages 35 to 36.

The Group Finance Director (GFD) review includes a reconciliation between Adjusted Operating Profit and IFRS profit in order that the performance of the businesses that is subsequently described in terms of AOP can be understood in the context of the IFRS result. Financial results in the Group Finance Director Review are as reported unless otherwise stated.

### 2016 Results

The tables below summarise the AOP results of the Group and IFRS profit in 2016:

| AOP analysis by business unit (£m) | 2016 | 2015 | % change |
|---|---|---|---|
| Old Mutual Emerging Markets | **619** | 615 | 1% |
| Nedbank | **799** | 754 | 6% |
| Old Mutual Wealth | **260** | 307 | (15%) |
| Institutional Asset Management | **141** | 149 | (5%) |
| | **1,819** | 1,825 | - |
| Old Mutual plc finance costs | **(88)** | (83) | (6%) |
| Long-term investment return on excess assets | **20** | 21 | (5%) |
| Corporate costs (net of recharges) | **(60)** | (57) | (5%) |
| Other net shareholder income/(expenses) (OSIE) | **(24)** | (43) | 44% |
| **Adjusted operating profit before tax** | **1,667** | 1,663 | - |
| Tax on adjusted operating profit | **(398)** | (403) | 1% |
| **Adjusted operating profit after tax** | **1,269** | 1,260 | 1% |
| Non-controlling interests – ordinary shares | **(319)** | (310) | (3%) |
| Non-controlling interests – preferred securities | **(22)** | (19) | (16%) |
| **Adjusted operating profit after tax attributable to ordinary equity holders of the parent** | **928** | 931 | - |
| Adjusted weighted average number of shares (millions) | **4,773** | 4,813 | (1%) |
| **Adjusted operating earnings per share (pence)** | **19.4** | 19.3 | 1% |

AOP pre-tax for the period of £1,667 million is in line with the prior year (2015: £1,663 million). AOP earnings per share increased from 19.3p to 19.4p following a decline in AOP after-tax and non-controlling interests by £3 million to £928 million and a reduction in the number of shares applied in the calculation of AOP earnings per share following the maturity of certain Black Economic Empowerment schemes in South Africa during 2015.

| IFRS profit (£m) | 2016 | 2015 | % change |
|---|---|---|---|
| IFRS profit before tax | **1,216** | 1,201 | 1% |
| Income tax expense | **(475)** | (347) | (37%) |
| IFRS profit from continuing operations | **741** | 854 | (13%) |
| IFRS profit from discontinued operations after tax | **104** | 70 | 49% |
| **IFRS profit after tax** | **845** | 924 | (9%) |
| Non-controlling interests | **(275)** | (310) | 11% |
| **IFRS profit attributable to equity holders of the parent** | **570** | 614 | (7%) |

# Part 2 – Group Finance Director Review

The 2016 IFRS profit before tax was £1,216 million compared to £1,201 million in 2015. IFRS profit post-tax attributable to equity holders of the parent reduced by 7% from £614 million in 2015 to £570 million in 2016.

The adverse impact on sterling earnings of a marginally weaker average rand rate of 19.93 (2015: 19.52) was offset by the positive impact of stronger average US dollar rates (up 11% against sterling). Although financial markets ended the year significantly higher than 2015, on average major market indices in the UK and SA were down 2% and 1% respectively while the US was up 2%.

Detailed financial reviews of each of Old Mutual plc's businesses are set out later in this document, the highlights are summarised below.

### Old Mutual Emerging Markets

OMEM delivered a solid operational performance against a difficult operating environment, with pre-tax AOP of £619 million for the year ended 31 December 2016, which was 1% higher than in 2015 (£615 million). The South African businesses contributed 82% of the total OMEM result. In South Africa, Life & Savings profits were 8% higher in 2016 than in 2015, largely due to higher planned margins and the net positive impact of assumption changes, including the effect of transferring certain tranches of existing protection business to the new fifth tax fund in South Africa. This was partly offset by weaker underwriting results in Corporate and Retail Affluent. Property & Casualty showed improvement in the second half of 2016 turning an underwriting loss of R44 million in H1 2016 into a profit of R80 million for the full year, although this was significantly down on the prior year underwriting profit of R273 million. Outside of South Africa, strong results in Rest of Africa, being 18% higher than in 2016, followed increased underwriting earnings in East Africa following the UAP acquisition and Latin America was 29% higher due to improved investment results and good expense control. This was offset by lower profitability in Asia (24% lower) due to lower investment income and the impact of tax regulation changes in China.

### Nedbank

Nedbank's pre-tax AOP of £799 million was 6% up on 2015 (£754 million). The local currency pre-tax AOP outcome of R15,925 million (2015: R14,729 million) was due to strong operational performance in Nedbank's Managed Operations, offset by the poor performance of ETI in Q4 2015, which is reported in Nedbank's results one quarter in arrears during Q1 2016. Excluding the impact of ETI, Nedbank's headline earnings were 16% up on 2015. NII growth of 11% was supported by an improvement in the net interest margin from the higher average prime interest rate, as well as 7% growth in average interest earning banking assets. NIR increased by 8% largely due to higher commissions and fees (7% higher) and trading income (19% higher). NIR was however negatively impacted by lower insurance income arising from risk mitigating loan reduction measures in prior years (6% lower). Impairments decreased by 5% due to lower charges in Nedbank Corporate & Investment Banking of 8%. The credit loss ratio, at 0.68% as at 31 December 2016, is at the bottom end of Nedbank's target range (0.60% to 1.00%), broadly in line with H1 2016 (0.67%) and has improved against December 2015 (0.77%).

### Old Mutual Wealth

Old Mutual Wealth pre-tax AOP outcome of £260 million for the year ended 31 December 2016 was 15% lower than 2015 (£307 million). £26 million of the £47 million decrease in AOP is attributed to the one-off effect of revising charging structures applied in the UK Heritage business to ensure better customer outcomes by capping certain exit fees at 1% on certain products and restructuring of other fees. There were also LTIP payments of £10 million in Intrinsic, in line with the original acquisition terms, and £6m of costs related to the first full year of running Old Mutual Wealth Private Client Advisors. Costs of a further £5 million were incurred in respect of reshaping the executive committee and enhancing governance functions in readiness for standalone operations. Underlying performance of the 'Invest and Grow' business was satisfactory, up 2% to £210 million benefitting from the inclusion of Quilter Cheviot for the full year and positive revenue momentum following the significant ongoing investment in growing the business since 2013.

### Institutional Asset Management

Although sterling reported earnings of the Institutional Asset Management business benefitted from US dollar appreciation, the business reported a 5% reduction in 2016 pre-tax AOP, down from £149 million in 2015 to £141 million. This was mainly due to exceptional performance fees in 2015 of $19 million that did not recur in 2016. Normal course of business performance fees were also reduced given market volatilities and a challenging investing environment, while increased management fees were offset by additional expenses due to investment in a number of growth initiatives.

### Finance costs

Finance costs increased by £5 million in 2016 to £88 million due to the re-financing activity completed in November 2015. The interest costs of the £450 million Tier 2 instrument paying a coupon of 7.875% are greater than the interest costs saved following the redemption of the €374 million Tier 2 bond which paid a coupon of 5%. Repayment of £112 million of senior debt in October 2016, and the £273 million perpetual preferred callable securities in February 2017 are expected to reduce finance costs by £21 million in 2017.

### Long-Term Investment Return on excess assets

Long-term Investment Returns of £20 million in 2016 were earned on shareholder funds held and managed by OMEM in excess of statutory capital requirements. Long-term Investment Return rate assumptions were unchanged in 2016. The decrease of £1 million compared with £21 million in 2015 was partly due to the weaker rand and a decrease in the average asset base, which mainly comprises of cash and deposits.

## Corporate costs

The table below summarises the composition of Old Mutual plc corporate costs in 2016:

| plc cost summary (£m) | 2016 | 2015 |
|---|---|---|
| UK employment costs | 42 | 41 |
| SA employment costs | 2 | 2 |
| External audit and share register fees | 4 | 3 |
| IT and office costs | 18 | 21 |
| Group corporate insurance | 6 | 5 |
| Rent | 7 | 8 |
| **Total gross plc corporate costs** | **79** | 80 |
| Recharges | (19) | (23) |
| **Reported plc corporate costs** | **60** | 57 |

Gross corporate costs in 2016 of £79 million (2015: £80 million) are stated before recharges to businesses of £19 million (2015: £23 million). The £1 million decrease in 2016 gross corporate costs compared to 2015 is not fully reflective of the progress made in reshaping and repurposing of the plc Head Office during 2016. This activity will result in a reduction in FTE's of approximately 50% by March 2017 compared with January 2016, which is in line with the commitment given when the Group announced the interim 2016 results. UK and South African gross employment costs increased by £1 million to £44 million in 2016 (2015: £43 million). During H1 2016 the recruitment of additional plc Head Office staff with the skills required to support the managed separation increased employment costs.

Cost reductions were not achieved until H2 2016 when the majority of staff retrenchments occurred. Retrenchment costs are included in other net shareholder expenses. The H2 2016 retrenchment activity is expected to deliver annual savings in gross corporate costs in excess of the £10 million indicated at the time of the 2016 interim results.

IT and office costs reduced by £3 million to £18 million in 2016 (2015: £21 million), largely reflecting IT savings following the cancellation both of non-essential IT upgrades and development in respect of IT capabilities that will not be required following managed separation. Further reductions in gross corporate costs during 2017 will depend on the pace and sequencing of the managed separation.

Recharges reduced by £4 million in 2016 due to changes in the operating model whereby past support provided to the businesses from the plc Head Office has been scaled back as the businesses have developed their own capability.

From 2017 we intend to state the plc Head Office corporate costs gross of recharges. This will more clearly reflect the savings being achieved as the phased reduction of the plc Head Office continues and facilitates clearer understanding of the standalone cost base of each business. Although the recharges will be removed from the operating costs of the businesses this will be offset by increases in their own direct operating costs as they implement the structures and develop the capabilities required to support independent listed businesses. Further analysis of the anticipated changes in operating costs is set out on page 17.

## Other net shareholder income / (expenses)

The table below sets out other net shareholder expenses in 2016 and 2015:

| Other net shareholder expenses (£m) | 2016 | 2015 |
|---|---|---|
| Managed separation costs | **(22)** | - |
| Brand North costs | **(8)** | (8) |
| Solvency II costs and other projects | **(5)** | (18) |
| Share based payment charges | **(10)** | (6) |
| South Africa governance | **(3)** | - |
| CEO succession costs | **-** | (6) |
| Other net expenses | **(4)** | (9) |
| **Other net shareholder expenses, excluding seed capital and FX** | **(52)** | (47) |
| FX gains / (losses) | **20** | 5 |
| Seed capital gains / (losses) | **8** | (1) |
| **Total other net shareholder expenses** | **(24)** | (43) |

# Part 2 – Group Finance Director Review

Other net shareholder expenses of £24 million in 2016 have reduced by £19 million compared with £43 million in 2015. This improvement is attributable to unrealised foreign exchange gains and fair value gains on largely US dollar denominated cash and seed investments totalling £28 million in 2016 (2015: £4 million). This was largely due to the weakening of sterling versus the US dollar and Euro immediately after the outcome of the EU referendum in the UK.

Excluding seed capital and foreign exchange items, the main variances related to the Solvency II and other project spend which reduced by £13 million and CEO succession costs of £6 million in 2015 did not reoccur. Set against these and other items were one-off costs of managed separation of £22 million, comprising plc Head Office retrenchment and re-organisation costs of £8 million, and transaction advisory costs of £14 million. The plc Head Office also incurred advisory costs of £3 million on behalf of Old Mutual Group Holdings (OMGH), in respect of the preparation for implementation of Twin Peaks legislation that is expected to be effective in South Africa in 2018.

### Tax

The AOP effective tax rate (ETR) for the Group remains at 24% during 2016. The IFRS ETR is more volatile due to the inclusion of policyholder tax, and one-off items which are typically not taxed at the statutory rate. Analysis of the ETR in relation to AOP therefore gives a more consistent means of understanding the Group tax charge over the longer term.

As the majority of the Group's profits arise in OMEM and Nedbank, the tax borne by these businesses has a significant impact on the Group ETR. The OMEM AOP ETR has decreased from 28% in 2015 to 27%. The reduction is due mainly to profit mix, partially offset by the increase in the CGT rate in South Africa. Nedbank's ETR on AOP has increased from 24% in 2015 to 25% in 2016, largely due to the effect of associate income.

The ETR for the Old Mutual Wealth business is generally lower than in the Africa businesses given lower headline corporate tax rates in the UK and other markets, in which its business operates. Interest payments and corporate costs incurred by plc Head Office in the UK are available to be offset against profits in the Old Mutual Wealth business.

### Non-controlling interests

Profit attributable to non-controlling interests increased from £329 million to £341 million and the proportion of group profit attributable to non-controlling interests increased from 26% in 2015 to 27% in 2016 reflecting the increased proportion of Group earnings attributable to Nedbank and the reduction in the Group's interest in the OMAM business following a reduction in the Group shareholding from 78.8% to 65.8% through a secondary offering in June 2015. A further secondary offering which reduced the Group shareholding in OMAM from 65.8% to 51.1% was completed on 20 December 2016 and therefore had limited impact on profit attributed to non-controlling interests during 2016.

### Operating costs of the businesses and plc Head Office on an adjusted basis

The analysis below adjusts the 2015 and 2016 pre-tax AOP of the Group's businesses for corporate activity, one-off 2016 MS costs, and recharges that are more appropriate to the services provided by the plc Head Office to OMEM and OMW. This better illustrates the underlying cost base and pre-tax AOP of the businesses:

| 2016 AOP (£m) | Old Mutual Emerging Markets | Nedbank | Old Mutual Wealth | Institutional Asset Management | plc Head Office | Total |
|---|---|---|---|---|---|---|
| **AOP pre-tax (reported)** | **619** | **799** | **260** | **141** | **(152)** | **1,667** |
| Quilter Cheviot | - | - | - | - | - | - |
| Divested businesses | - | - | (24) | - | - | (24) |
| SA branches transferred from OMW to OMEM | 10 | - | (10) | - | - | - |
| One-off managed separation items | 2 | - | 7 | - | 22 | 31 |
| **AOP pre-tax adjusted for corporate activity, and one-off items** | **631** | **799** | **233** | **141** | **(130)** | **1,674** |
| Revised plc cost allocations | | | | | | |
| Remove current plc recharges | 7 | 1 | 9 | 1 | (19) | (1) |
| Revised allocation basis | (7) | - | (22) | - | 29 | - |
| *Property & insurance direct to the business* | (3) | - | (7) | - | 10 | - |
| *Cost of listing* | (4) | - | (7) | - | 11 | - |
| *Brand costs* | - | - | (8) | | 8 | - |
| Reallocation of LTIR on excess assets | 20 | - | - | - | (20) | - |
| **AOP pre-tax adjusted for corporate activity, and one-off items and cost allocations** | **651** | **800** | **220** | **142** | **(140)** | **1,673** |

| 2015 AOP (£m) | Old Mutual Emerging Markets | Nedbank | Old Mutual Wealth | Institutional Asset Management | plc Head Office | Total |
|---|---|---|---|---|---|---|
| **AOP pre-tax (reported)** | **615** | **754** | **307** | **149** | **(162)** | **1,663** |
| Quilter Cheviot | - | - | 7 | - | - | 7 |
| Divested businesses | - | - | (33) | - | - | (33) |
| SA branches transferred from OMW to OMEM | 6 | - | (6) | - | - | - |
| **AOP pre-tax adjusted for corporate activity, and one-off items** | **621** | **754** | **275** | **149** | **(162)** | **1,637** |
| Revised plc cost allocations | | | | | | |
| Remove current plc recharges | 8 | 1 | 11 | 1 | (23) | (2) |
| Revised allocation basis | (7) | - | (22) | - | 29 | - |
| *Property & insurance direct to the business* | (3) | - | (7) | - | 10 | - |
| *Cost of listing* | (4) | - | (7) | - | 11 | - |
| *Brand costs* | - | - | (8) | - | 8 | - |
| Reallocation of LTIR on excess assets | 21 | - | - | - | (21) | - |
| **AOP pre-tax adjusted for corporate activity, and one-off items and cost allocations** | **643** | **755** | **264** | **150** | **(177)** | **1,635** |

OMEM AOP pre-tax adjusted for corporate activity, one-off items and revised cost allocations increased by £32 million to £651 million in 2016 (2015: £28 million to £643 million) and OMW pre-tax AOP decreases by £40 million in 2016 to £220 million (2015: £43 million decline to £264 million). The results of Nedbank and OMAM are not significantly affected.

The OMEM outcome increases by £12 million in 2016 reflecting the recognition of SA branch profits and removal of 2016 one-off MS costs (2015: £6 million). The allocation of Long-term Investment Returns recognised by the plc Head Office of £20 million in 2016 (2015: £21 million) further increases OMEM pre-tax AOP. From 2017 OMEM will include these LTIR returns in the AOP result.

The OMW standalone pre-tax AOP reduces by £27 million (2015: £32 million), largely due to the removal of profits of £24 million from the divested European businesses in 2016 (2015: £33 million), and net of other items.

### Revised OMEM and OMW cost allocations

Past plc Head Office business recharges have largely related to OMEM and OMW, due to the fact that Nedbank and OMAM are already listed businesses with their own listed company capability. As a result if the recharge is restated OMEM and OMW are most affected. Analysis suggests that a revised cost allocation of £29 million in total (£22 million to OMW, £7 million to OMEM) are more appropriate.

On this basis existing plc Head Office business recharges of £19 million in 2016 (2015: £23 million) represent a reasonable approximation of standalone costs for OMEM, but they do not fully reflect the appropriate cost allocation by OMW. In fact the revised OMW cost allocation is £13 million higher at £22 million in 2016 (2015: £11 million higher, at £22 million).

**2017 plc Head Office cost expectations**

We expect annual savings in plc Head Office gross corporate costs in excess of £10 million in 2017, compared with 2016, and during the period of managed separation we will continue to seek opportunities to further optimise plc Head Office operations. However, until the managed separation is substantially complete in 2018, the ability to realise the full operational costs savings is limited by the need to oversee the delivery of enhanced business performance, guide the managed separation process and meet governance, regulatory and capital management obligations. Based on the reshaped plc Head Office, approximately 41% of 2017 plc Head Office costs will relate to supporting the UK listing, 36% to execution of managed separation and business oversight and 23% on governance and control.

The Group will incur one-off costs related to the implementation of managed separation, which are further explained below. Although one-off managed separation costs were recognised within AOP during 2016, we expect these costs to become more significant in 2017. Therefore we are amending the AOP policy in 2017 such that all one-off costs related to managed separation that would ordinarily be included in the IFRS income statement will be excluded from AOP in 2017.

The redemption of £112 million senior debt in October 2016 had only a marginal impact on 2016 finance costs. However the Group will recognise the benefit of this redemption and the recent tier 1 bond repayment during 2017, when finance costs are expected to reduce by £21 million.

**Delivering value from the managed separation**

The plc Head Office operational costs include corporate costs and other shareholder expenses, and totalled £123 million in 2015 (2016: £103 million). Following the completion of managed separation in 2019 the plc Head Office will close and these operational costs will decrease to zero, creating a saving of £123 million compared with 2015.

Assuming revised cost allocations of £29 million, set out above, are reflective of the incremental recurring standalone cost of closing the plc Head Office to each business the net operational cost saving will be £94 million compared with 2015.

Analysis of OMEM cost allocations suggests that the cost of recurring listed company activity will be £4 million and the cost of insurance that OMEM will need to arrange directly is £3 million. This is, in aggregate, of a similar quantum to the £8 and £7 million recharged by the plc Head Office in 2015 and 2016. A recurring listing cost of £4 million would be below the guidance of £5 million to £10 million that was given at the Capital Markets Day in October 2016.

Analysis of OMW cost allocations suggests that in addition to property and insurance costs of £7 million already reflected in the OMW recharge, listed company costs in the region of £7 million are appropriate to the OMW business. Furthermore there are £8 million of brand costs previously incurred by plc Head Office that the business will need to meet in future. A recurring listing cost of £7 million is within the guidance of £5 million to £10 million that was given at the Capital Markets Day in October 2016.

We anticipate the one-off costs of unlocking the £94 million of operational cost savings by 2019 to be in the region of £130 million, during the period of managed separation. This includes £50 million to £65 million to be incurred by the plc Head Office, the balance will be incurred by OMEM and OMW.

We expect one-off transaction advisory costs of at least £100 million during the period of implementing managed separation. This estimate is based on the current base case and is subject to stakeholder and market dependencies. These costs will contribute to unlocking the current conglomerate discount to the Group’s value by setting the businesses free from the constraints of the existing Group structure.

## Reconciliation of Group IFRS to AOP results

The analysis below summarises the reconciling items between the IFRS and the AOP result for the year ended 31 December 2016 and the year ended 31 December 2015:

| IFRS to AOP reconciliation | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Profit £m** | **Earnings per share (pence)** | Profit £m | Earnings per share (pence) |
| **IFRS profit attributable to ordinary equity holders of the parent [1]** | **570** | **12.2** | 614 | 13.2 |
| Profit from discontinued operations (net of tax) | **(72)** | **(1.6)** | (45) | (0.9) |
| **IFRS profit attributable to equity holders of the parent from continuing operations** | **498** | **10.6** | 569 | 12.3 |
| AOP weighted average number of shares | **-** | **(0.2)** | - | (0.5) |
| Non-core operations - Bermuda | **5** | **0.1** | 31 | 0.7 |
| **IFRS profit attributable to equity holders of the parent excluding non-core operations** | **503** | **10.5** | 600 | 12.5 |
| Adjustments to IFRS to determine AOP | **457** | **9.5** | 344 | 7.0 |
| Goodwill, intangible and associate charges | **278** | **5.9** | 167 | 3.3 |
| (Profits) / losses on business disposals | **(19)** | **(0.4)** | 36 | 0.7 |
| Long-term Investment Returns | **26** | **0.5** | 42 | 0.9 |
| Returns on own debt and equity | **43** | **0.9** | 31 | 0.6 |
| Dividends on preferred securities | **(17)** | **(0.4)** | (31) | (0.6) |
| OMAM equity plans | **20** | **0.4** | 9 | 0.2 |
| FV losses / (gains) on plc debt | **24** | **0.5** | (7) | (0.1) |
| OMW business transformation costs | **102** | **2.1** | 97 | 2.0 |
| Discontinued operations included in AOP | **72** | **1.6** | 66 | 1.4 |
| Tax on adjusting items | **(38)** | **(0.8)** | (60) | (1.2) |
| Non-controlling interests on adjusting items | **(66)** | **(1.4)** | (19) | (0.4) |
| **Reported AOP after tax and NCI** | **928** | **19.4** | 931 | 19.3 |
| *IFRS weighted average number of shares (millions)* | ***4,686*** | **-** | *4,641* | - |
| *AOP weighted average number of shares (millions)* | ***4,773*** | **-** | *4,813* | - |

[1] EPS excludes £14 million of dividends paid to holders of perpetual preferred callable securities, net of tax credit (2015: £24 million)

IFRS profit attributable to ordinary equity holders was £570 million in 2016 compared to £614 million in 2015. Profits from discontinued operations of £72 million in 2016 relate to the OMAM businesses with the comparative including OMAM profits of £66 million and losses related to the US Life sale of £21 million.

2016 IFRS profit attributable to equity holders of the parent of £498 million was 12% lower than that of 2015 (£569 million). The 2016 IFRS profit attributable to equity holders of the parent excluding non-core operations was £503 million (2015: £600 million). AOP after tax and non-controlling interests was £928 million in 2016 and £931 million in 2015.

Adjustments to IFRS profit after-tax attributable to equity holders of the parent (excluding non-core operations) were £353 million. This was £88 million higher than that in 2015 due to the increased goodwill, intangible and associated impairments and increased fair value losses on the value of group debt. Net profits of the sale of businesses in 2016 were £19 million compared with losses of £36 million in 2015.

The amount of £278 million in 2016 in respect of goodwill, intangible and associate charges includes the impairment of OMSEA goodwill (of £64 million), the impairment of the plc's share of Nedbank's investment in ETI was £50 million, and a goodwill impairment of £46 million in respect of the sale of the Old Mutual Wealth Italy business. Business transformation costs of £102 million incurred by Old Mutual Wealth related to the delivery of its UK Platform transformation project.

### Reconciliation of individual businesses IFRS to AOP

The analysis below summarises the reconciling items between IFRS and AOP for each of the businesses in the Group:

| IFRS to AOP Reconciliation year ended December 2016 (£m) | Old Mutual Emerging Markets | Nedbank | Old Mutual Wealth | Institutional Asset Management | plc Head Office [1] | Non-core operations | Discontinued operations | Total |
|---|---|---|---|---|---|---|---|---|
| **Profit before tax** | **538** | **737** | **113** | **135** | **(169)** | **(5)** | **(133)** | **1,216** |
| Income tax expense | (207) | (199) | (117) | (31) | 50 | - | 29 | (475) |
| **Profit from continuing operations after-tax** | **331** | **538** | **(4)** | **104** | **(119)** | **(5)** | **(104)** | **741** |
| Profit from discontinued operations after-tax | - | - | - | - | - | - | 104 | 104 |
| **Profit after tax for the financial period** | **331** | **538** | **(4)** | **104** | **(119)** | **(5)** | **-** | **845** |
| Non-controlling interests - ordinary shares | 13 | (234) | - | (32) | - | - | - | (253) |
| Non-controlling interests - preferred securities | - | (22) | - | - | - | - | - | (22) |
| **Profit/(loss) after tax attributable to equity holders of the parent** | **344** | **282** | **(4)** | **72** | **(119)** | **(5)** | **-** | **570** |
| Total adjusting items [2] | 131 | 62 | 241 | 6 | 17 | - | - | 457 |
| Tax on adjusting items | (8) | - | (24) | (5) | (1) | - | - | (38) |
| Non-controlling interest in adjusting items | (30) | (32) | - | (4) | - | - | - | (66) |
| Non-core operations | - | - | - | - | - | 5 | - | 5 |
| **AOP after tax attributable to equity holders of the parent** | **437** | **312** | **213** | **69** | **(103)** | **-** | **-** | **928** |

| IFRS to AOP Reconciliation year ended December 2015 (£m) | Old Mutual Emerging Markets | Nedbank | Old Mutual Wealth | Institutional Asset Management | plc Head Office [1] | Non-core operations | Discontinued operations | Total |
|---|---|---|---|---|---|---|---|---|
| **Profit / (loss) before tax** | 569 | 756 | 42 | 118 | (135) | (31) | (118) | 1,201 |
| Income tax expense | (190) | (181) | - | (25) | 22 | - | 27 | (347) |
| **Profit from continuing operations after tax** | 379 | 575 | 42 | 93 | (113) | (31) | (91) | 854 |
| Discontinued operations | - | - | - | - | - | - | 70 | 70 |
| **Profit after tax for the financial period** | 379 | 575 | 42 | 93 | (113) | (31) | (21) | 924 |
| Non-controlling interests - ordinary shares | (17) | (247) | - | (27) | - | - | - | (291) |
| Non-controlling interests - preferred securities | - | (19) | - | - | - | - | - | (19) |
| **Profit/(loss) after tax attributable to equity holders of the parent** | 362 | 309 | 42 | 66 | (113) | (31) | (21) | 614 |
| Total adjusting items [2] | 76 | (2) | 266 | 31 | (27) | - | - | 344 |
| Tax on adjusting items | (13) | 1 | (44) | (5) | 1 | - | - | (60) |
| Non-controlling interest in adjusting items | (7) | (6) | - | (6) | - | - | - | (19) |
| Non-core operations | | | | | | 31 | - | 31 |
| Loss from discontinued operations after-tax | - | - | - | - | - | - | 21 | 21 |
| **AOP after tax attributable to equity holders of the parent** | 418 | 302 | 264 | 86 | (139) | - | - | 931 |

[1] Plc Head Office includes the Old Mutual plc parent company and other centre companies

[2] Full details of the adjustment applied in determining AOP, are set out in note C1 to the Interim Financial Statements, which can be found in Part 3 of this announcement; explanations follow below

### Old Mutual Emerging Markets

OMEM adjusting items increased from £76 million to £131 million. This was primarily attributable to the recognition of the goodwill impairment in relation to OMSEA of £64 million (R1.3 billion) during 2016. Although we still believe there are significant opportunities in sub-Saharan Africa, the constrained macroeconomic environment in Zimbabwe and the introduction of interest caps on lending in Kenya place strain on the future outlook for profit generation, whilst synergies expected from the acquisition of UAP in East Africa have not yet manifested in the financial results. Adjusting items in 2016 also include the amortisation of acquired intangibles and PVIF of £18 million (2015: £20 million) and short-term fluctuations in investment return of £16 million (2015: £36 million).

### Nedbank

Nedbank adjusting items increased from negative £2 million in 2015 to £62 million in 2016. Adjusting items include the R1.0 billion (£50 million) impairment of Nedbank's investment in ETI. The main cause of this impairment was the challenging macro environment in Nigeria and the consequential impact on ETI operations.

### Old Mutual Wealth

OMW adjusting items have decreased from £266 million in 2015 to £241 million in 2016. Adjusting items in 2016 included UK Platform transformation project costs of £102 million (2015: £97 million), amortisation of acquired intangibles and PVIF of £75 million (2015: £94 million) and the impairment of goodwill of £46 million which was recognised in advance of the sale of OMW Italy.

### Institutional Asset Management

Institutional Asset Management recognised adjusting items of £6 million in 2016 (2015: £31 million), this includes an adjustment of £20 million (2015: £9 million) that is attributable to the impact of long-term incentive plans for senior affiliate employees. On 31 May 2016, the Group completed the sale of its interest in Rogge Global Partners Limited, a fixed income asset manager to Allianz Global Investors GmbH, the profit of £10 million on the disposal of this business is excluded from the AOP result. OMAM also received additional income of £8 million (2015: £1 million) from earn outs on affiliates disposed in prior periods, this is also excluded from AOP.

### Plc Head Office

2016 plc adjustments to Head Office AOP were £17 million (2015: negative £27 million). The total in 2016 includes £10 million received from Skandia Liv in respect of the various matters relating to the completion of the separation of the Skandia Nordic business from the Group during 2012. Fair value losses on Group debt instruments were £29 million greater than in 2016.

### Discontinued and non-core operations

Institutional Asset Management has been classified as a discontinued operation. Furthermore, the assets and liabilities of this business have been disclosed as held for sale. However, the earnings continue to be recognised in AOP earnings in accordance with the policy.

Non-core operations relate to the Bermuda business operating loss of £5 million (2015: £31 million). In 2015, discontinued operations included losses on disposal of £21 million incurred as a result of the settlement of litigation arising on the disposal of US Life in 2011 following a court order in favour of the plaintiff.

## Shareholders' Equity

### Total IFRS Equity and Equity attributable to Shareholders of Old Mutual plc

The table below summarises the movement in Group equity in 2016 and the calculation of average equity that is applied in Return on Equity calculations:

| Total IFRS equity 2016 (£m) | Equity attributable to equity of the parent | Total non-controlling interests | Total IFRS equity |
|---|---|---|---|
| Opening shareholder equity at 1 January 2016 | 6,680 | 2,254 | 8,934 |
| Profit after-tax | 570 | 275 | 845 |
| Net currency translation | 1,261 | 536 | 1,797 |
| Dividends | (443) | (171) | (614) |
| Other items | (14) | 220 | 206 |
| Closing shareholder equity at 31 December 2016 | 8,054 | 3,114 | 11,168 |
| Average equity 2016 [1] | 6,987 | - | - |

[1] Calculated using the average of opening mid-year and year end equity attributable to equity shareholders of the parent, excluding perpetual preferred callable securities (of £273 million at all three dates) and equity attributed to non-core operations (of £68 million at 31 December 2016, £95 million at 30 June 2016 and £49 million at 31 December 2015)

As of 31 December 2016, the Group recorded total IFRS equity of £11,168 million, (2015, £8,934 million). After excluding equity attributable to non-controlling interests of £3,114 million (2015: £2,254 million), the equity attributable to shareholders of the parent was £8,054 million (2015, £6,680 million).

# Part 2 – Group Finance Director Review

The £1,374 million increase in equity attributable to shareholders is principally due to retained IFRS profit after tax of £570 million, net foreign currency transaction gains of £1,261 million (after deducting net investment hedges of £104 million), less dividends paid of £443 million. The significant foreign currency translation gain in 2016, largely reflects the 26% appreciation in the rand relative to sterling over the year from (R22.818 to R16.955).

## Adjusted Return on Equity (ROE) and Capital Allocation

| **Adjusted ROE 2016 (£m)** | **AOP (post-tax & NCI)** | **Average shareholder equity excl. Intangibles[1]** | **Return on shareholder equity excl. intangibles[2]** | **Average shareholder equity incl. Intangibles** | **Return on shareholder equity incl. Intangibles** |
|---|---|---|---|---|---|
| Old Mutual Emerging Markets | 437 | 1,786 | 24.5% | 2,126 | 20.6% |
| Nedbank | 312 | 1,834 | 17.0% | 2,094 | 14.9% |
| Old Mutual Wealth | 213 | 973 | 21.9% | 2,499 | 8.5% |
| Institutional Asset Management | 69 | (14) | >100% | 601 | 11.5% |
| Plc Holding Company | (103) | 2,408 [1,3] | n/a | (333) | n/a |
| **Adjusted ROE** | **928** | **6,987** | **13.3% [4]** | **6,987** | **13.3% [4]** |
| Adjusted 2015 ROE | 931 | 6,573 | 14.2% [4] | 6,573 | 14.2% [4] |

[1] Average shareholders' equity as at 31 December 2016. The businesses figures exclude the Plc share of 'Goodwill and other intangible assets' as reported in the segmental balance sheet; however these assets are included in the adjusted ROE

[2] Calculated as AOP post-tax and NCI divided by average shareholders' equity excluding plc portion of 'Goodwill and other intangible assets'

[3] Includes plc portion of 'Goodwill and other intangible assets' and excludes the perpetual preferred callable securities (£273 million) and non-core operations (£68 million)

[4] Adjusted ROE is calculated using average ordinary shareholders' equity (i.e. excluding the perpetual preferred callable securities) and excludes non-core operations

Old Mutual plc adjusted ROE decreased by 0.9% from 14.2% in 2015 to 13.3% in 2016, largely due to AOP after tax and non-controlling interests remaining flat on the prior period in reported currency whilst average equity has increased 6% over the same period.

Average equity has increased mainly as a result of IFRS profits which include the impairments of OMSEA goodwill and the Nedbank investment in ETI exceeding the dividend outflow, as well as the stronger rand and dollar rates against the sterling. The exchange rate impact on average equity accounts for approximately 30 basis points of the 90 basis points reduction in adjusted ROE. Future ROE's for each business will vary in part due to the additional costs incurred following the managed separation, and are also dependant on the standalone balance sheets of the individual businesses.

## Adjusted ROE of business components

The analysis below provides further details of the ROE for the component parts of each business:

| ROE of business components (£m) | 2016 Average shareholder equity | 2016 AOP (post-tax & NCI) | 2016 adjusted ROE | 2015 adjusted ROE |
|---|---|---|---|---|
| **Old Mutual Emerging Markets** | | | | |
| South Africa | 1,408 | 361 | 25.6% | 27.5% |
| Rest of Africa | 532 | 54 | 10.2% | 11.3% |
| Asia & Latin America | 186 | 22 | 11.8% | 12.0% |
| **Total Old Mutual Emerging Markets** | **2,126** | **437** | **20.6%** | 22.4% |
| **Nedbank** | | | | |
| Managed operations | 1,932 | 322 | 16.7% | 16.5% |
| ETI [1] | 162 | (10) | (6.2%) | 9.9% |
| **Total Nedbank** | **2,094** | **312** | **14.9%** | 15.8% |
| **Old Mutual Wealth** | | | | |
| **Invest & Grow** | | | | |
| UK | 1,670 | 116 | 6.9% | 9.5% |
| International | 351 | 52 | 14.8% | 13.6% |
| **Manage for Value markets** | | | | |
| Italy | 128 | 17 | 13.3% | 14.0% |
| Heritage | 350 | 28 | 8.0% | 13.1% |
| **Total Old Mutual Wealth** | **2,499** | **213** | **8.5%** | 11.1% |
| **OMAM** | **601** | **69** | **11.5%** | 14.0% |
| **plc Head Office** | **(333)** | **(103)** | **n/a** | n/a |
| **Total** | **6,987** | **928** | **13.3%** | 14.2% |

[1] Average ETI equity of £162 million in 2016 reflects the average carrying value of ETI in Nedbank's accounts attributable to equity holders of Old Mutual plc. The ETI post-tax loss of £10 million in 2016 reflects operating losses and finance costs related to the associate investment attributable to equity holders of Old Mutual plc

Variations in adjusted ROE across the businesses reflect the differing maturity of the businesses and the impact of recent acquisitions on performance. The OMEM and Nedbank South Africa businesses have more mature franchises, which translate into higher returns and remittances. The operations in the Rest of Africa, Asia and Latin America are still building distribution and operational capacity often in challenging macroeconomic environments. These negatively impact returns, both in profits and cash. In OMW, capital is being deployed to invest in distribution, accelerate the ability of the business to operate on a standalone basis and its UK Platform transformation project.

| plc capital deployed and productivity of recent corporate activity at cost (£m) (>£100m) | 2016 Invested capital | 2016 AOP post-tax | 2016 return on invested capital | 2015 return on invested capital |
|---|---|---|---|---|
| **Significant acquisitions** | | | | |
| Quilter Cheviot (acquired in February 2015) (100%) | 585 | 38 | 6.5% | 5.9% |
| Intrinsic/Cirilium (acquired in July 2014 and December 2014 respectively) (100%) | 98 | 1 | 1.0% | 9.2% |
| Ecobank Transnational Incorporated (ETI) (stake acquired in October 2014) (approximately 20%) | 305 | (19) | (6.2%) | 8.5% |
| UAP Holdings (UAP) (acquired in June 2015) (60.7%) | 162 | 4 | 2.5% | 2.5% |
| **Total** | **1,150** | **24** | **2.1%** | 6.4% |

Whilst we recognise that returns from acquisitions take some time to come through and the macroeconomic environment is challenging in the territories in which a number of the Group's recent acquisitions operate, the current return on capital deployed continues to remain well below our expected target range. Each business is seeking to improve these returns, as detailed in the respective business reviews later in this report.

# Part 2 – Group Finance Director Review

Since 2013, the Group has exited a number of non-core European OMW businesses with low return on investment and high goodwill and has generated proceeds from the IPO and subsequent secondary offering of OMAM. The proceeds from this corporate activity have been invested in the business with the potential to generate higher return on investments in faster growth markets. This includes the investments in UAP, ETI, Quilter Cheviot and Intrinsic.

Quilter Cheviot's returns improved to 6.5% in 2016 (2015: 5.9%) reflecting higher profits as FUM increased 16% compared to the prior year, increasing the FUM based revenues earned.

The Intrinsic/Cirilium post-tax AOP includes Old Mutual Wealth Private Client Advisers and the LTIP charge in 2016 in view of successful business delivery. Excluding these charges the return on invested capital is approximately 14%. Intrinsic also secures flows for other parts of the OMW business. For example, the Intrinsic restricted channel accounted for 32% of UK Platform net flows in 2016 (2015: 25%). The contribution to profit from these flows is not recognised in the post-tax AOP result stated above. The acquisition has performed ahead of original expectations.

Synergies expected from the acquisition of UAP in East Africa have not yet been realised in the financial results, nevertheless we remain comfortable that through executing on our strategic priorities we will realise the desired medium and long-term returns on our investment.

## Plc cash flows and liquidity

### Free Surplus Generation

Free surplus generation analysis considers the efficiency of the businesses in converting profits into operational cash flows. In 2016, the businesses generated free surplus of £878 million (2015: £945 million), representing a conversion rate of 85% of AOP post-tax and NCI (2015: 88%).

For OMEM, 73% (2015: 69%) of the AOP (post-tax and NCI) in 2016 was converted to free surplus. Covered business free surplus generated in OMEM is calculated using the free surplus component of MCEV earnings. Non-covered business free surplus generated is calculated as AOP post-tax and NCI adjusted for short-term fluctuations in investment return and movements in required capital for OMEM's Property and Casualty business.

The OMW conversion rate was 84% in 2016 (2015: 102%). The lower conversion rate partially reflects revised expense assumptions in the UK Heritage business following the decision to suspend the development of its IT system. OMW free surplus is calculated on a local statutory basis which for the businesses in the EU is consistent with Solvency II principles.

Nedbank and Institutional Asset Management free surplus is calculated as their AOP post-tax and NCI and therefore the conversion rate is 100% for both businesses.

The analysis below sets out free surplus generation between hard currency and emerging market businesses given the remittances and dividend arrangements set out in the Group's demutualisation agreement (as amended over time).

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Source of free surplus (£m)** | **Free surplus generated** | **% of AOP converted to free surplus** | **Free surplus generated** | **% of AOP converted to free surplus** |
| Old Mutual Wealth | 179 | **84%** | 268 | 102% |
| Institutional Asset Management | 69 | **100%** | 86 | 100% |
| **Total northern hemisphere** | 248 | **88%** | 354 | 101% |
| Old Mutual Emerging Markets | 318 | **73%** | 289 | 69% |
| *South Africa* | *247* | ***68%*** | *239* | *67%* |
| *Rest of OMEM* | *71* | ***93%*** | *50* | *79%* |
| Nedbank | 312 | **100%** | 302 | 100% |
| **Total southern hemisphere** | 630 | **84%** | 591 | 82% |
| **Total before interest and plc costs** | 878 | **85%** | 945 | 88% |

### Head Office company cash position and cash flows

The plc Head Office cash position marginally decreased from £750 million as at 1 January 2016 to £743 million as at 31 December 2016. This is invested in cash and near cash instruments, including money market funds and a liquid corporate bond portfolio. The plc Head Office also has access to an undrawn committed facility of £800 million (as at 31 December 2015: £800 million). In addition to cash and available resources held at the plc Head Office level, which are considered adequate to support the plc under both normal and stressed conditions, we evaluate potential further liquid resources that required to be held by the plc Head Office to support underlying business needs for investment opportunities and for downside scenarios. Consistent with this approach, during January 2017, the

Group established a new £200 million RCF for the OMW business and continues to finance seed capital investments for OMAM. Plc Head Office maintains an early warning liquidity threshold and liquidity buffers reflecting its risk appetite.

As the businesses transition to be standalone entities we will assess their day one liquidity requirements and where appropriate we will transition liquidity buffers currently held and funded at plc Head Office into the businesses. This is particularly relevant for OMW.

The table below summarises plc Head Office cash flows in 2016 and 2015:

| Plc cash flows (£m) | 2016 | 2015 |
|---|---|---|
| **Opening cash and liquid assets at holding company at 1 January** | **750** | 1,003 |
| **Operational flows** | | |
| Hard currency free surplus generated | 248 | 354 |
| Old Mutual Wealth business transformation costs (after tax) | (82) | (78) |
| Other cash retained or deployed in the businesses | (82) | (113) |
| **Operational receipts from hard currency businesses** | **84** | 163 |
| Impact of foreign currency hedging | **(6)** | (2) |
| **Operational receipts from hard currency businesses after hedging** | **78** | 161 |
| Emerging market free surplus generated | 630 | 591 |
| Free surplus used for acquisitions | (17) | (191) |
| Other cash retained or deployed in the businesses | (203) | (70) |
| **Operational receipts from emerging market businesses** | **410** | 330 |
| Impact of foreign currency hedging | **(37)** | 17 |
| **Operational receipts from emerging market businesses after hedging** | **373** | 347 |
| Corporate costs | (60) | (57) |
| Other operational flows | (46) | (55) |
| **Total operational flows** | **345** | 396 |
| **Capital servicing** | | |
| Interest paid | (72) | (32) |
| Preference dividends | (17) | (30) |
| Ordinary cash dividends | (451) | (426) |
| *Paid to northern hemisphere shareholders* | *(160)* | *(172)* |
| *Paid to southern hemisphere shareholders* | *(291)* | *(254)* |
| **Total servicing of capital** | **(540)** | (488) |
| **Capital movements** | | |
| Net debt (repaid)/ issued in the period | (112) | 187 |
| Net business unit funding | 68 | (118) |
| **Total capital movements** | **(44)** | 69 |
| **Other Plc cash movements** | | |
| Net corporate activity received/(funded) by plc directly | 232 | (230) |
| **Total plc cash movements** | **232** | (230) |
| **Closing cash and liquid assets at holding company at end of period** | **743** | 750 |

## Operational cash flows

Hard currency free surplus generated reduced by £106 million in 2016 to £248 million (2015: £354 million) largely due to the reduction in OMW free surplus to £179 million (2015: £268 million) as a result of AOP being 15% lower in 2016 than the prior year and the revised expense assumption in the UK Heritage business following the decision to suspend the development of its IT system. £33 million of the OMW free surplus generated during 2016 was remitted to plc Head Office (2015: £109 million). The decrease was due to a higher proportion of the post-tax free surplus being retained for investing in OMW's UK Platform transformation project (£82 million) and for

redeploying into growth opportunities in the business, including the expansion of the Old Mutual Wealth Private Client Advisers business and planned acquisitions of Attivo Investment Management and Caerus. OMAM remitted £51 million (2015: £54 million), reflecting its dividend policy of paying 25% of Economic Net Income (ENI) and agreed payments in-line with the Deferred Tax Agreement.

Emerging markets free surplus increased to £630 million (2015: £591 million) largely due to higher AOP (post-tax and NCI). £410 million (2015: £330 million) of the free surplus was remitted to plc Head Office. During 2016, OMEM generated free surplus of £318 million and remitted £253 million after investing in their South African IT investment programme (£21 million) and deferred acquisition payments on AIVA (£17 million). During 2016, Nedbank remitted £157 million, retaining £155 million, reflecting its publicly stated policy of a dividend cover of 1.75 – 2.25 times Headline Earnings.

Other operational flows include the impact of hedging on anticipated foreign currency remittances of £(28) million (2015: £1 million) and payments to the plc employment benefit trust relating to the funding of share incentive awards of £40 million. The trust purchased 21.4 million (2015: nil) shares at an average share price of 184 pence per share. This increase primarily reflects the funding of the new long-term incentive plan (the Managed Separation Incentive Plan), which replaced the annual long-term incentive awards that under previous arrangements would have been granted and so required funding in 2016, 2017, and 2018.

### Servicing of capital

Dividend payments to shareholders of £451 million (2015: £426 million) have been made in the year in relation to the second interim dividend for 2015 of 6.25 pence per share and the first interim dividend for 2016 of 2.67 pence per share. Of this, £291 million was paid to shareholders on the SA register (2015: £254 million). Plc contributed £41 million of central cash to the payment of plc dividends during the year. Preference dividends reduced by £13 million in 2016, reflecting the redemption of the €374 million Tier 2 bond in November 2015. Interest paid in 2016 was £40 million higher than 2015 mostly due to £450 million of Tier 2 subordinated debt issued in November 2015.

### Capital movements

In October 2016, £112 million of senior debt was repaid. Net inflows from business unit funding during 2016 largely reflect returns of co-investment and seed capital from OMAM of £40 million (2015: £9 million) and the return of funding of £29 million from Bermuda (2015: £111 million funding to Bermuda).

### Corporate activity

Cash flows from corporate activity include proceeds of £230 million (net of costs and foreign currency hedging) from the secondary offering and buy back of 20.95 million shares in OMAM during December 2016, receipts from the sale of Rogge and other corporate inflows and outflows. In 2015, plc Head Office provided intercompany funding to OMW for its purchase of Quilter Cheviot and received the proceeds from the sale of 15.295 million OMAM shares in the secondary offering during June 2015.

## Post balance sheet events

On 9 January 2017, OMW sold OMW Italy to Phlavia Investimenti (previously ERGO Italia), owned by Cinven. The proceeds from the sale (net of costs and foreign currency hedging) of £210 million were remitted to the Group on the same day. On 3 February 2017, we fully redeemed £273 million (being the full amount) of perpetual preferred callable securities that remained outstanding.

## OM Asset Management commitments to Old Mutual plc

As part of the managed separation strategy, steps were taken during 2016 to clarify and accelerate seed capital and DTA relationships between OMAM and Old Mutual plc, with the effect that Old Mutual plc has greater certainty about future cash payments from OMAM.

### Purchase of seed capital investments from Old Mutual plc

On 15 September 2016, OMAM purchased approximately $40 million (£31 million) of seed investments from Old Mutual plc under the terms of the Seed Capital Management Agreement, as amended. OMAM intends to purchase all remaining seed capital investments covered by the Seed Capital Management Agreement in July 2017. At 31 December 2016, the remaining OMAM seed investments had a value of $83 million (£67 million).

### Amendment of the OMAM Deferred Tax Asset Deed (DTA)

On 13 June 2016, OMAM and OM Group (UK) Limited (OMGUK) entered into a Heads of Agreement amending the DTA to provide that the obligations of OMAM to make future payments to OMGUK under the DTA, which were originally scheduled to continue until 31 January 2020, would be amended as of 31 December 2016 resulting in a payment of the net present value of the future payments due to OMGUK valued as of 31 December 2016. This payment equals approximately $143 million (£116 million) and will be made over three instalments on each of 30 June 2017, 31 December 2017 and 30 June 2018. The agreement contains certain provisions allowing OMAM to claw back amounts paid in the event that deferred tax assets recognised by OMAM are not recovered by the OMAM businesses. These clawback arrangements create a potential commitment from OMGUK to OMAM which extends beyond the period of managed separation.

# REVIEW OF FINANCIAL POSITION

## Balance sheet review

The analysis below summarises how ordinary equity attributable to ordinary shareholders of the parent is invested in the net assets of the component businesses including the plc Head Office. It also sets out the composition of plc Head Office net assets. The information is directly sourced from segmental analysis of the Group's IFRS Balance Sheet in note B4 of the financial statements. The narrative which follows the table includes forward looking analysis of the unwind of the net assets of the Group and the plc Head Office. The analysis is intended for illustrative purposes, as it is based on assumptions regarding the implementation of the managed separation strategy which are uncertain.

At 31 December 2016 ordinary equity attributable to shareholders of the parent was £7,781 million (2015: £6,407 million). The majority of this equity value was represented by the operating businesses and of this total only £358 million, or 5% related to the equity of plc Head Office (2015: £282 million, 4%):

| (£m) | Illustrative 3 February 2017 [1] | 2016 | 2015 |
|---|---|---|---|
| Equity attributable to shareholders of the parent | 7,781 | **8,054** | 6,680 |
| Plc perpetual preferred callable securities | - | **(273)** | (273) |
| **Equity attributable to ordinary shareholders of the parent** | 7,781 | **7,781** | 6,407 |
| | | | |
| **Equity invested in component businesses:** | | | |
| OMEM | 2,455 | **2,455** | 1,805 |
| Nedbank | 2,476 | **2,476** | 1,710 |
| OMW | 1,687 | **1,897** | 1,950 |
| OMAM | 527 | **527** | 611 |
| OM Bermuda | 68 | **68** | 49 |
| plc Head Office [2] | 568 | **358** | 282 |
| **Equity attributable to ordinary shareholders of the parent** | 7,781 | **7,781** | 6,407 |
| | | | |
| **Composition of OM plc Head Office NAV** | | | |
| Cash | 680 | **743** | 750 |
| Seed investments | 148 | **148** | 223 |
| Intercompany debtors | 816 | **816** | 767 |
| **Plc Head Office Assets** | 1,644 | **1,707** | 1,740 |
| Third party debt (including plc perpetual preferred callable securities) | (1,017) | **(1,290)** | (1,371) |
| Net sundry third party creditors | (59) | **(59)** | (87) |
| **plc Head Office Liabilities** | (1,076) | **(1,349)** | (1,458) |
| **plc Head Office NAV** | 568 | **358** | 282 |

[1] 31 December 2016 balances, adjusted for the receipt of Italy proceeds of £210 million and the repayment of £273 million of Perpetual Preferred Callable Securities in February 2017

[2] Excludes Perpetual Preferred Callable Securities that are classified within IFRS equity in accordance with accounting guidance, but not attributable to ordinary equity holders, as these were repaid in February 2017. At 31 December 2015 and 2016 they were carried at a book value of £273 million

### Equity invested in the businesses

Over 80% of the Group's equity is invested in the OMEM, Nedbank and OMW businesses. Under managed separation these businesses are expected to be distributed to shareholders. The realisation of the available assets of the plc Head Office will be required to contribute to plc Head Office's remaining liabilities and contingencies as the managed separation progresses.

The equity of OMAM, which is listed on the NYSE, and OM Bermuda businesses, is also potentially realisable by the plc Head Office to support the managed separation. It is expected that OMAM will provide a source of further cash resources as Old Mutual executes its strategy of continued phased reductions in its interest in OMAM, when appropriate.

The extent to which the NAV of the OM Bermuda business is realised by the plc Head Office will depend on the resources required to support obligations arising in respect of the Guaranteed Minimum Accumulation Benefit (GMAB) guarantees in relation to variable annuity policies due to reach their 10 year maturities in 2017 and 2018 and the release of a guarantee to a third party, with a maximum potential value of $250 million in May 2018.

OMEM and Nedbank dividend receipts will be available to support the plc dividend, consistent with the original terms of demutualisation and in line with the plc's capital management policy. OMW and OMAM will continue to provide operational remittances to the plc Head Office. For OMW this will continue to be constrained by the required investment in the UK Platform Transformation Project; in OMAM's case it will be in line with the businesses' publicly listed dividend policy.

### OM plc Head Office cash resources and third party debt

Although the net assets of the plc Head Office are small relative to the equity of the Group, the plc Head Office balance sheet includes third party debt totaling £1,290 million (2015; £1,371 million).

The plc Head Office had cash balances of £743 million at 31 December 2016 (2015; £750 million). However on an illustrative basis before other costs, cash balances have reduced to £680 million since 31 December 2016 following the repayment of the £273 million Old Mutual plc Perpetual Preferred Callable Securities, and after taking account of the receipt of net proceeds of £210 million from the sale of the Italy business, both of which occurred in 2017. The availability of plc Head Office cash resources is further constrained by the requirement to support plc Head Office operational expenses including corporate costs, other net shareholder expenses, managed separation and finance costs and maintaining liquidity buffers.

Effecting the managed separation strategy is expected to require funding in the region of £130 million in relation to the one-off costs of winding down the plc and creating standalone businesses. Within the total one-off costs the plc Head Office expects to incur £50 million to £65 million, £8 million has already been incurred during 2016. Advisory costs related to implementing managed separation to unlock the current conglomerate Group discount are expected to be at least £100 million. The majority of these will be funded by the plc Head Office. In 2016, costs of £14 million were already incurred by plc Head Office.

The plc Head Office early warning threshold buffers support the inherent costs and constraints of the existing Group structure as well as being appropriate to the operational risks it faces in respect of its own activities and due to its Group wide role. The plc regularly reviews its early warning liquidity threshold ("EWT") to ensure adequate liquidity resources are maintained. At 31 December 2016 this stood at circa £500 million. This amount reflects a forward looking assessment of the liquidity required at the center, to cater for normal Head Office cash demands, downside risks and contingencies as well as the £200 million RCF recently put in place with OMW. The liquidity EWT will reduce dynamically as the plc Head Office cash demands reduce, legacy plc Head Office items are crystallised and preparations for day one standalone balance sheets are completed. Our liquidity buffers allow for an expected level of funding in the region of £130 million that is required in order to resolve the legacy plc Head Office items.

### Plc Head Office net intercompany receivables

Other non-cash plc Head office assets include net intercompany debtors of £816 million (2015: £767 million), and largely relate to funding to OMW (£789 million), most of which was provided to support the acquisitions of Quilter Cheviot and Intrinsic in 2015. The long-term funding requirements of OMW require determination as managed separation progresses.

There is a further receivable of £85 million due from OMAM, principally relating to the Deferred Tax Asset deed which is further explained in note A2 of the 2016 financial statements. This will be fully repaid by 30 June 2018, however amounts repaid are subject to clawback provisions.

Intergroup payables relate to the £58 million loan note outstanding from Old Mutual plc to OM Bermuda. This may be called by OM Bermuda during 2017 and 2018 to the extent that obligations in relation to its GMAB guarantees cannot be met from OM Bermuda's own resources when the relevant OM Bermuda policies reach their 10 year maturity dates.

### Plc Head Office seed portfolio

The table below sets out the Group's seed investments at 31 December 2016 and 2015:

| Seed investments market value (£m) | 1 in 200 event 2016 [1] | 2016 | 2015 |
|---|---|---|---|
| **OM Bermuda** | | | |
| Millpencil Limited | **59** | **72** | 74 |
| Millpencil US | **-** | **-** | 51 |
| OM Seed Investments (UK) Limited (OMSI (UK) Ltd) | **8** | **15** | 77 |
| Millpencil US | **21** | **35** | - |
| **OM plc** | **8** | **8** | - |
| **OM Group (UK) Limited (OMGUK)** | **15** | **18** | 21 |
| **Total** | **111** | **148** | **223** |

[1] The 1-in-200 event represents the value of seed investments at 31 December 2016 after the impact of a 1-in-200 event allowing for market movements.

The plc Head Office is in the process of winding down its seed portfolio as part of the managed separation. At 31 December 2016 the plc Head Office held seed investments of £148 million (2015: £223 million). During 2016 the level of seed capital reduced by £75 million reflecting the redemption of £95 million of seed funding offset by £20 million of foreign exchange and fair value gains.

The mix of underlying investments carries market risks. The seed portfolio is allocated over a range of assets and at 31 December 2016 was invested 48% in fixed income, 15% in equities and 37% in alternatives. Based on a 1 in 200 downside scenario, the total value of these investments is estimated to reduce by £37 million to £111 million.

The accelerated cash realisation from seed investments and intra-group arrangements has been seen in 2016 and is expected to continue in 2017 and 2018.

### Plc debt

| Plc debt summary [1] | Illustrative 2016 [3] | 2016 | 2015 |
|---|---|---|---|
| Total gearing (gross of holding company cash) - IFRS basis [2] | 14.1% | **15.9%** | 16.2% |
| Total book value of debt - IFRS basis (£m) | 1,818 | **2,091** | 1,731 |
| plc book value of debt - IFRS (£m) | 1,017 | **1,290** | 1,371 |
| Total interest cover [4] | 12.5 times | **11.1 times** | 14.0 times |
| Hard interest cover [4] | 3.9 times | **3.4 times** | 4.8 times |

[1] Excludes banking-related debt of £3,008 million at Nedbank and £209 million at Old Mutual Emerging Markets, of which £159 million is held at Old Mutual Finance (OMF), £23 million is held at CABS and £27 million is held at Faulu

[2] 2015 has been restated to adjust for debt instruments that are accounted for as equity

[3] Proforma for redemption of the £273 million Perpetual Preferred Callable Securities in February 2017 and receipt of net £210 million from the sale of Old Mutual Wealth Italy in January 2017

[4] Interest cover is calculated based on the number of times AOP before tax covers finance costs

Total debt (excluding Nedbank) of £2,091 million comprises of plc debt of £1,290 million, emerging markets non-banking debt of £482 million and OMAM debt of £319 million.

As at December 2016, Old Mutual plc debt comprises of £273 million Preferred Perpetual Callable Securities callable in March 2020, £500 million of Tier 2 debt maturing in June 2021 and £450 million of Tier 2 debt maturing in November 2025. At 31 December 2016, the book value of the Tier 2 instruments was £569 million and £448 million respectively. The plc value of debt is £1,290 million, which includes the book value of Old Mutual plc debt, excluding a derivative asset of £31 million, related to the £500 million Tier 2 debt taken out in June 2012. On 3 February 2017, the Group repurchased all of the £273m Preferred Perpetual Callable Securities.

The book value of Emerging Markets non-banking debt is £482 million as at 31 December 2016. OMLAC(SA) has R3,475 million in fixed rate Tier 2 bonds and R2,525 million in floating rate Tier 2 bonds. The fixed rate bonds have first calls in 2019, 2020, 2022 and 2025, while the floating rate bonds have first calls in 2019 and 2020. At 31 December 2016 OMLAC(SA) has drawn R260 million of a total R3,125 million revolving credit facility (excludes R2,125 million with Nedbank). UAP has debt of KES 2,000 million maturing in 2017, along with $60 million (includes $31 million Nedbank loan) maturing in 2021, 2022 and 2023. OM Properties Africa has debt of $65 million with maturity in December 2020.

The book value of OMAM debt is £319 million. On 27 July 2016, OMAM issued $400 million senior notes, consisting of $275 million due in 2026 and $125 million due in 2031.

#### Gearing as at 31 December 2016

Gross gearing is based on non-banking debt of £2,060 million (2015: £1,680 million), which is the book value of non-banking debt net of a derivative asset of £31 million (2015: £51 million) related to the £500 million Tier 2 debt. Gross gearing of 15.9% is calculated as the percentage of non-banking debt (£2,060 million) over total Group equity plus non-banking debt (£12,954 million). Gearing reduces to 10.2% when net of cash at the holding company.

### Capital management policy

We announced a new capital management policy in March 2016 in respect of returns to shareholders for the period of the managed separation. The aim is to provide flexibility, recognising the need to balance complex considerations, including costs and cash demands associated with the managed separation, continuing to invest in the businesses to drive enhanced performance and further increasing their capital strength. Given this, we previously indicated taking a conservative approach to the full year dividend.

We have today announced the second interim dividend for 2016 under the new policy which is 3.39p, the rand equivalent is 53.55 cents. This will be paid on 28 April 2017.

# Part 2 – Group Finance Director Review

We had previously indicated that in 2015 and in the first half of 2016, that plc Head Office cash contributed to paying dividends to shareholders and that dividends going forwards will reflect the capacity for distributions from the underlying businesses. This will continue to apply for dividends in respect of 2017 and we maintain our target of dividend cover of 2.5-3.5 times AOP for the full year. The expected cover for the 2017 first Interim dividend is 3 times AOP earnings for that interim period. For 2017, dividends paid in currencies other than sterling will be converted at the average effective exchange rate after taking into account hedging activities and timing of remittances for the relevant period.

We will be reviewing our rolling hedging of non-sterling remittances from the underlying businesses in light of the uncertainties of managed separation.

## Capital

### Regulatory capital in accordance with Solvency II rules

The Group Solvency II surplus is £1.3 billion at 31 December 2016 (1 January 2016: £1.7 billion as reported to the Prudential Regulation Authority (PRA)), representing a Solvency II ratio of 124% (1 January 2016: 138%) calculated under the standard formula. The Group Solvency II ratio continues to be resilient as the Group surplus excludes £1.7 billion of surplus from the South African businesses that remains available for local loss absorption. The Solvency II information in this preliminary results disclosure has not been audited.

| | Solvency II | | |
|---|---|---|---|
| **Group regulatory capital (£bn)** | **31 December 2016** [1] | 2016 pro-forma [2] | 1 January 2016 [3] |
| Own funds | **6.9** | 6.9 | 6.1 |
| Solvency capital requirements (SCR) | **5.6** | 5.5 | 4.4 |
| Solvency II surplus | **1.3** | 1.4 | 1.7 |
| **Coverage** | **124%** | 126% | 138% |

[1] Based on preliminary estimates. Formal filing due to the Prudential Regulation Authority (PRA) by 7 April 2017

[2] Reflects the sale of Old Mutual Wealth Italy which completed in January 2017

[3] As reported to the PRA as part of the Solvency II day one submission

The weakening of sterling against the rand reduced the Group Solvency II ratio by 8% due to the translation of capital requirements from OMEM and Nedbank into sterling. The Group Solvency II ratio also reduced due to the payment of dividends to UK shareholders, the purchase of Landmark Partners by OMAM, net increases in the businesses' capital requirements consistent with business growth, and the de-recognition of preferred callable securities from own funds following PRA approval to repurchase early in 2017. These negative movements were offset by the receipt of cash following the public offering of OMAM shares in December 2016.

There was no offset coming from own funds held in rand as any increase in OMEM and Nedbank own funds are restricted by the increase in their capital requirements as a result of applying fungibility restrictions.

#### Composition of qualifying Solvency II capital

The Group own funds for Solvency II purposes reflect the resources of the underlying businesses after excluding the restricted surplus from the South African owned businesses. The Group own funds include the Old Mutual plc issued subordinated debt instruments which qualify as capital under Solvency II. The composition of own funds by tier is presented in the table below.

| **Old Mutual Group Solvency II own funds (£bn)** | **31 December 2016** | 1 January 2016[1] |
|---|---|---|
| Tier 1 (unrestricted) | **5.8** | 4.8 |
| Tier 1 (restricted) [2] | **-** | 0.3 |
| Tier 2 [3] | **1.1** | 1.0 |
| Total Group Solvency II own funds | **6.9** | 6.1 |

[1] As reported to the PRA as part of the Solvency II day one submission

[2] Comprises of £0.3 billion of Perpetual Preferred Callable Securities grandfathered under Solvency II that were de-recognised from own funds at 31 December 2016 in view of the Group's repurchase in early 2017

[3] Comprises £0.5 billion of Solvency II compliant subordinated debt and £0.6 billion subordinated debt grandfathered under Solvency II

Group SCR is covered by Tier 1 capital which represents 105% of the Group SCR of £5.6 billion. Tier 1 represents 85% of Group capital after fungibility deductions.

### Solvency II capital in comparison to IFRS equity

The table below presents the reconciliation of differences between IFRS equity net of non-controlling interests (NCI) and Solvency II own funds (post restriction).

| IFRS compared to own funds (£bn) | 31 December 2016 |
|---|---|
| **IFRS equity net of non-controlling interest** | 8.1 |
| Removal of goodwill and other intangibles (net of non-controlling interest) [1] | (2.9) |
| Restatement of technical provisions (net of deferred tax) [2] | 2.8 |
| Inclusion of Old Mutual plc subordinated debt [3] | 1.1 |
| De-recognition of preferred callable securities [4] | (0.3) |
| Fungibility restriction [5] | (1.7) |
| Other [6] | (0.2) |
| **Total Group Solvency II own funds** | **6.9** |

[1] Goodwill and other intangibles are assets that are recognised under IFRS, however, they are deemed inadmissible for regulatory purposes

[2] Solvency II uses a best estimate liability basis to measure insurance liabilities. This effectively recognises a future earnings component within the liabilities and results in an increase in capital. This is partially offset by the recognition of the risk margin which replaces prudential margins allowed for in IFRS insurance liabilities

[3] Old Mutual plc subordinated debt comprises of Tier 2 debt instruments in Old Mutual plc that count towards the Group's Solvency II capital position

[4] Comprises of £273 million of perpetual preferred callable securities grandfathered under Solvency II that were de-recognised from own funds at 31 December 2016 in view of the Group's repurchase in early 2017

[5] Restriction of the Nedbank and OMEM's surplus (plus an £86m restriction relating to OMW) when applying Solvency II fungibility and transferability rules (restricting entirely the surplus available from the businesses held through South Africa, as a result of the exchange controls and demutualisation agreement that apply to remitting capital from South Africa. Under Solvency II rules, this means that the surplus is not considered to be fully fungible or transferable at a Group level)

[6] Includes offsetting items with the largest being sectoral adjustments for non-insurance entities and out of scope entity adjustments

### Solvency II sensitivities

The table below presents the estimated sensitivity of the Group Solvency II ratio under certain standard financial stresses, which are defined by reasonably possible individual movements in key market parameters, while keeping all other parameters constant. The effects impact both the own funds and capital requirements and consequently the Group Solvency II ratio. In addition, we have included a non-financial stress assuming 10% of our insurance business in OMW and OMEM lapses immediately.

| Solvency II and capital ratio at 31 December 2016 (£bn) | Capital Requirements | Surplus | Group ratio | Restricted surplus |
|---|---|---|---|---|
| **Base Solvency II surplus** | **5.6** | **1.3** | **124%** | **1.7** |
| Equity markets fall by 25% | 5.4 | 1.2 | 123% | 1.5 |
| Impact of 10% of business lapsing immediately [1] | 5.4 | 1.3 | 123% | 1.7 |
| Interest rates rise by 100 basis points | 5.6 | 1.3 | 123% | 1.7 |
| Credit spreads increase by 100 basis points [2] | 5.7 | 1.3 | 123% | 1.6 |
| ZAR:GBP exchange rate depreciates by 30% (R22:£1) | 4.6 | 1.3 | 129% | 1.4 |
| ZAR:GBP exchange rate appreciates by 10% (R15:£1) | 6.1 | 1.3 | 121% | 1.9 |

[1] Business lapse sensitivity for OMW and OMEM only

[2] A 100bps increase in credit spreads is generally assumed to be a one notch downgrade from BBB to BB- rating and a two notch downgrade on lower graded investments

### Composition of Group capital requirements

The insurance entities in the Group calculate capital requirements using the Solvency II standard formula. In the profile below, the composition of these requirements is shown by risk type for the consolidated insurance entities in Europe and the aggregated insurance entities in OMEM

| Composition of capital requirement by key risk type (%) | | Consolidated insurance [1] | Aggregated insurance [2] | Total insurance 31 December 2016 | Total insurance 1 January 2016 [3] |
|---|---|---|---|---|---|
| Market risk | Equity | 26% | 12% | 16% | 21% |
| | Interest rate | 5% | 6% | 6% | 7% |
| | Currency | 19% | 2% | 7% | 7% |
| | Spread | 4% | 7% | 6% | 7% |
| | Risk concentration | 0% | 3% | 2% | 2% |
| | Property | 0% | 1% | 1% | 1% |
| Insurance Risk | Lapse | 28% | 25% | 26% | 26% |
| | Expense | 7% | 5% | 6% | 6% |
| | Mortality | 2% | 8% | 6% | 5% |
| | Other [4] | 1% | 8% | 6% | 5% |
| Health underwriting risk | | 0% | 4% | 3% | 3% |
| Non-Life underwriting risk | | 0% | 6% | 4% | 4% |
| Counterparty default risk | | 6% | 9% | 8% | 3% |
| Operational risk | | 2% | 4% | 3% | 3% |
| **Total Undiversified Insurance Capital Requirement (£bn) [5]** | | **1.9** | **5.0** | **6.9** | **5.5** |
| Diversification | | (0.7) | (2.2) | (2.9) | (2.2) |
| Loss absorbing capacity of deferred taxes | | (0.2) | (0.6) | (0.8) | (0.6) |
| Entities included under local capital requirements [6] | | 0.0 | 0.1 | 0.1 | 0.1 |
| **Total Diversified Insurance Capital Requirement** | | **1.0** | **2.3** | **3.3** | **2.8** |
| Non-insurance | | | | 2.3 | 1.6 |
| **Total Diversified Capital Requirement (£bn)** | | | | **5.6** | **4.4** |

[1] Represents European insurance businesses in OMW, and holding companies in OMW and OM plc, according to the current Group structure on a consolidated basis

[2] Represents the insurance businesses in OMEM on a deduction and aggregation basis

[3] As reported to the PRA as part of the Solvency II day one submission

[4] Other comprises of Disability, Life Catastrophe and Longevity risks

[5] Represents the capital requirements before diversification and the loss absorbing impact of deferred taxes for insurance entities in the Group only

[6] OM Bermuda is included under local capital requirements on an aggregated basis

The capital requirements by risk type represent the standard formula stresses for only the insurance entities in Old Mutual.

Equity risk reduced from 21% to 16% in 2016 as a result of a change in methodology to exclude the impact of OMLAC(SA)'s investment in Nedbank; counterparty default risk increased from 3% to 8% mainly due to OMEM now including the impact of intercompany loans, and the impact of legacy items at Old Mutual.

### Selected regulated entity solvency statistics

Each of our individual businesses retain strong and resilient local statutory cover and have sufficient capital to support normal trading operations and withstand regulatory and internal stress scenarios. In line with our capital management philosophy, throughout the managed separation, we will continue to hold capital where the risk lies. A key objective of the managed separation is to deliver appropriately, but not excessively, capitalised businesses to the market. As businesses prepare to standalone as separately regulated groups, due consideration will be given to the regulatory group supervision that will ultimately apply to that business and the appropriate development of risk limits and overall solvency levels for the businesses to meet our stated objective. It is only after this determination that it will be possible to assess the potential for any additional returns to shareholders.

The Group continues to maintain strong local regulatory capital as shown in the table below.

| Local currency | Capital Resources | Capital Requirements | Surplus | **31 December 2016** | 1 January 2016 |
|---|---|---|---|---|---|
| OMLAC(SA) [1] (Rbn) | 45.9 | 14.3 | 31.6 | **3.2x** | 3.2x |
| Mutual & Federal [2] (Rbn) | 3.0 | 2.0 | 1.0 | **1.5x** | 1.4x |
| Nedbank [3] (Rbn) | 73.5 | 55.4 | 18.1 | **1.3x** | 1.3x |
| OMW [4] (£bn) | 1.8 | 1.0 | 0.8 | **1.9x** | 1.9x |
| OMBRE [5] ($bn) | 0.2 | 0.1 | 0.1 | **1.8x** | 1.3x |

[1] South Africa Statutory Valuation Methods (SVM) in accordance with the FSB requirements

[2] Capital Adequacy Requirement (CAR) in accordance with the FSB requirements

[3] In accordance with Basel III and excluding unappropriated profits (the cover ratio including unappropriated profits is 1.4x (1 January 2016: 1.4x))

[4] Solvency II basis (1 January 2016 comparative restated to reflect Solvency II basis). The Capital Resources figure presented includes intra-group capital funding of the loan provided to fund the acquisition of Quilter Cheviot

[5] 110% of Internal Economic Capital requirement as set by the Bermuda Monetary Authority. The 1 January 2016 position has been restated on this basis

The Financial Stability Board (FSB) has indicated that the Solvency Assessment and Management (SAM) framework in South Africa is not expected to be implemented any earlier than 1 July 2017. This follows the tabling of the Insurance Bill in 2016 which is currently under consideration by the Standing Committee of Finance in the South African Parliament. Draft Insurance Prudential Standards setting out further detail of the SAM requirements have been further developed and consulted on by the FSB. OMEM remains well capitalised, ready for implementation of the SAM framework.

OMEM had capital coverage of 2.4x on an internal economic capital basis at 31 December 2015. A South African sovereign downgrade is expected to reduce the capital coverage by between 0.2x and 0.4x depending on the severity of the scenario outcome on financial markets. Internal Economic Capital data for 2015 (ECAR) should not be interpreted as an indication or predictor of future capital ratios or sensitivities under possible future regulatory regimes.

### Principal risks

The principal risks facing the plc are covered in detail in the Risk report reflect the underlying markets and business models of each of the four businesses as well as those at the plc Head Office centre. Whilst these vary in terms of detail, there are common themes and the principal plc-wide risks are:

- Uncertain global economic conditions, impacting asset based fees and business flows as well as adding to the complexity of the managed separation process
- Political risk, particularly in South Africa, the UK, the US and Zimbabwe
- Strategic execution risk including the level of regulatory change across the Group
- Credit risk
- Currency translation risk, location of capital and sources of remittances

Governance structures are operating in line with the decision making framework, which has been adapted in light of the managed separation strategy. Strong reliance is placed on the structures and processes in place by the businesses management and Boards. There is senior Old Mutual plc management representation on each of the subsidiary Boards and the plc Board has joint meetings with the subsidiary Boards. In addition, strategic systemic and execution risks are considered by plc management and overseen by the plc Board.These structures and processes, together with businesses that are appropriately, though not excessively, capitalised, provide a solid base to support our business as we pursue our managed separation strategy.

#### How our principal risks have changed over the year to date

For as long as we remain a Group the principal risks we face remain broadly consistent with those described in the 2015 Annual Report, albeit with different emphasis on some risks and new risks for the plc.

During 2016 uncertain global economic conditions and political risk dominated the external risk landscape. This has manifested in volatile global equity markets and record low bond yields being observed. Brexit and President Trump's US election victory created both economic and political uncertainty globally, that is likely to continue well into 2017 given our substantial earnings in that country. A South African sovereign downgrade remains a significant risk within 2017. Apart from the macro perspective, there is risk from managed separation implementation, the major IT and change programmes underway in OMW and OMEM, and heightened regulatory risk particularly in the context of regulatory reforms in the UK and South Africa.

# Part 2 – Group Finance Director Review

Managed separation involves significant corporate and operational change for the businesses and plc Head Office, as well as execution risk in relation to the transactions to give effect to the actual separation. In addition, the plc is currently managing a number of residual risks relating to past merger, acquisition and disposal activity. These are not sufficiently material to class as a principal risk at a plc level, but in the context of managed separation, these legacy risks may crystallise over the next few years. The scale of organisational change that is occurring means we are particularly cognisant of culture and people risk in the businesses and the plc. We will continue to manage our people and culture carefully as we all work towards the common goals set out under the managed separation. The managed separation is planned to be executed within approved risk appetite and value, cost, time and risk and the balancing of stakeholder interests, which will require optimising liquidity cash management and cash generation at both business and plc levels which represent an increase in exposure to market risk, ensuring all regulatory capital requirements continue to be met and ongoing monitoring of risk culture.

**Regulatory and governance**

The plc operating model has evolved from that of a "strategic controller", to an "active portfolio manager" during the implementation phase of the managed separation. This means that there will be increased reliance and accountability upon business boards. Independent chairs will be appointed to business boards at the appropriate time, to the extent they are not already in place, in readiness for separation. Business committee chairs will be invited to present key issues directly to the plc Board. There will be more formal interaction with the businesses and with the plc Board, based on shareholder rights and regulatory responsibilities. The plc and the businesses will continue to prepare for forthcoming regulatory changes, cognisant of the implications of the managed separation and evolving governance requirements. In particular, the incoming Twin Peaks regulation in South Africa will influence the level of the appropriate strategic minority stake in Nedbank held by the new SA group, through its ownership of OMLAC(SA).

### Performance measures

In line with statutory reporting requirements we report profits assessed on an International Financial Reporting Standards (IFRS) basis. Consistent with last year, we complement IFRS reporting with additional disclosure on various alternative performance measures (APMs).

APMs are not defined by the relevant financial reporting framework (which for the Group is IFRS), but we used them to provide greater insight to the financial performance, financial positions and cash flows of the Group and the way it is managed. Summary information about the key APMs used in our financial review is provided in the following table.

| APM | Definition | Why is the measure used? |
|---|---|---|
| **Group** | | |
| Adjusting Operating Profit (AOP) | AOP is a normalised profit measure to reflect the underlying operating profit of the Group. It therefore adjusts IFRS profit for the impact of acquisitions and disposals; short-term fluctuations and IFRS accounting treatments that do not fairly reflect the economics of our operations. In addition, AOP excludes the results of non-core operations.<br><br>The calculation of AOP adjusts the basic IFRS profit for a number of items as detailed in note C1 in the financial statements. | Due to the nature of the Groups' businesses, AOP is an appropriate alternative basis by which to assess the underlying operating results. It enhances the comparability and understanding of the financial performance of the Group. |
| Adjusted Return of Equity (ROE) | ROE is calculated as AOP (post-tax and NCI) over average ordinary shareholders' equity. For the purpose of this calculation, the perpetual preferred callable securities are deducted from equity to be consistent with the related finance costs which are included in AOP. | It is measure of the return generated for shareholders over the reporting period. |
| Adjusted Plc NAV per ordinary share (ANAV) | ANAV uses a MCEV valuation basis for Emerging Markets covered business and the UK Heritage business in OMW as well as the market value of listed subsidiaries. Other businesses and other assets are included at IFRS net asset value. | ANAV represents a better indication of the value of our covered and listed businesses than the disclosure in the IFRS balance sheet would provide. |
| Free Surplus | Free surplus generation measures the efficiency of the businesses in converting AOP profits into operational cash flows that support the plc capital management policy. | Free surplus provides users of the Financial results of plc with additional information on the cash generation of the businesses that is not directly observed in the IFRS results. |
| Gross sales | Gross sales are the gross cash flows received from customers during the period. | This measure is a lead indicator of reported and future revenue. |
| Net Client Cash Flows (NCCF) | NCCF is the difference between money received from customers and money returned to customers during the period. | This measure is a lead indicator of reported net revenue. |
| **Emerging Markets** | | |
| Present Value of New Business Premiums (PVNBP) | PVNBP uses the EEV methodology of determining the present value of new business premiums written during the reporting period. It is calculated as 100% of new single premiums plus the discounted present value of new regular premiums. | This measure is a lead indicator of reported and expected revenues in our covered business. |
| Market Consistent Embedded Value (MCEV) | MCEV is a reporting standard for life insurance companies that provide a common set of principles and guidelines for use in calculating embedded value. MCEV measures the value of business in-force based on a set of best estimate assumptions, allowing for the impact of uncertainty in future investment returns. | It is designed to provide an accurate reflection of the valuation and performance of the long-term savings business and a method of comparing companies on a consistent basis |
| Return on Embedded Value | The annualised post-tax adjusted operating profit calculated on an EEV basis expressed as a percentage of the opening embedded value adjusted for dividends paid to equity holders. | It is a measure of the return generated for shareholders over the reporting period on an embedded value basis. |
| **Nedbank** | | |
| Headline Earnings per Share (HEPS) | Headline Earnings is calculated with reference to Circular 2/2015 issued by the South African Institute of Chartered Accountants. Headline earnings is a way of dividing the IFRS reported profit between re-measurements that are more closely aligned to the operating/trading activities of the entity, and the platform used to create those results. | Headline Earnings is an earnings measure that is required by the South African listing authorities. It provides a basis to compare South African listed peers. |
| Efficiency Ratio | The Efficiency Ratio is total expenses divided by the sum of net interest income and non-interest revenue. | It measures the expense efficiency of the business. |
| Liquidity Coverage Ratios | The Liquidity Coverage Ratio (LCR) aims to ensure that a bank holds adequate unencumbered High Quality Liquid Assets to cover total net cash | It provides a view of the short-term resilience of the liquidity risk profile of banks. |

| | | |
|---|---|---|
| | outflows over a 30-day period under a prescribed stress scenario. | |
| Economic Profit | Calculated as headline earnings less the cost of equity. The cost of equity is calculated as the average ordinary shareholders equity (excluding goodwill) multiplied by the cost of equity. | It is a measure of the entity's ability to generate earnings in excess of the economic cost of the capital contributed. |
| **OM Wealth** | | |
| Underlying AOP, before one-off adjustments | Pre-tax AOP, adjusted for certain one-off costs and the timing impact of acquisitions and disposals during 2015. | The measure is used to provide users of the financial statements greater insight into the long-term earning ability of the OMW current business on a comparable basis. |
| Integrated net inflows | This reflects the total NCCF that has flowed through two or more segments within OMW. | It is a lead indicator of revenue generation driven by an integrated business model |
| Operating margin | This is calculated as AOP over net revenue, where net revenue includes gross performance fees. | An efficiency measure that allows users of our financial statements to assess what percentage of net revenues that become operating profit. |
| **OM Asset Management** | | |
| Economic Net Income (ENI) | ENI is economic net income, the alternative management metric for OM Asset Management profit. Similar metrics are used by US industry peers. | This measure is used by OM Asset Management to evaluate the financial performance of, and to make operational decisions for, the business. |
| ENI Operating margin | The ENI operating margin is a non-GAAP efficiency measure, calculated based on ENI operating earnings divided by ENI revenue. | An efficiency measure that allows users of our financial statements to assess what percentage of net revenues that become operating profit. |

# Old Mutual Emerging Markets

| Highlights (Rm) | 2016 | 2015 | % change |
|---|---|---|---|
| IFRS profit pre-tax | **10,723** | 11,108 | (3%) |
| AOP (pre-tax) | **12,333** | 12,001 | 3% |
| Gross Sales (Rbn) | **213.0** | 215.5 | (1%) |
| Covered sales (APE) | **13,526** | 12,732 | 6% |
| Value of new business (VNB) | **2,173** | 2,394 | (9%) |
| Gross written premium | **16,173** | 14,297 | 13% |
| Underwriting margin (P&C) | **1.5%** | 2.8% | (130 bps) |
| NCCF (Rbn) | **17.0** | 34.3 | (50%) |
| FUM (Rbn) [1] | **1,008.7** | 989.9 | 2% |

[1] FUM is shown on an end manager basis

### Operating environment

Macroeconomic headwinds continued to challenge many of the markets in which we operate, with market and currency volatility remaining high in a year of many unexpected global events and an uncertain domestic political environment in South Africa. Climatic conditions were also severe in many of our markets with an extended drought further hampering economic growth and extreme weather events permeating through the year. The regulatory environment remains dynamic across our businesses and markets. For example, regulated interest rate caps have been introduced in South Africa and Kenya, which have impacted our lending operations in both markets.

During 2016 South Africa averted a credit rating downgrade of its sovereign debt to sub-investment grade status, however the threat of a downgrade remains with all ratings agencies placing the country on a 'negative' outlook. The South African equity market enjoyed strong growth during the first half but a slowdown in the second half of the year, and by the end of December the All Share index was still circa 7% below the all-time peak reached early in 2015. The rand made a strong recovery in the second half of the year to trade around R14/US Dollar, after reaching its weakest levels in history relative to major currencies in Q1 2016.

Although the US Dollar remains Zimbabwe's official currency, bond notes were introduced in November 2016 and the equity market responded with a 30% rally as investors moved capital to 'safer' value investments. Many African countries experienced currency depreciation in 2016, with Nigeria the most notable with a 50% depreciation in the official rate, whilst the East African economies were generally more stable. India remained a growth economy during 2016 and economic growth in China remained high, at 6.7% for 2016. Latin American economies suffered from the lag effects of the 2015 low commodity prices and financial strain from escalating government debt.

### Business developments

#### Strategy update

Our strategy is rooted in our vision of Enabling Positive Futures for our customers, who span all income segments and include both retail and corporate relationships. Our business model uniquely positions us to deliver on this vision. By being focused on our customers' needs, both in our asset gathering activities (for example by promoting financial inclusion and providing financial education and advice); and in our asset management activities (for example by deploying funds into infrastructure, renewable energy, housing etc.) we remain relevant in the face of social, environmental and technological changes.

This vision is in line with our heritage and, we believe, aligns with expectations of our current and future customers as well as broader stakeholder groups such as employees we want to attract and retain, the communities we operate in, regulators, governments and shareholders.

As we continue on our journey towards becoming an African financial services champion, we will focus on the following strategic priorities:

(i) Ensuring South Africa remains competitive and keeps growing as a market leader, with our asset management capability being recognised as the leading African asset manager,
(ii) Delivering a sustained turnaround in our Property & Casualty capability,
(iii) Protect and defend our dominant market positions across the SADC region,
(iv) Building an East Africa financial services champion,
(v) Driving our businesses in West Africa to achieve scale, and
(vi) Compete on a differentiated basis in Latin America and Asia and make tactical portfolio shifts to create value in the medium to longer term.

# Part 2 – Detailed Business Review

We execute on our vision by driving growth through an integrated financial services offering. This delivers a holistic suite of financial services to meet all our customers' financial needs through strong tied and independent distribution relationships, our extensive branch network and an enhanced customer experience. We will implement this strategy in our core African markets where this holistic proposition is most appropriate, and continuously expand and improve our direct financial solutions.

Our capabilities position us to serve customers across their various needs including life insurance, property and casualty insurance, savings and lending through our unique distribution footprint, with a leading multi-channel network. This enables us to be competitive in all income markets in South Africa, and similarly in the other markets we serve across Africa. We manage the operations to realise growth at optimal risk levels such that we create enduring franchises that are well placed to benefit from the demographic trends in these markets as our strong customer proposition positions us for superior growth and returns into the foreseeable future, to the sustainable benefit of all stakeholders.

We have built a proven track record in delivering shareholder value through partnerships, with both public and private sector enterprises, and within and across geographical borders. We believe that such mutually beneficial partnerships are a strategic differentiator, unlocking value-added services for customers and growth potential for all partners involved.

### Update on the strategic review of our portfolio perimeter and target operating model

During 2016 we communicated the six top priority areas of management focus as we prepare the business for an independent future, as the principal operation of the new South African primary listed entity. This included, amongst others, a review of our portfolio perimeter and our governance model.

We have completed the strategic review of our portfolio of businesses and concluded that we will prioritise our high-return and cash generative businesses in sub-Saharan Africa and seek to improve returns from our recent investments in East and West Africa. Any changes to our current portfolio of assets and businesses are likely to be effected through various corporate actions which will balance time, value and risk in delivering enhanced value. These potential portfolio optimisation opportunities cover approximately R3.4 billion of the OMEM Net Asset Value. We will provide further updates as to the timing and nature of any possible consequential transactions in due course.

We have agreed with Old Mutual Wealth in the United Kingdom that we will acquire certain of its international operations that service offshore South African clients. This business generated profits of £10 million in 2016.

The governance model review is near completion and aims to simplify our target operating model and unlock efficiencies in our governance structures in order to speed up decision making, effect change and implement our strategy. Our strong executive and experienced management team are committed to successfully lead OMEM through the changes in our organisation, whilst deepening and building future leadership capabilities from within our diverse talent pool.

## OMEM operating review

### Financial Results

Despite the prevailing operating headwinds, OMEM recorded pre-tax AOP growth of 3% for the year, which reflects a 15% improvement during the second half of the year. This was supported by strict expense management across the business, a positive contribution from the South African businesses (82% of OMEM profits), partly offset by weaker underwriting results in South Africa. Gross sales of R213.0 billion were 1% down in 2016, compared to the strong 17% growth reported in 2015, with covered APE sales up 6% whilst non-covered sales were down 3%. NCCF of R17.0 billion was more challenging in 2016 compared with our record 2015 base, however each individual business cluster in South Africa as well as each aggregate region continued to record a positive NCCF in 2016. This contributed to funds under management of R1,008.7 billion, being up 2% on the prior year.

IFRS profit of R10.7 billion was 3% down on the prior year, largely due to an impairment on the OMSEA goodwill of R1.3 billion (part of the Rest of Africa operations). The impairment was driven by the constrained macroeconomic environment in Zimbabwe placing strain on the future outlook for profit generation, synergies expected from the acquisition of UAP in East Africa have not yet manifested in the financial results and the strain placed on the future profit prospects at Faulu as a result of the introduction of interest caps on lending in Kenya. Nevertheless, we are still comfortable that through executing on our strategic priorities we will realise the desired medium and long-term returns on these investments. This impairment has no impact on the reported AOP.

As a result, Return on Equity (calculated on a fully diluted IFRS basis) declined from 17.3% in 2015 to 16.6% in 2016. Excluding the impact of this impairment, Return on Equity in 2016 improves to 19.0%. The Return on Capital (calculated on our historical allocated capital basis) improved to 23.0%, up from 22.6% in 2015.

OMEM has a strong, well diversified and resilient balance sheet which will be able to withstand a number of shocks, including a possible South African sovereign credit rating downgrade.

While OMEM is part of the current plc construct, our main metric for reporting profitability will remain Adjusted Operating Profit, in line with the plc's requirements. However, as we prepare for an independent listing on the Johannesburg Stock Exchange, we are expecting to align our key profitability metric with our local requirements and competitors.

## South Africa operating review

In South Africa, AOP (excluding debt costs) rose 1% to R10,581 million mainly due to 8% growth in the Life & Savings profits, which was supported by higher expected profits of R5,734 million and the net positive impact of assumption changes of R1,308 million, which were partly offset by higher new business strain of R617 million. Net positive assumption changes in both Retail Affluent and MFC included the one-off positive impact of transferring classes of existing risk business to a new tax fund introduced by a change in tax legislation on risk business, offset by a strengthening of persistency assumptions. Central costs of R677 million were 30% below the prior year due to expense reduction initiatives, including lower project costs (including investment in IT in South Africa). Debt costs of R529 million in 2016 were higher than prior year of R296 million following the additional R3.1 billion of OMLAC(SA) debt issued in the second half of 2015.

In Retail Affluent, profits of R4,088 million were 5% up on the prior year driven by higher asset based fee income and the net positive impact of assumption changes. This was partly offset by higher new business strain following the loss of tax relief on new risk business and weaker underwriting experience, however there were signs of improving underwriting experience in Q4 2016. The tougher economic environment led to lower covered APE sales of R3,681 million, down 2% on lower savings sales, whilst non-covered sales declined by 6% to R62,013 million driven by the tougher economic environment. As a result of this, coupled with disinvestment of savings by customers under more financial strain, NCCF of R3.9 billion was significantly lower than the prior year, albeit in line with the general industry experience.

MFC profits rose 2% to R3,058 million, driven by 7% growth in the Life & Savings result. This was largely due to good expense management and the net positive impact of assumption changes despite a modest deterioration in retention experience and higher new business strain. Covered APE sales of R3,956 million were up 9% supported by improved adviser productivity, higher average risk premiums and strong credit life sales on the back of strong new loans extended under the new product construct that was launched in response to the Department of Trade and Industry (DTI) interest rate caps. These interest rate caps led to lower Banking & Lending profits where there were a decline in net interest income and non-interest revenue of 6% and 2% respectively. OMF's gross loan book increased 10% to R15.1 billion from December 2015 due to an increase in personal loans, whilst maintaining strict lending criteria. Notwithstanding the tough economic environment, the deterioration in credit losses of the portfolio was less than what was experienced during 2015, driven by more stringent lending criteria and strong collections experience.  his led to an improvement in the credit loss ratio to 6.0% from 7.9% in 2015.

Corporate profits of R1,403 million were down 8% as a result of weaker underwriting results on group disability products, in line with our previous experience during times of economic pressure, as well as group life assurance products. Lower expenses (benefitting from improved administration efficiencies) and higher asset based fee income mitigated some of this impact. Nevertheless covered APE sales of R3,037 million were 22% above the prior year due to strong Absolute Growth Portfolio smoothed bonus sales and group assurance risk sales. NCCF of R3.7 billion is R1.0 billion down on the prior year, mainly due to lower non-covered inflows as the prior period included large one-off deals. This is a good result in the current environment considering the prior year included large non-covered flows that were not repeated in the current period.

OMIG profits were 3% lower than prior year, mainly as a result of the internalisation of Old Mutual Properties into OMLAC(SA) from 1 July 2017, lower returns and performance fees from the Alternative Investments boutique. This was partly offset by higher base asset management fees earned in the period. NCCF of R8.2 billion, up 12%, was underpinned by 9% growth in non-covered sales to R42.2 billion following large inflows into the Liability Driven Investment boutique in latter half of 2016. OMIG's one year investment performance has shown an improvement in the number of funds delivering top quartile performance relative to peers when compared to the prior year, specifically the number of unit trust funds delivering above median performance increased to circa 70% at the end of 2016, up from circa 35% at the end of 2015.

The buyout of our joint venture shareholder in African Infrastructure Investment Managers (AIIM), completed in December 2015, has led to the integration of the investment teams from AIIM and OMIG's IDEAS Fund.  This provides OMEM with a larger unified infrastructure investment team, which continues to create value for investors while making a tangible contribution towards growing African economies and communities through infrastructure development.

The Property & Casualty results improved from an underwriting loss of R44 million in H1 2016 into a profit of R80 million for the full year (2015: R273 million), benefitting from additional tactical reinsurance to protect earnings volatility purchased in the second half of 2016 and effective expense management. The underwriting margin of 0.9% (2015: 3.1%) reflects tough trading conditions and a competitive environment, resulting in a higher average cost per claim for attritional losses, with the group schemes business having shown a significantly deteriorated loss ratio. In addition, the weak macroeconomic environment has resulted in an increase in claims in CGIC, particularly in its export division. The underwriting result stabilised in the second half of the year.

Gross written premiums growth of 3% to R12,082 million was impacted by management's decision not to renew business offered at non-commercial terms. The agricultural business in particular was affected by the delayed impact of the ongoing drought in most of the country through much of the year. Old Mutual Specialised Insurance (OMSI) (previously Corporate & Niche) was under pressure due to the slowdown in economic activity. However, strong growth of 15% was recorded in iWYZE (previously Direct Distribution) as turnaround initiatives started to bear fruit. In recent months we have strengthened our management teams in OMSI as well as in the claims and underwriting departments with appointments of seasoned industry professionals.

# Part 2 – Detailed Business Review

As previously announced, OMEM is in advanced discussions with Atradius, a leading global trade credit, bonds and surety insurance group for the disposal of a 25% stake in Credit Guarantee Insurance Corporation (CGIC). This will result in a strategic partnership that will see OMEM benefit from the skills and experience of a global leader in this specialised sector. We anticipate that the transaction will close during H1 2017 and it is subject to conditions consistent with this kind of transaction. This brings to an end the series of corporate transactions relating to CGIC that started in 2015 and once completed OMEM would have increased its interest in CGIC from 52.5% to 75%; introduced a global leader as strategic partner; and improved its position as controlling shareholder through negotiation of a new shareholders agreement.

### Rest of Africa operating review

Profits were 18% higher than the prior year at R1,655 million, reflecting the full year inclusion of and improvement in UAP results. Excluding UAP, profits were 12% ahead of the prior year, partly offset by the weaker Malawi result due to higher finance costs in MPICO (a property development and management company) and increased credit impairment provision at FDH Bank, in which we hold a minority stake. Covered APE sales of R1,095 million were 1% higher, driven largely by growth in Namibia and Ghana, whilst non-covered sales rose 3% driven largely by strong asset management flows in Zimbabwe. This resulted in NCCF of R3.2 billion, which was impacted by higher outflows in Namibia and Zimbabwe. Gross written premiums of R4,091 million, were up 57%. Excluding the impact of UAP, these were up 3% on the prior year.

In Zimbabwe, profit growth of 20% from R708 million to R848 million benefitted from the depreciation of the rand against the US Dollar on average in 2016. In constant currency profits grew 7%. NCCF of R1.2 billion was R0.3 billion lower than the prior year following higher outflows as a result of the current economic crisis and uncertainty surrounding the introduction of bond notes. CABS, which provides banking services in Zimbabwe, reported a 9% decline in its gross loan book to R8.3 billion, but a 3% increase in constant currency. This reflects lower personal loans due to a more cautious lending strategy given the Zimbabwean economic outlook, which was offset by an increase in secured mortgage lending. Deposits increased by 1% in constant currency from 2015 driven by an increase in transactional accounts. The impairment provisions coverage reduced slightly and higher post-default recoveries resulted in the credit loss ratio improving to 0.1% (2015: 3.1%).

Namibia profits of R446 million were 13% higher than prior year, with covered APE sales of R520 million up 8% on the prior year and non-covered sales of R4,741 million down 19%. NCCF of R0.7 billion was significantly down on the prior year reflecting liquidity challenges faced by the Namibian financial sector resulting in large outflows to banks and stockbrokers as well as a significant disinvestment by the government pension fund.

The East Africa business was adversely impacted by an increase in Property & Casualty claims in the first part of the year, higher new business strain affecting the Life & Savings result in Kenya and lower property income. This resulted in a loss of R67 million (2015: loss of R42 million). Covered APE sales and non-covered sales were up 41% and 2% respectively, reflecting the inclusion of UAP sales from H2 2015. Gross written premiums of R2,494 million were up 147%, whilst the Property and Casualty underwriting result of R50 million was an improvement on the loss of R46 million reported in the prior year. Faulu, which provides banking services in Kenya, reported a 3% decline in its gross loan book to R2.5 billion. In constant currency, the loan book increased by 9% mainly driven by growth in secured small and medium sized enterprise lending. Despite a difficult market, deposits increased by 4% in constant currency from 2015 largely through an increase in retail fixed deposits. A more cautious impairment approach resulted in an increase in the impairment provision coverage to 2.3% (2015: 1.5%) while the credit loss ratio remained constant at 1.0%.

Progress has been made with the integration of UAP and Old Mutual Kenya and we are focussing on completing the merger transactions by the end of Q2 2017. This has taken longer than originally expected due to challenges early in the process, however we are now progressing at a steady pace towards the revised target date. Although the operational performance of the combined UAP-Old Mutual Group delivered results approximately one year behind our initial expectations, we believe that our desired return on investment will be achieved in the medium term. Our focus is on driving operational efficiency throughout the organisation, geographies and lines of business. A restructure of the combined entity is currently underway which we expect to contribute to overall efficiency. Significant changes have been made in the senior and middle management to help drive improved operational performance. In parallel, key strategic stabilisation initiatives include the optimisation of the combined entity's balance sheet, completion of the restructuring and consolidation of the debt and increasing occupancy of the property portfolio, with the review and potential sale of selected properties to be implemented from 2017 onwards. Positive results from leveraging capabilities from across OMEM are already emerging in the combined business. For example, in Kenya the Property & Casualty claims ratio has improved in Q4 2016 following a review of the claims process by Mutual & Federal. The launch of dual-branding commenced in 2016 with the first launch in Kenya, whilst other East African markets are scheduled for 2017.

In West Africa, an enhanced deal was finalised between OMEM and Ecobank Transnational Incorporated (ETI) at the end of May 2016 and implementation plans have been initiated to further leverage this bancassurance relationship. The enhanced deal is expected to contribute meaningfully to respective long-term income measures for both OMEM and ETI, and facilitate customer growth, improved retention, capital efficiency and cost synergies. Due to the delay in the finalisation of bancassurance regulations, progress in Nigeria is currently slow, however encouraging results have already emerged in Ghana. We continue to consider opportunities that would complement our business activities in the growing financial services sector of the region.

### Latin America and Asia operating review

Latin America delivered profit growth of 29%, contributing R474 million to OMEM AOP. This was driven by improved investment returns in Colombia, lower expense growth and higher fee based income in Colombia and Mexico, partly offset by reduced profit at AIVA following a change in strategy with Old Mutual Wealth in the United Kingdom. Covered APE sales in Latin America were 37% above prior year due to higher sales in Mexico via third party distribution, higher sales in Colombia following the launch of a new pension savings product and the first time recognition of a portion of Colombia sales. Non-covered sales were 33% above prior year due to large corporate deals secured in the latter part of 2016 as well as the first time recognition of Old Mutual Global Investors flows through AIVA and a corporate savings product in Mexico. The OMGI flows are eliminated at OMEM level, with recognition in the Old Mutual Wealth business in the United Kingdom. NCCF of R10.4 billion, up 1%, reflects large corporate flows secured in the last two months of the year, partly offset by large low margin corporate disinvestments in both Mexico and Colombia.

In Asia, profits were down 24% on the prior year to R137 million driven by a loss in China resulting from lower investment income and the impact of the reclassification of certain products for tax purposes. This was partly offset by the strong investment results reported in the India business. Net client outflows of R0.8 billion were behind prior year due to high surrenders from universal life products in China, partly offset by good sales generated in India from retail and group business.

### Value of new business (VNB) and margin

Despite the tough environment we maintained a strong PVNBP margin of 3.2% in 2016. Covered APE sales were 6% above prior year, driven by strong Absolute Growth Portfolio smoothed bonus sales. Despite the increase in sales, VNB reduced by 9% to R2,173 million driven mainly by economic and other assumption changes. In South Africa the PVNBP margin reduced by 10 bps to 3.3%, mainly due to the strengthening of operating and methodology assumption changes in MFC and Corporate. Sales volumes contributed positively to the new business margin through improved distribution efficiencies in MFC and Corporate, partly offset by higher distribution costs in Retail Affluent.

### Embedded value

The Return on Embedded Value increased to 14.9% (from 13.5% in 2015). Operating MCEV earnings (post-tax) increased by 11% on the prior year to R8,377 million, which included South African operating MCEV earnings of R7,549 million, up 15% on the prior year. This was supported by higher expected returns, the positive impact of the transfer of classes of existing risk business to the new tax fund and lower central and development costs. These were partly offset by a lower new business contribution and the negative impact of operating assumption changes. Experience variances were positive overall, with expense, mortality, longevity and other profits being partly offset by adverse persistency and disability experience. The tough economic environment continues to put financial pressure on policyholders, and we saw the effect of this via deterioration in risk and persistency experience. In light of our experience variances, negative persistency and positive longevity assumption changes were made in 2016. In addition, we increased the allowance for future expenses to recognise additional one-off costs of strategic initiatives over the business planning period.

### Solvency position and regulatory developments

As at 31 December 2016, OMLAC(SA)'s capital coverage was 3.2x (2015: 3.2x) using current regulatory capital rules (South Africa statutory valuation method).

Although the South African Solvency Assessment and Management (SAM) regulations are not yet effective, this new framework will significantly change the way in which the OMLAC(SA) solvency position will be assessed and reported. SAM also introduces new requirements for financial groups, including the OMEM Group with its stake in Nedbank. We are confident that the SAM solvency position for both OMLAC(SA) and the OMEM Group will reflect a strength and resilience commensurate with Old Mutual's reputation and brand. We believe, on the current proposals, that we are well placed to meet the requirements of the SAM legislation when it becomes effective.

We routinely conduct stress testing of our liquidity and regulatory capital positions through various adverse scenarios, most recently including a possible SA sovereign downgrade scenario. The outcomes of these tests have demonstrated that even under significant stress, capital cover remains well above regulatory requirements and our liquidity position is strong.

### OMLAC(SA) credit rating

The OMLAC(SA) long-term and short-term South Africa national scale ratings were affirmed at "zaAAA/zaA-1" while its South Africa national scale issue rating on the subordinated deferrable debt was lowered to "zaAA-" from "zaAA+". These rating actions follow Standard and Poor's recent rating action on South Africa and are effective from 12 December 2016.

### Customer and product experience developments in the year

OMEM continues to build its customer base and expand its offering through customer centric product innovations and expanding distribution channels. Over the 5 year period from 2012 to 2016, OMEM has added 4 million customers to its base. As at the end of 2016, OMEM is servicing 10.9 million customers, of which 5.9 million are in South Africa and 4.4 million are in the Rest of Africa.

We continue to invest in IT to enable growth and manage risk, through a refresh of our IT landscape, including improving our direct and digital offerings, replacing legacy systems from time to time and IT enablement of our East Africa business.

In South Africa we are investing to improve the customer experience, add new propositions and address ageing systems. The key driver is to replace IT platforms that will reach end-of-life by 2020 and we have taken the opportunity to enhance our South African retail propositions. We are implementing the changes in a staged manner covering both the enhancing of retail propositions and migrations from the end-of-life platforms.

# Part 2 – Detailed Business Review

Having refined our plans we now estimate the total cost of this delivery at R3.1 billion and are holding an additional R350 million as operational risk capital against potential uncertainties and risks related to an investment of this nature. The delivery timeline will run until 2020. To de-risk delivery we have included a strategic implementation partner and entered into fixed price contracts with delivery partners. We continue to take a prudent approach to the capitalisation of intangible assets with circa 40% of the annual investment being expensed through AOP. This expenditure aligns with our historic annual spend on strategic IT investments and with our future growth aspirations by enhancing the customer experience through direct and digital offerings. The net financial position of this investment, taking into account the benefits that will be realised, increased cost and depreciation, remains positive. We are committed to growing our investment in technology over time to enable innovative growth of our business and improvement of the customer experience.

In **South Africa**, we have enhanced our direct offering by launching the Old Mutual Flexible Plan in September and are exploring the possibility of making life cover available digitally. The Old Mutual Tax Free Plan continued its digital growth trajectory, with 26% of plans now sold through this channel (up from 15% in 2015). In response to tough market and competitive conditions, we launched a balanced composite index tracking fund with a zero asset management fee for retirement annuity customers and a high-yielding cash fund for customers investing in the Tax Free Plan.

Integrated Financial Services is the key pillar for the MFC growth strategy to deliver customer value through providing a seamless experience, particularly in the retail branches. The branch footprint grew by 33 to 292 in 2016, contributing 28% to total MFC covered APE sales. These branches help us meet multiple financial needs of our customers through cross-selling via in-branch advisers and enhanced client service delivery. As a result, we have seen better persistency experience compared to other retail channels serving this market segment. The launch of the transactional Money Account in 2015 has also enhanced the product offering for the MFC customer base, with a total number of 215,000 accounts opened as at the end of 2016.

Through our partnership with Telkom, we now cover over 10,000 customers every month for funeral benefits, at no extra cost to them, simply by topping up with R100 or more of Telkom airtime every month. In November, OMEM entered into a partnership with Startupbootcamp InsurTech, a global accelerator programme, which gives us access to a management team highly experienced in successfully accelerating early stage startups to bring pioneering ideas to market, and support corporate partners to refine and enhance their innovation initiatives. OMEM continues to leverage this relationship to garner early exposure and insights into emerging FinTech developments to support our various lines of businesses.

In the first half of 2016 OMIG launched the Old Mutual Responsible Investment Equity Index Fund, which invests in the FTSE/JSE Shareholder Weighted All Share Index, with a tilt towards companies with strong sustainability profiles. In August, OMIG announced a partnership with the Nigerian Sovereign Investment Authority, to invest in agricultural and commercial real estate developments through an investment targeted at US$700 million. The US$5 million investment in Apis Growth Fund I (the Fund), which is now invested in five portfolio companies across Africa and Asia, showed significant traction over the year, closing at US$287 million in December 2016.

In Mutual and Federal, iWYZE continued its turnaround and growth trajectory, following the on boarding of a management team of experienced industry professionals. It delivered strong premium growth of 15% against prior year and a sustained improvement in the underwriting margin.

In the **Rest of Africa**, Old Mutual Namibia launched a new linked investment services platform under the Old Mutual Wealth brand with support from the South African Wealth business, while in Malawi new savings plan and funeral risk products were launched in Q4 2016. In Zimbabwe, we launched a drought insurance protection product for smallholder maize farmers, in partnership with Blue Marble Microinsurance, a group of international insurance and reinsurance companies collaborating to extend protection to underserved markets. In Ghana, a retirement product was launched that is distributed via ETI bank branches, which contributed a significant portion of total covered APE in Ghana.

### Group collaboration

Nedbank and OMEM (including Mutual & Federal) continue to work towards committed synergies of R1 billion by end 2017 through deeper collaboration. We have exceeded our 2016 internal targets, and remain on track to meet our 2017 target of R1 billion.

### Supporting economic transformation in South Africa

We continue to build relationships with regulators, authorities and other stakeholders and business partners, and much work has gone into strengthening these in 2016, particularly in South Africa and Zimbabwe.

The Chief Executives of OMEM and Nedbank have played an active role in the CEO's Initiative, which has facilitated engagements between business, government and labour to jointly and cohesively stimulate economic growth, instil investor confidence and address socioeconomic development. They further jointly headed up the ratings work stream to avoid a sovereign credit rating downgrade. OMEM committed R40 million towards the recently established R1.5 billion SME fund, spearheaded by the CEO Initiative, to stimulate entrepreneurship and support the growth of small and medium enterprises within South Africa.

OMEM continue to invest in various education initiatives, committing circa R75 million in 2016. This included a further R50 million in the seven-year Education Flagship programme in support of the National Development Plan's objectives. OMEM contributed to the University of Cape Town to address the funding gap prevalent in the current system and to the Mandela Institute for Development Studies, which offers scholarships to students at universities across Africa, with the aim of increasing social and economic cohesion between African countries. OMEM is leading financial education programmes to enable higher levels of financial independence to our customers in the long-term. This is driven through our successful classroom-based 'On The Money' financial education programme and internet-enabled Moneyversity website.

We have committed an investment of R20.1 billion on behalf of our customers in approved renewable energy projects, which include wind farms, solar power projects and a hydro-electric generation project. Furthermore, we have further made substantial investments in areas of affordable housing, schools and agriculture. The Schools Fund, which has R1.4 billion in assets committed by OMIG's Alternatives Investments boutique, has invested in 24 schools benefitting approximately 16,000 learners and creating jobs for more than 1,000 staff during 2016.

### Key risks

The delivery of our strategic ambitions is subject to a number of key risks which are listed below and covered in more detail (including mitigating actions) in the Old Mutual plc Annual Report.

- Low economic growth, aggravated by a potential sovereign credit rating downgrade in South Africa, resulting in market losses that could significantly affect growth and profits.
- Socio-political challenges include political and policy uncertainty in South Africa, as well as political risks in Zimbabwe, and the influence of these on financial markets and economic growth.
- Regulatory change (including, inter alia, Retail Distribution Review, Retirement Fund Reform, Market Conduct oversight and Anti-Money Laundering) could all adversely impact sales growth, distribution economics, adviser numbers, assets under management and profit margins, while also requiring significant new investment in business processes.
- Strong growth in our retail lending businesses in South Africa, Zimbabwe and Kenya as well as in our wholesale investment credit business has led to an increased focus on managing credit and liquidity risk in both first and second lines of defence.
- There is a threat that new digital technologies could lower the barrier to entry and result in financial products being more commoditised, thereby changing the nature of competition, and requiring rapid development of new business models.
- Cybercrime, which could manifest in a number of different ways, including breaches of client confidentiality, business interruption or unauthorised payments.
- We take on strategic execution risk in pursuing new initiatives that support our business plan ambitions.

From a risk management perspective we prudently set our risk appetite to support our business strategy and we evaluate business plans under both normal and stressed business conditions, to ensure they are robust and that our risk profile remains diversified from a risk type and geographical perspective. We have embarked on a programme to further enhance our Enterprise Risk Management capability, in both financial and non-financial risk areas. Some of the key outcomes include better risk-based decision making and better capital allocation, a governance framework that is appropriate for a primary listing on the Johannesburg Stock Exchange, an improved focus on strategic and forward-looking risks and a more effective control function using an integrated assurance approach.

### Business prospects and outlook

Financial market sentiment toward emerging market economies has improved with expectations of lower interest rates in some advanced economies, reduced concern about China's near-term prospects following policy support to growth and some firming of commodity prices. Economic conditions are however expected to remain challenging in many markets and continued currency and market volatility is likely.

Despite these conditions, we believe that OMEM's prospects are for continuing resilience in operating results, given our geographical and line of business diversity and customer breadth.

The challenging operating environment has further heightened our resolve for expense efficiency, which will be aided by our reviewed target operating model and related cost savings. One of the objectives of the strategic portfolio and governance review is to deliver an improved cost to income ratio. However, we expect to spend up to R100 million per annum as recurring listing costs and between R100 million and R180 million per annum on other recurring costs related to being a standalone company. As we implement business improvements and establish local capabilities we also expect to incur one-off costs of between R250 million and R300 million over the next 2 years, with approximately two thirds in 2017. To achieve an improved cost to income ratio we are continuously seeking to implement operating cost efficiencies which will result in a carefully managed expense base. In 2017, our core non-commission expenses (including the additional costs as a result of managed separation) are expected to grow at less than inflation. We also expect that the actions that have been put in place at Mutual & Federal will deliver an underwriting margin inside our target range of 4% - 6% through the cycle. Furthermore, we are confident that the strategy currently being implemented in our East Africa business, will result in a Return on Equity of 20% within a 5 to 7 year timeframe.

Notwithstanding additional one-off and recurring costs related to an independent listing, we expect to deliver earnings growth in line with our historical track record, whilst maintaining a focus on delivering an improved cost to income ratio and a sustainable dividend cover.

# Part 2 – Detailed Business Review

## Emerging Markets data tables (Rand)

| Adjusted operating profit by cluster (pre-tax, Rm) | 2016 | 2015 | % change |
|---|---|---|---|
| Retail Affluent | **4,088** | 3,893 | 5% |
| Mass Foundation | **3,058** | 2,993 | 2% |
| Corporate | **1,403** | 1,522 | (8%) |
| OMIG | **925** | 951 | (3%) |
| Property & Casualty | **80** | 273 | (71%) |
| LTIR | **1,704** | 1,788 | (5%) |
| Central expenses and administration [1] | **(677)** | (968) | 30% |
| **South Africa** | **10,581** | 10,452 | 1% |
| Rest of Africa | **1,087** | 1,026 | 6% |
| LTIR | **849** | 632 | 34% |
| Central expenses and administration | **(281)** | (251) | (12%) |
| **Rest of Africa** | **1,655** | 1,407 | 18% |
| Asia & Latin America | **611** | 549 | 11% |
| Central expenses and administration[1, 2] | **15** | (111) | 114% |
| **Asia & Latin America** | **626** | 438 | 43% |
| Debt costs | **(529)** | (296) | (79%) |
| **Total Emerging Markets** | **12,333** | 12,001 | 3% |

[1] With effect from 2016, Asia & Latin America expenses have been reallocated from South Africa central expenses. Comparatives have been restated

[2] The central expenses for Asia & Latin America include a write back of foreign exchange loss accounted for in 2015 following the appreciation of the South African Rand against the US Dollar

| Embedded Value (Rm) | 2016 | 2015 | % change |
|---|---|---|---|
| PVNBP sales [1] | **68,848** | 71,938 | (4%) |
| PVNBP margin (%) [1] | **3.2%** | 3.3% | (10 bps) |
| Return on MCEV (RoEV) % | **14.9%** | 13.5% | 140 bps |
| VNB | **2,173** | 2,394 | (9%) |
| MCEV operating earnings (post-tax and NCI) | **8,377** | 7,529 | 11% |

[1] With effect from H1 2016, PVNBP includes life covered APE sales in Colombia. No PVNBP is calculated in respect of life covered APE sales in India and China

# Nedbank

| Highlights (Rm) | 2016 | 2015 | % change |
|---|---|---|---|
| IFRS profit after tax attributable to equity holders of the parent [1] | **5,617** | 6,037 | (7%) |
| IFRS profit before tax [2] | **14,614** | 14,681 | - |
| AOP (pre-tax) | **15,925** | 14,729 | 8% |
| Headline earnings | **11,465** | 10,831 | 6% |
| Net interest income | **26,426** | 23,885 | 11% |
| Non-interest revenue | **23,503** | 21,748 | 8% |
| Net interest margin | **3.41%** | 3.30% | |
| Credit loss ratio | **0.68%** | 0.77% | |
| Efficiency ratio (including Associate income) | **56.9%** | 56.1% | |
| Return on Equity | **15.3%** | 15.7% | |
| Return on Equity (excluding goodwill) | **16.5%** | 17.0% | |
| Common equity Tier 1 ratio | **12.1%** | 11.3% | |

[1] IFRS profit after-tax attributable to equity holders of Old Mutual plc
[2] As reported by Nedbank

The full text of Nedbank's results for the year ended 31 December 2016, released on 28 February 2017, can be accessed on our website http://www.oldmutual.com/media/news/view-news.jsp?news-id=31139 . The following is an edited extract:

### Banking and economic environment

Global political and economic risk increased sharply as 2016 progressed, intensified by the UK's unexpected decision to leave the European Union (Brexit), the election of Mr Donald Trump as US president and the general surge in antiglobalisation sentiment across many developed countries. These developments have fuelled uncertainty, triggered significant changes in global investment strategies and undermined capital flows to many emerging economies. Economic growth in a number of emerging countries was affected by political challenges, the prolonged downturn in global commodity prices or severe drought conditions. The International Monetary Fund estimates marginally slower global growth in 2016 of 3.1% (2015: 3.2%) due to advanced economies easing to 1.6% (2015: 2.0%) and emerging markets expanding to 4.1%, with growth in sub-Saharan Africa slowing sharply to 1.6% (2015: 3.4%).

Growth of South African gross domestic product (GDP) slowed to 0.4% for the first three quarters of 2016, relative to growth of 1.3% in 2015. Rand volatility reflected the decline in business and investor confidence in SA and the risk of the sovereign credit rating being downgraded to sub investment-grade levels by at least one of the rating agencies. Inflation increased above the upper 6.0% target range of the South African Reserve Bank (SARB) to end the year at 6.8% and, as a result, the prime interest rate increased by 75 basis points (bps) to end the year at 10.50%.

Following the combined efforts of government, business and labour to avert a sovereign-ratings downgrade and promote higher levels of inclusive growth, all three major rating agencies, S&P Global Ratings, Moody's and Fitch, reaffirmed SA's investment-grade status in 2016. The risk of a downgrade remains in 2017, with two agencies ranking SA at only one notch above sub investment grade and all three agencies placing the country on a negative outlook. A ratings downgrade will negatively impact all South Africans and, to avert this, the SA economy requires higher levels of inclusive growth. We will continue to work with business, government and labour to achieve this.

Tough macro conditions continued to place household finances and company profits under pressure. Credit demand has slowed down substantially, with weak levels of growth in loans to households and companies, and modest growth in total private sector credit extension of 4.6% in November 2016, compared with 10.2% at the end of 2015. The progress in 2016 on the ratings front, coupled with a moderate improvement in global commodity prices and expectations of stronger global growth in 2017, lifted the rand to end 2016 almost 19% stronger against its trade-weighted basket of currencies. The SARB has indicated that the interest rate cycle is close to its peak, as inflation is forecast to return to within the target range during 2017.

### Review of results

Despite this challenging background, Nedbank's managed operations produced an excellent performance for the year ended 31 December 2016, driven by net interest income (NII) and non-interest revenue (NIR) growth, while historic loan origination practices and focused credit risk management enabled the credit loss ratio (CLR) to remain below the mid-point of our through-the-cycle (TTC) target range. Headline earnings grew 5.9% to R11,465 million and, excluding the impact of Ecobank Transnational Incorporated (ETI), our managed operations grew headline earnings by 16.2% to R11,839 million.

Diluted headline earnings per share (DHEPS) increased 4.8% to 2,350 cents (2015: 2,242 cents) and headline earnings per share (HEPS) grew 5.1% to 2,400 cents (2015: 2,284 cents). Excluding ETI, DHEPS was up 15.1%.

Return on average ordinary shareholders' equity (ROE), excluding goodwill, of 16.5% (2015: 17.0%) and ROE of 15.3% (2015: 15.7%) reflect a slightly lower return on assets (ROA) of 1.23% (2015: 1.25%) as a result of the loss in equity-accounted earnings from ETI. Excluding ETI, the ROA was 1.27% (2015: 1.18%). Economic profit (EP) decreased to R1,565 million (2015: R2,525 million) due to the impact of ETI and a higher cost of equity (COE) of 14.2% (2015: 13.0%).

Our tier 1 capital ratio of 13.0% (2015: 12.0%) and our average liquidity coverage ratio (LCR) for the fourth quarter of 109.3% (2015 quarterly average: 88.5%) are both well above regulatory requirements of 8.375% and 70.0% respectively. On a pro forma basis our net stable funding ratio (NSFR) is above 100%.

### Cluster financial performance

Nedbank's managed operations generated headline earnings growth of 16.2% to R11,839 million (2015: R10,187 million) and delivered an ROE, excluding goodwill of 16.7% (2015: 15.5%).

Nedbank Corporate Investment Banking's (CIB) excellent growth in headline earnings was driven by strong revenue generation while maintaining a strong ROE despite the increase in capital allocation. Growth in revenue was underpinned by transactional banking client gains and deeper client penetration through improved and coordinated client value management across all business units.

Retail and Business Banking (RBB) continued to improve its ROE, with Retail achieving an ROE of 17.6%, well above the Nedbank's COE of 14.2%. RBB grew transactional revenue by 8.7%, driven by growth in transactional clients, particularly in the middle market, and market share gains in selected advances and deposit categories. In addition, collections were well managed and impairments remained below the TTC target range, with continued improvement in the personal-loan CLR.

Nedbank Wealth produced reasonable growth while maintaining a high ROE. This was supported by strong balance sheet growth and continued low levels of impairments in Wealth Management. Despite subdued markets, assets under management increased 6.2%, while Insurance earnings declined due to higher weather-related claims and lower investment income.

Rest of Africa's earnings were negatively impacted by earnings from our associate, ETI. The Southern African Development Community (SADC) subsidiaries grew headline earnings off a low base, supported by lower head office costs and improved impairments, while we continued to invest in staff, systems, distribution channels and regulatory compliance.

The decrease in losses in the Centre was largely due to the lower cost of basis risk retained in the Centre.

### Financial performance

#### *Net interest income*

Strong NII growth of 10.6% to R26,426 million (2015: R23,885 million) was underpinned by growth in average interest-earning banking assets of 7.0% and net interest margin (NIM) expansion to 3.41% (2015: 3.30%).

The margin improved by 11 bps, benefiting from endowment income of 18 bps, following the 102 bps increase in average interest rates in 2016. This benefit was partially offset by among others:

- 3 bps of asset pricing and asset mix changes, although the negative mix effect has slowed down materially as our personal-loan advances book has started to grow; and
- 5 bps of cost of largely Basel III-related liquidity and funding initiatives.

To align with industry practice from November 2016 average balances of R6 billion in the CIB liquid-asset portfolio were included in our trading book and removed from average interest-earning banking assets used as the denominator in the NIM calculation. This HQLA portfolio, together with the associated market risk, is managed as part of the trading book within the Nedbank's Market Risk Framework. The full-year 2016 NIM would have been 3.54% if the remaining R28 billion of average balances had been removed at the beginning of the year. This change has no effect on NII.

#### *Impairments charge on loans and advances*

Impairments decreased by 4.9% to R4,554 million (2015: R4,789 million) and the CLR improved to 0.68% (2015: 0.77%) supported by lower impairments across all our clusters.

The CLR reflects improvements in CIB's impairments following the increase in oil and other commodity prices and the settlement or successful restructuring of certain counters during the year. RBB's CLR improved to below the lower end of its TTC target range. The improvement was underpinned by lower impairments in Personal Loans and Business Banking. Post writeoff recoveries remained stable at R1,157 million (2015: R1,137 million), of which R398 million (2015: R398 million) was attributable to Personal Loans and R370 million (2015: R280 million) to MFC.

Total defaulted advances increased to R19,553 million (2015: R17,559 million), representing 2.72% of advances (2015: 2.53%). The increase was largely due to the implementation of the SARB-driven new curing definition, which resulted in cured defaulted accounts being kept in defaulted status for six months after curing. In addition, RBB's defaulted advances increased off a low base on the back of cyclical increases in the secured lending and card portfolios. The slight increase in CIB's defaulted advances reflects stress in new sectors following the settlement or successful restructuring of certain counters. Excluding the effect of the new curing definition, defaulted advances increased by 5.0% to R18,445 million, which is a more accurate reflection of the underlying trend in the quality of the book.

The total coverage ratio of 62.2% (2015: 65.0%) includes specific coverage of 37.4% (2015: 38.0%) and portfolio coverage on the performing book of 0.69% (2015: 0.70%). The lower specific coverage was largely driven by the new curing definition, which led to RBB's ratio decreasing to 41.1% (2015: 45.6%). Excluding the effect of the new curing definition, specific coverage would have been 45.3%. CIB's specific coverage increased to 26.3% (2015: 17.1%) in line with the settlement and/or restructuring of certain counters during the year. Nedbank Group's advances portfolio has an approximate 60% weighting in wholesale advances where specific provisions are determined on a deal-by-deal basis. Most wholesale advances are secured by collateral, including deep security pools held against our commercial-property-finance portfolio. This creates a relatively lower loss given default and, as a function of this, lower specific coverage levels in CIB and consequently at group level.

The portfolio coverage ratio in CIB remained stable at 0.29% and, since June 2016, central portfolio provisions increased by R150 million to R500 million, remaining at the same level at year end as in 2015. Additional overlays held in RBB decreased to R654 million (2015: R699 million), mainly due to a reduction in overlays held for the unsecured-debt portfolio. These provisions take into account our assessment of the risks in some of the more stressed sectors of the economy and other risks that have been incurred but have not yet emerged.

Nedbank's International Financial Reporting Standard (IFRS) 9 implementation programme is on track and we are well positioned for a parallel run in 2017. While we expect a transitional increase in balance sheet provisions in line with the requirements of the standard, this is not anticipated to have a significant impact on our capital adequacy levels.

***Non-interest revenue***

NIR grew 8.1% to R23,503 million (2015: R21,748 million), primarily driven by:

- Commission and fee income growth of 6.8% to R16,686 million (2015: R15,627 million), following gains in quality retail clients along with improved client coverage in CIB as the integration continues to deliver revenue benefits.
- Insurance income decreasing 5.6% to R1,727 million (2015: R1,830 million) as a result of higher weather-related claims.
- Trading income increasing 18.8% to R3,761 million (2015: R3,167 million) from higher market volatility, good client flows and deeper client penetration in CIB.
- Private-equity income increasing to R929 million (2015: R886 million) due to positive revaluations in certain entities, partly offset by lower profits realised.

***Expenses***

Expenses continue to be managed within expectations and increased 8.6% to R28,366 million (2015: R26,110 million), mainly as a result of:

- Staff-related costs increasing 8.6%, consisting of –
  - 7.4% growth in remuneration and other staff costs, driven by a 6.3% average annual salary increase and additional staff hires, mainly for regulatory change programmes;
  - a 10.5% increase in short-term incentives in line with key performance metrics in managed operations, offset by the impact of ETI; and
  - a 33.0% increase in long-term incentives as we performed better against the Nedbank's corporate performance targets, thereby increasing expected vesting levels.
- Computer processing costs increasing 14.2% to R4,047 million, including amortisation costs that increased 11.3% to R799 million following the capitalisation of IT projects and branch reformatting costs.
- Fees and insurance costs being 8.5% higher at R3,040 million following increased volumes of revenue-generating activities such as cash handling and card issuing and acquiring.

Nedbank's growth in revenue of 9.4% exceeded growth in expenses. Excluding ETI, the JAWS ratio from managed operations was positive at 0.8% (2015: -0.7%). The efficiency ratio increased to 56.9% (2015: 56.2%), while this metric improved to 56.4% (2015: 56.8%) if ETI is excluded.

***Earnings from associates***

The earnings in associates decreased to a loss of R105 million (2015: R871 million profit). This mainly comprised the equity-accounting of our 21.2% share of ETI's Q4 2015 loss of R676 million, which was partly offset by our share of profits for the nine-month period ended 30 September 2016 of R551 million, in line with our policy of accounting for ETI earnings a quarter in arrear. The total headline earnings impact of ETI for 2016 was a negative R374 million, including the R249 million impact of funding costs.

The carrying value of Nedbank Group's strategic investment in ETI decreased from R7.8 billion to R4.0 billion during the year, due to a combination of foreign currency translation losses arising from the naira devaluation and therefore ETI's balance sheet decreasing in US dollars, the rand strengthening against the US dollar, our share of losses incurred by ETI during the 12 months to 30 September 2016 as well as an impairment provision of R1.0 billion.

The market value of the Nedbank's investment in ETI, based on its quoted share price, was R2.4 billion on 31 December 2016 and R2.1 billion on 24 February 2017. The ETI share trades in low volumes, given its low free float, while also being listed in an illiquid market. The difference between market value and carrying value is significant and prolonged, which has represented evidence of an impairment indicator at 31 December 2016.

Where there is evidence of an impairment indicator, IFRS determines that an impairment test be computed, which compares the value in use (VIU) and the carrying value of the investment. The computation of the VIU in accordance with IFRS is subject to significant judgement as it is based on, inter alia, economic estimates, macro assumptions and the discounting of future cash flow estimates. This is particularly complicated in the current economic environment in many of the jurisdictions in which ETI operates and with the limited public information available. As a result, management has computed the VIU based on a number of scenarios by taking into account publically available information. Based on the results of this VIU calculation, management determined that an impairment provision of R1.0 billion was appropriate. This has reduced the carrying value of the Nedbank's investment to R4.0 billion at 31 December 2016.

This calculation is required to be revisited at each reporting period where the indicators of impairment would be reconsidered and the VIU calculation would be reassessed taking into account any future changes in estimates and assumptions. Any significant changes after this reporting period that require the VIU calculation or underlying carrying value of the ETI investment to be revisited could result in a further impairment or a release of the current R1.0 billion impairment provision. The impairment was recorded within 'non-trading and capital' items and does not impact headline earnings. Regulatory capital was not impacted as the impairment amount was less than the full threshold deduction already taken against regulatory capital.

Nedbank's strategic investment in ETI has been impaired in accordance with the IFRS accounting considerations and the main driver of this was the significant change in the economic estimates and macro assumptions from Nigeria. ETI remains an important long-term investment for Nedbank, providing our clients with a pan-African transactional banking network across 39 countries and access to dealflow in Central and West Africa since its acquisition in 2014. We remain supportive of ETI's endeavours of delivering an ROE in excess of its COE in due course. Conditions in the key markets in which ETI operates are currently expected to remain difficult in 2017, before improving in 2018 and beyond.

### Statement of financial position

### Capital

Nedbank continued to strengthen its capital position and we operated well within and/or above our internal capital adequacy targets. Our tier 1 ratio improved to 13.0% (2015: 12.0%) as a result of strong organic capital generation and the issue of R2.0 billion of additional tier 1 capital. Initiatives for risk-weighted asset optimisation in certain retail portfolios provided further support.

Nedbank's total capital ratio was further strengthened with the successful issuance of R2.0 billion of tier 2 capital instruments.

Our strong capital base supports our dividend cover of 2.00 times, which recognises our capacity to generate internal capital in the economic environment projected in our business plans and takes into account that our approximate 20% share of associate earnings or losses from ETI does not impact regulatory capital.

### Funding and liquidity

Optimising our funding profile and maintaining a strong liquidity position remain priorities for the group in the current environment.

Nedbank's three-month average long-term funding ratio improved to 29.6% for the fourth quarter of 2016 (December 2015: quarterly average of 28.7%), supported by growth in Nedbank Retail Savings Bonds of R4.7 billion to R19.2 billion and the successful issue of R10.8 billion in senior unsecured debt. Our funding profile benefitted from our market share in the medium-to-longer-term wholesale funding buckets, which reduced our LCR HQLA requirements and consequently, the all-in total cost of wholesale funding.

Nedbank's quarterly average LCR of 109.3% (December 2015: 88.5%) exceeded the minimum regulatory requirement of 70% in 2016 and 80% from 1 January 2017. In addition, Nedbank maintained appropriate operational buffers to absorb seasonal and cyclical volatility in this ratio. We will continue to do this as we proactively position our balance sheet during the phase-in period as the LCR regulatory requirement increases by 10% per annum to 100% by 1 January 2019.

| Liquidity Coverage Ratio | 2016 | 2015 | % change |
|---|---|---|---|
| High quality liquid assets (Rm) | **137,350** | 117,997 | 16% |
| Net cash outflows (Rm) | **125,692** | 133,272 | (6%) |
| Liquidity Coverage ratio (%) [1] | **109.3** | 88.5 | |
| Regulatory Minimum (%) | **70.0** | 60.0 | |

[1] Average for the quarter

Further details on the LCR are available in the table section of Nedbank's Securities of Exchange News Service (SENS) announcement.

Nedbank's portfolio of LCR-compliant HQLA increased to a quarterly average of R137.4 billion (December 2015: quarterly average R118.0 billion). Together with our portfolio of quick-liquidity sources, the total available quick liquidity amounted to R180.4 billion (2015: R160.7 billion), representing 18.7% of total assets.

SARB released a directive on 8 August 2016 confirming that the available stable funding factor applicable to wholesale deposits in the 0-to-6-month bucket will be increased from 0% to 35% to better reflect the actual stability of these deposits in the SA context. Taking cognisance of the finalised Basel Committee on Banking Supervision (BCBS) NSFR standard and the directive issued by SARB, Nedbank is already compliant with the minimum regulatory requirements that will become effective on 1 January 2018 as our NSFR on a pro forma basis, at 31 December 2016 was above 100%. The remaining key focus areas relating to the NSFR are finalising a number of minor interpretational matters and ensuring that compliance is achieved within the context of balance sheet optimisation.

#### *Loans and advances*

Loans and advances increased 3.7% to R707.1 billion (2015: R681.6 billion). Advances growth continued to be led by wholesale banking, although the rate of growth slowed down while growth in retail advances has remained relatively stable.

CIB's advances growth was mostly from commercial-mortgage advances increasing by 12.1% and term loans by 10.5% on the back of a good deal pipeline. Our leading market share of 42% in commercial mortgages continued to be underpinned by a strong client base and a large, secure asset pool.

Advances growth in RBB was driven by MFC, Personal Loans and Card growing ahead of the industry, while Home Loans grew at market levels. MFC's growth of 7.7% and the increase in Personal Loans, Card and Home Loans of 7.7%, 5.9% and 2.4% respectively are evidence of the progress made with our strategy of increasing cross-sell activities and doing more business with our clients, while not relaxing credit criteria.

Advances growth in the Rest of Africa Cluster was driven by new-business flows and the consolidation of our acquisition of Banco Único from October 2016. Excluding Banco Único, growth was 4.7%.

#### *Deposits*

Deposits grew 4.9% to R761.5 billion (2015: R725.9 billion), while total liabilities increased 4.4% to R884.3 billion (2015: R847.0 billion). The loan-to-deposit ratio improved to 92.8% (December 2015: 93.9%).

Nedbank continues to actively enhance its deposit and transactional banking franchise through innovative and competitive products. Our focus is on growing household and commercial deposits within the structure of the SA banking sector, which creates a large proportion of institutional funding in the system. Good progress was made against our funding strategy, with RBB deposits up 9.7% to R272.2 billion (2015: R248.1 billion) and our household deposit market share increasing to 18.7% in 2016 (2015: 18.4%), supported by market share gains in current accounts to 19.3% in 2016 (2015: 18.4%). Growth took place across most deposit categories, with our current accounts increasing 9.3%, call accounts and term deposits 6.0%, fixed deposits 7.0%, and cash management deposits by 9.7%. This growth, together with that of negotiable certificates of deposit and other structured deposits, reduced the proportion of more expensive foreign currency funding.

### Group strategic focus

Our five strategic focus areas were refined in 2016 and strategic enablers introduced to ensure that we deliver on our financial targets of increasing our ROE, excluding goodwill, closer to our medium-to-long-term target of COE plus 5% (currently estimated around 19%) and reducing our cost-to-income ratio from 56.9% to within our medium-to-long-term target of 50–53%.

At the same time, to support strategic delivery further, we initiated an operating-model review in the latter part of 2016. The revised model, which we expect to begin implementing in 2017, will enable us to develop greater agility with a view to innovating quicker and responding to disruptive threats faster, optimally addressing new-client requirements and providing best in-class client experiences, and creating an enterprise-wide capability with the client at the centre of all we do. In addition, we aim to organise ourselves, our data and data analytics and IT to enable differentiation in our clients' universe, to respond more effectively to regulatory change and to improve our ability to execute our strategy more effectively. Collectively these activities are currently expected to generate approximately R1.0 billion of pre-tax benefits by 2019 and will support our ability to meet our medium-to-long-term targeted cost-to-income ratio of 50–53%.

# Part 2 – Detailed Business Review

### Old Mutual plc managed separation

Following the Old Mutual plc (OM) and Nedbank Group SENS announcements released on 28 June 2016, the managed-separation process was presented at the OM Capital Markets event in London on 11 October 2016.

In summary, following the creation of a new SA holding company, OM intends to distribute, in an orderly manner, a significant proportion of the OM group's shareholding in Nedbank to the shareholders on the register of the new SA holding company at that time, leaving Old Mutual Emerging Markets (OMEM) as the principal business in the group. Through its ownership of Old Mutual Life Assurance Company SA the new SA group will retain an appropriate strategic minority stake in Nedbank, with the exact level still to be determined together with Nedbank, based on OMEM's commercial relationship with Nedbank and influenced by the implications of the incoming Twin Peaks regulation. The boards of directors and management teams of OM and Nedbank continue to work closely together on these matters. The announced target date for the material completion of the managed separation is the end of 2018.

For Nedbank it is business as usual and OM’s decision will have no impact on the strategy and the day-to-day management or operations, nor will there be an impact on the staff and clients of Nedbank. Our engagements have been at an arm’s length, overseen by independent board structures. OM operates predominantly in the investment, savings and insurance industry, which has little overlap with banking. Our technology systems, brands and our businesses have not been integrated and we compete in the areas of wealth and asset management and personal loans.

Our collaboration with OM to unlock R1.0 billion of synergies from the OM businesses in SA will continue to be underpinned by OM’s strategic shareholding of Nedbank Group. We are fully committed to working with Old Mutual South Africa to deliver benefits from the synergies.

### Economic outlook

SA’s economy is forecast to grow by around 1.1% in 2017 off a low base. The risk to growth remains on the downside. Inflation is expected to return to within SARB’s inflation target range, resulting in our forecast of interest rates decreasing in the second half of the year.

The improvement in the economy is expected to be underpinned by a recovery in agriculture as the drought recedes, and in mining and manufacturing as global commodity prices drift higher. Corporate credit demand should benefit from the recovery in these sectors, although demand will remain contained by global growth, the uncertain domestic policy environment, the pace of the rollout of government’s renewable-energy programme and generally difficult operating conditions.

Households will remain vulnerable, with job creation and wage growth unlikely to bounce back quickly. Household income and spending will therefore remain under pressure in the first half of the year. However, some relief is expected later in the year as inflation recedes and interest rates are expected to decline. This should lead to household credit demand improving moderately from low levels.

Government spending will be kept in check by the need to reduce the budget deficit and contain the rise in government debt to avoid a sovereign-rating downgrade.

### Prospects

Our guidance on financial performance for the full year 2017 is as follows:

- Average interest-earning banking assets to increase slightly ahead of nominal GDP growth.
- NIM to be slightly above the 2016 rebased level of 3.54%.
- CLR to increase, but to remain below the mid-point of our target range of 60–100 bps.
- NIR, excluding fair-value adjustments, to grow at upper single digits.
- Associate income, including ETI’s earnings likely to remain volatile and uncertain (reported quarterly in arrear)
- Expenses to increase by mid-to-upper single digits.

Our financial guidance is for growth in diluted HEPS for the full 2017 year to be greater than growth in nominal GDP (consumer price index plus GDP growth).

## Nedbank data tables (Rand)

| Cluster performance | Headline earnings (Rm) | | | RoE (%) | |
|---|---|---|---|---|---|
| | **2016** | 2015 | % change | **2016** | 2015 |
| Nedbank Corporate & Investment Banking | **6,014** | 5,208 | 15% | **21.1%** | 22.6% |
| Nedbank Retail & Business Banking | **4,960** | 4,460 | 11% | **18.9%** | 16.6% |
| Nedbank Wealth | **1,192** | 1,134 | 5% | **35.2%** | 41.5% |
| Rest of Africa | **87** | 47 | 85% | **2.1%** | 1.4% |
| Centre | **(414)** | (662) | 37% | | |
| **Managed operations** | **11,839** | 10,187 | 16% | **16.7%** | 15.5% |
| ETI | **(374)** | 644 | (158%) | **(9.7%)** | 18.1% |
| **Total** | **11,465** | 10,831 | 6% | **15.3%** | 15.7% |

| Cluster performance | Average Allocated Capital | | | Economic Profit (Rm) | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | % change | **2016** | 2015 | % change |
| Nedbank Corporate & Investment Banking | **28,462** | 23,096 | 23% | **1,970** | 2,205 | (11%) |
| Nedbank Retail & Business Banking | **26,254** | 26,924 | (2%) | **1,230** | 960 | 28% |
| Nedbank Wealth | **3,387** | 2,734 | 24% | **711** | 778 | (9%) |
| Rest of Africa | **7,942** | 6,799 | 17% | **(1,413)** | (193) | (632%) |
| **Business clusters** | **66,045** | 59,553 | 11% | **2,498** | 3,750 | (33%) |
| Centre | **9,516** | 9,864 | (4%) | **(933)** | (1,225) | 24% |
| **Total** | **75,561** | 69,417 | 9% | **1,565** | 2,525 | (38%) |
| **Cost of equity**[1] | | | | **14.2%** | 13.0% | |

[1] The cost of equity (COE) is forecast at 14.1% for 2017

| Credit loss ratio by cluster (%) | % banking advances | **2016** | 2015 | Through-the-cycle target ranges |
|---|---|---|---|---|
| Nedbank Corporate & Investment Bank | 48.9% | **0.34%** | 0.40% | 0.15% - 0.45% |
| Nedbank Retail & Business Banking | 43.9% | **1.12%** | 1.14% | 1.30% - 1.80% |
| Nedbank Wealth | 4.4% | **0.08%** | 0.15% | 0.20% - 0.40% |
| Rest of Africa | 2.7% | **0.98%** | 1.25% | 0.65% - 1.00% |
| **Total credit loss ratio** | | **0.68%** | 0.77% | 0.60% - 1.00% |

| Cluster performance (Rm) | Net Interest Margin | | Loans and advances | | |
|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | % change |
| Nedbank Corporate & Investment Bank | **1.97%** | 1.98% | **370,199** | 355,784 | 4% |
| Banking activity | | | **335,113** | 321,699 | 4% |
| Trading activity | | | **35,086** | 34,085 | 3% |
| Nedbank Retail & Business Banking | **6.08%** | 5.82% | **289,882** | 279,929 | 4% |
| Nedbank Wealth | **2.15%** | 1.93% | **28,577** | 28,206 | 1% |
| Rest of Africa | **4.17%** | 3.53% | **19,582** | 16,515 | 19% |
| Centre | | | **(1,163)** | 1,198 | (197%) |
| **Total** | **3.41%** | 3.30% | **707,077** | 681,632 | 4% |

# Part 2 – Detailed Business Review

| Credit loss ratio analysis (%) | **2016** | 2015 |
|---|---|---|
| Specific impairments | **0.69%** | 0.70% |
| Portfolio impairments | **(0.01%)** | 0.07% |
| **Total credit loss ratio** | **0.68%** | 0.77% |

| Capital (Basel III) | **2016** | 2015 | Internal target range | Regulatory minimum[1] |
|---|---|---|---|---|
| Common equity Tier 1 ratio | **12.1%** | 11.3% | 10.5% - 12.5% | 6,875 |
| Tier 1 ratio | **13.0%** | 12.0% | >12.0% | 8,375 |
| **Total capital ratio** | **15.3%** | 14.1% | >14.0% | 10,375 |

(Ratios calculated include unappropriated profits)

[1] The Basel III regulatory requirements are being phased in between 2013 and 2019, and exclude any idiosyncratic or systematically important bank minimum requirements

| Metric | 2016 performance | Medium-to-long-term targets | 2017 outlook |
|---|---|---|---|
| RoE (excluding goodwill) | 16.5% | 5% above cost of ordinary shareholders' equity[1] | Below target |
| Growth in diluted headline earnings per share | 4.8% | ≥ consumer price index + GDP growth + 5% | Below target |
| Credit loss ratio | 0.68% | Between 0.6% and 1.0% of average banking advances | Increases but remains below midpoint of target range |
| NIR-to-expense ratio | 82.9% | > 85% | Below target |
| Efficiency ratio (including associate income) [1] | 56.9% | 50.0% to 53.0% | Above target |
| Tier 1 capital adequacy ratio (Basel III) | 13.0% | >12.0% | Within target |
| Economic capital | Internal Capital Adequacy Assessment Process (ICAAP): A debt rating (including 10% capital buffer) | | |
| Dividend cover | 2.00 times | 1.75 to 2.25 times | Within target range |

[1] The COE is forecasted at 14.1%

Shareholders are advised that these forecasts are based on organic earnings and our latest macroeconomic outlook.

# Old Mutual Wealth

### Significant strategic progress in year of transition

"Old Mutual Wealth's results for the year ended 31 December 2016 continue to reflect management's strategic ambition to successfully transition the business from a low margin platform and closed life business in 2012 into a leading, integrated, advice-led, UK investment and wealth management business.

"Overall the business has continued to perform well in difficult market conditions, reporting an adjusted operating profit of £260 million (2015: £307 million). Before allowing for the reduction in exit fees in our Heritage business and costs related to managed separation and changes to our executive management team, our adjusted operating profit for 2016 would have been £298 million (2015: £305 million). Since the year end we have sold our Italian business, completing the exit of all our European life businesses and agreed the transfer of the South African branches to Old Mutual Emerging Markets. Adjusted operating profit from these businesses amounted to £34 million in 2016.

"As we transition to a standalone listed entity, our costs will increase, reflecting both those previously incurred by Old Mutual plc and incremental costs. The operating margin, which in the future will be reported excluding the one-off costs associated with separation from Old Mutual plc, is expected to decrease in the short-term as the business incurs the ongoing costs associated with an independent future. Over the medium term our operating margin should improve from 32% reported in 2016 as we build scale on an efficient operating base.

"Despite a challenging year for the sector where UK net retail sales for the whole of the industry amounted to £4.7 billion, triggered by investor uncertainty particularly in the lead up to, and following, the UK referendum to exit the European Union, Old Mutual Wealth's net client inflows remained strong. Net client cash flow at £5.2 billion, as a percentage of opening funds under management, excluding our closed book, was 6%, demonstrating the increasing value of our wealth solutions for our customers and the attractive benefits of our integrated business model. We target net client cash flow growth of over 5% of opening funds under management. Funds under management were £123.5 billion at the end of 2016, up 18% on prior year.

"As part of our investment in the future success of the business, we took a number of important measures to focus on customers' UK and cross-border needs, including expanding our financial advice capability and offering a variety of new investment solutions. The inorganic activity during 2016 has been smaller "in-fill" acquisitions that have supplemented our core organic strategy of growing and consolidating distribution in the affluent and high net worth space. As a result we have built the second largest advised investment distribution business in the UK from a standing start two years ago. The focus now is one of integration and driving operational leverage. Outside of our Old Mutual Wealth Private Client Advisers, where we expect some small acquisitions in 2017, we do not anticipate further inorganic activity before our separation from Old Mutual plc.

"We believe that Old Mutual Wealth will benefit from the growing demand in the UK for financial advice, investment and wealth solutions provided in a transparent and increasingly efficient manner. We are making excellent progress towards becoming a standalone business."

Paul Feeney, CEO
March 2017

# Part 2 – Detailed Business Review

| Highlights | 2016 | 2015 | % change |
|---|---|---|---|
| IFRS profit/(loss) after tax attributable to equity holders of the parent (£m) | **(4)** | 42 | (110%) |
| AOP (pre-tax, £m) | **260** | 307 | (15%) |
| Invest & Grow AOP (pre-tax, £m) [1] | **210** | 205 | 2% |
| Manage for Value AOP (pre-tax, £m) [2] | **57** | 102 | (44%) |
| Other shareholder income and expenses (OSIE) (pre-tax, £m) [3] | **(7)** | - | (100%) |
| Underlying AOP, before one-off adjustments (pre-tax, £m) [4] | **298** | 305 | (2%) |
| Gross sales (£bn) | **21.1** | 20.1 | 5% |
| NCCF (£bn) | **5.2** | 6.9 | (25%) |
| FUM (£bn) | **123.5** | 104.4 | 18% |
| Pre-tax operating margin [5] | **32%** | 40% | |
| Revenue margin (bps) [6] | **63** | 66 | |

[1] Invest & Grow includes Old Mutual Global Investors, Quilter Cheviot, UK Platform, Old Mutual International and UK Other (which consists of Intrinsic, series 6 pensions, institutional platform assets, protection products and service companies)

[2] Manage for Value includes Heritage, Europe Open (Italy) and Europe Heritage (all divested)

[3] OSIE for 2016 includes the costs incurred to prepare the business for separation from Old Mutual Group of £7 million ("managed separation and standalone costs")

[4] Pre-tax AOP, after adjusting for one-off costs associated with Heritage fee restructuring charges and managed separation, and the net contributions of acquired or disposed of businesses during 2015

[5] Operating margin is pre-tax AOP divided by net revenue, where net revenue includes gross performance fees

[6] 2015 revenue margin has been restated to be consistent with the 2016 basis of calculation

### Financial results

#### Gross sales

Old Mutual Wealth gross sales of £21.1 billion were up 5% from 2015 (£20.1 billion). Gross sales in Old Mutual Global Investors (OMGI) were 19% higher than prior year with good sales into the *Global Equity Absolute Return* fund and the *Cirilium* fund range. UK Platform gross sales, of which 16% were generated via Intrinsic advisers, were 4% higher than prior year. Pension sales in the UK Platform have performed well and were 22% higher than prior year as our flexible drawdown pension continues to meet investors' needs following the 2015 pension reforms. Consistent with wider industry trends, 2016 saw tax changes favour large pension contributions rather than ISAs, and as a consequence ISA sales were 12% below prior year.

#### Net client cash flow (NCCF)

Net client cash flow performance was robust at £5.2 billion which includes £1.0 billion of net redemptions from our Heritage closed book of business. This was 25% lower than prior year (2015: £6.9 billion) but was a strong performance given the challenging market context. Integrated flows were £1.8 billion, an increase of 6% from 2015 (£1.7 billion). Investors have remained cautious following uncertain global economic and political developments, including the "Brexit" vote, during the year. We experienced more normalised levels of flows following the US presidential election result as markets began to stabilise in the short-term, with Q4 2016 net inflows of £1.1 billion. Net inflows were 6% of opening funds under management, excluding our closed book, demonstrating robust growth in a difficult environment. 65% of the £5.2 billion of net flows were through external partners illustrating the benefits of our business model.

OMGI net inflows were £2.4 billion, 31% down on prior year (2015: £3.5 billion) but strong against UK net retail sales for the industry as a whole of £4.7 billion. Whilst we have experienced continued strong net inflows into the *Global Equity Absolute Return* fund and the *Cirilium* range (£1.7 billion and £1.0 billion respectively), we did encounter increased outflows in Q3.

Quilter Cheviot net inflows of £0.8 billion were robust despite being adversely impacted by investor cautiousness and were 20% behind prior year (2015: £1.0 billion). This was in line with wider industry trends with reduced investor activity in the discretionary asset management market.

Intrinsic continues to secure increasing flows for our business, in part due to the expanded capabilities of Old Mutual Wealth Private Client Advisers (OMWPCA). The restricted channel accounted for £0.9 billion (32%) of UK Platform net inflows in 2016 (2015: £0.7 billion, 25%). Intrinsic also contributed 42% (£1.0 billion) of OMGI's net inflows in 2016 through the *Cirilium* and *Generation* fund ranges. Integrated net inflows from Intrinsic into Quilter Cheviot amounted to £0.1 billion, over half of which was through OMWPCA.

UK Platform net inflows were £2.8 billion, broadly in line with prior year (2015: £2.7 billion). This was driven by strong pension growth, with net inflows 26% up on 2015.

International offshore net inflows of £0.7 billion were in line with prior year (2015: £0.7 billion). Economic conditions and increased regulatory impacts adversely affected net flows in the Middle East, Singapore and Hong Kong, while European sales were lower following last year's UK pension reforms which made international pension transfers less attractive for some UK expatriates. We have been able to maintain the level of NCCF by having a geographically diversified business. The lower sales in Latin America and Asia, which were strong in 2015, were offset by strong sales in the UK and South Africa regions (up 57% and 22% respectively on prior year sales.

UK Heritage net outflows of £1.0 billion were lower than prior year (2015: £1.1 billion of net outflows), despite a large institutional scheme with £700 million funds under management that began transferring out during H2 2016. The c£460 million of remaining members' assets related to this scheme is expected to transfer out during 2017. During 2016 we took the decision to not actively seek new institutional business opportunities on the UK Heritage platform due to the low margins that are generated from this business line. Improved surrender rates on our retail closed books have limited the impact on the net position.

In Italy net inflows were £0.2 billion (2015: £0.6 billion) with investor uncertainty in the local market resulting in a shift towards traditional life and guaranteed products, which we choose not to offer.

**Funds under management (FUM)**

FUM were £123.5 billion, up 18% from the end of 2015 driven by positive NCCF of £5.2 billion in the period and positive market performance of £13.9 billion. Average FUM were 11% ahead of the prior year and heavily weighted to the market rally in H2 2016. Intra-group FUM were £13.8 billion, most of which is managed by OMGI, up from £10.9 billion at 2015 year end.

OMGI FUM were £31.4 billion, up 27% on the start of the year (31 December 2015: £24.7 billion) and increasingly diversified with *Cirilium* now exceeding the £4 billion mark, *GEAR* close to £6 billion and *UK Mid Cap*, *UK Alpha*, and the *Select* fund range all over £2 billion of FUM. Quilter Cheviot FUM were up 16% from the start of the year to £20.7 billion (31 December 2015: £17.8 billion). Funds managed by OMGI and Quilter Cheviot represent over 40% of the total Old Mutual Wealth FUM. OMGI manages 15% of UK Platform assets, increasing from 14% at 2015.

UK Platform assets were £41.4 billion, up 20% since the start of the year (31 December 2015: £34.5 billion) and International offshore FUM of £18.9 billion were up 18% over the same period (31 December 2015: £16.0 billion).

**IFRS post-tax profit/loss**

Old Mutual Wealth IFRS post-tax loss was £4 million for 2016, compared to a profit of £42 million in 2015. Adjusting items between adjusted operating profit and IFRS profit include IT transformation costs of £102 million pre-tax (2015: £97 million) and charges reflecting the effect of goodwill impairment and the impact of acquisition accounting of £138 million (2015: £120 million) including £46 million goodwill impairment as a result of the sale of the Italian business. Prior year included a £52 million loss in relation to the sale of our French and Swiss businesses.

**Adjusted operating profit (AOP)**

Old Mutual Wealth pre-tax adjusted operating profit ("AOP") of £260 million for 2016 was 15% lower than prior year (2015: £307 million). This was after allowing for £26 million negative impact related to changes in Heritage fees, £7m managed separation and standalone costs and £5m of costs related to changing our executive management team and includes £26 million of net performance fees earned in 2016, which was broadly in line with the prior year of £25 million.

***Invest & Grow business***

Invest & Grow pre-tax AOP of £210 million has increased by 2% from prior year (2015: £205 million) driven by revenue growth, partially constrained by lower revenue margin and increased costs associated with investing in revenue generating initiatives. Around £27 million of the profit in 2016 was generated by the increasing inter-connectivity of our business, most of which was recorded within OMGI.

Profit in OMGI increased by 11% to £79 million (2015: £71 million) driven by revenue growth. Costs also increased year on year reflecting organic investment in desk builds and increasing variable compensation as the funds under management increases. UK Platform profit of £27 million was lower than 2015 (£33 million) due to the impact of our decision to remove our minimum investor charge and drawdown charge, the FCA sunset clause and competitive industry margin pressures. 2015 included ten months of profit from Quilter Cheviot following the acquisition at the end of February 2015. On a full year basis profit would have been £7m higher in 2015. Quilter Cheviot profit in 2016 was £46 million, £12 million higher than that recorded for the ten months in 2015. International profit of £52 million was marginally higher than prior year (2015: £50 million) as we adjusted our charging structures to provide better customer outcomes and reflecting the AAM acquisition. The reduction in UK Other profit from £17 million in 2015 to £6 million in 2016 was due to investment in OMWPCA and the planned charge in Intrinsic in respect of successful business delivery relating to the original acquisition agreement of £10 million.

As noted at the half year, whilst strengthening our executive management team we incurred £5 million of restructuring costs in H1 2016.

***Manage for value business***

Manage for value profit was £57 million in 2016, a 44% reduction from 2015 (£102 million). In 2015 we benefitted from £9 million reported profit in Switzerland (sold in September 2015). The previously announced restructuring of our Heritage fees has reduced profit by £26 million in 2016, including legal and other costs experienced in the second half of 2016 (£21 million at H1 2016). Of this, £5 million was recorded in higher administration expenses, and £21 million as an offset to revenues.

***Other shareholder income and expenses***

We have incurred £7 million of one-off costs associated with the managed separation activity as we invest in business readiness in preparation for becoming a standalone business (£3 million was accounted for as managed separation transaction costs and £4 million as standalone business costs).

# Part 2 – Detailed Business Review

### Underlying AOP pre-tax

As set out in the table below, on an underlying basis profit was 2% lower than prior year (2016: £298 million, 2015: £305 million). Underlying profit excludes the impact of corporate activity, the costs associated with Heritage fee restructuring, managed separation and standalone costs and costs related to changes to the executive management team.

| | 2016 | 2015 |
|---|---|---|
| Invest & Grow [1] | 210 | 205 |
| Manage for value [2] | 57 | 102 |
| Other shareholder income and expense [3] | (7) | - |
| **Reported IFRS AOP pre-tax** | **260** | 307 |
| Corporate activity[4] | - | (2) |
| Heritage fee restructure | 26 | - |
| Managed separation and standalone costs | 7 | - |
| Changes to executive management team | 5 | - |
| **Underlying IFRS AOP pre-tax** | **298** | 305 |

[1] Invest & Grow includes Old Mutual Global Investors, Quilter Cheviot, UK Platform, Old Mutual International and UK Other (which consists of Intrinsic, series 6 pensions, institutional platform assets, protection products and service companies)

[2] Manage for Value includes Heritage, Europe Open (Italy) and Europe Heritage (all divested)

[3] OSIE for 2016 includes the costs incurred to prepare the business for separation from Old Mutual Group of £7 million ("managed separation and standalone costs")

[4] Corporate activity includes Quilter Cheviot, Switzerland and AAM acquired in 2016

***Revenue***

Average assets during 2016 were 11% higher than during the prior year, contributing to increased fund-based revenue of £702 million in 2016 compared to £639 million in 2015, an increase of 10%. Most fund based revenue for our businesses is calculated using a daily average. Quilter Cheviot fund based revenue is calculated using the end of month position.

Above benchmark investment performance in OMGI funds (primarily the *Global Equity Absolute Return*, *UK Specialist Equity* and *UK Dynamic Equity* funds) generated additional net performance-related fees of £26 million. This was broadly in line with the amount earned in 2015 of £25 million.

Industry revenue margins remain under pressure and the overall Old Mutual Wealth revenue margin of 63bps was 3bps lower than that for 2015. As expected, our UK Platform business has experienced a 3bps revenue margin reduction compared with 2015 due to the removal of our minimum investor charge and drawdown charge, the FCA sunset clause and competitive industry margin pressures. The resulting reduction in revenue was c£10 million compared to 2015, although this has been offset by fees being earned off a growing asset base.

Quilter Cheviot margin has decreased by 3bps compared with prior year due to a reduction in commission levels and cash yields which have been experienced industry wide, reducing revenue by c£5 million when compared to 2015.

We have also experienced reduced margins in our International offshore business as we replace older-style products with higher margins by products with simpler charging structures which provide better outcomes for our customers.

Whilst we anticipate that overall revenue margins are likely to reduce in some of our individual businesses due to a combination of a changing fee structure mix and industry pressures our integrated business model will absorb much of this impact as we earn an increasing proportion of revenue by providing solutions across the value chain.

***Expenses***

Overall costs were 21% higher in comparison to the prior year (2016: £564 million; 2015: £468 million). The increase is analysed into three main components, as below:

| | 2016 | 2015 | Variance |
|---|---|---|---|
| **Reported administration expenses** | **564** | **468** | **96** |
| ***Revenue related initiatives*** | | | |
| Corporate activity | 21 | 5 | 16 |
| Variable revenue incentives | 104 | 89 | 15 |
| Investment in new business initiatives | 33 | 5 | 28 |
| **Administration expenses increase non-recurring expenses** | **406** | **369** | 37 |
| ***Non-recurring expenses*** | | | |
| Heritage fee restructure | 5 | - | 5 |
| Managed separation and standalone costs | 7 | - | 7 |
| Changes to the executive management team | 5 | - | 5 |
| **Remaining administration expenses (organic growth and inflation)** | **389** | **369** | **20** |

*Revenue related initiatives*

We continue to make investments in our business as we execute on our strategy and develop our business by expanding our financial advice capabilities and diversifying our offerings in OMGI. This has resulted in changes to our cost base, much of which is recurring in nature. The benefits of these investments is expected to be reflected in an improvement in the revenue that the business generates and, in some instances, the revenues associated with the investment lags the timing of the cost. The total impact of revenue related initiatives on our 2016 cost base was £59 million which was comprised of the following:

- During 2015 we acquired Quilter Cheviot and reported ten months of profit and expenses for this business, we disposed of Switzerland, reporting nine months of profit and expenses for this business, and in 2016 we acquired AAM in Singapore, including its profit and expenses in the 2016 reported results. The net impact, to expenses, of this corporate activity was an increase in expenses of £16 million with the profit arising from the acquisitions also included in the 2016 reported result.
- Higher variable incentives account for £15 million of the cost increase (excluding the impact of Quilter Cheviot acquired part way through 2015), rising from £89 million in 2015 to £104 million in 2016. The majority of incentives are performance-linked and vary in relation to funds under management and revenue. Variable compensation as a proportion of revenue remains broadly consistent with prior year at around 13%.
- We continue to build our financial advice capabilities, including our investment in Old Mutual Wealth Private Client Advisers (OMWPCA, our branded national advice business), incurring an additional £6 million of expenses in 2016 compared to 2015. As OMWPCA builds scale and momentum we expect it to generate positive contributions with an additional £4 million of revenues associated with this initiative in 2016. As planned, we incurred an LTIP charge of £10 million in Intrinsic in 2016 in respect of successful business delivery to date and expect a further c£8million charge in 2017 in accordance with the acquisition agreement. We have also incurred a full year run rate associated with desk builds undertaken in OMGI during 2015, increasing expenses in 2016 by £6 million.

*Non-recurring expenses*

One-off costs totalling £17 million in 2016 have been incurred as a consequence of the Heritage fee restructure in relation to legal fees and other costs, managed separation and standalone costs, and costs incurred resulting from changes to the executive management team.

*Organic growth and inflation*

The remaining increase in costs of £20 million was due to the ongoing organic growth of the business as well as inflation. We continue to invest in our IT infrastructure and we have been building our corporate governance capabilities in line with best practice, including strengthening our second and third lines, ahead of our transition to a standalone business.

**Operating margin**

Operating margin was 32% in 2016. The reduction from 2015 operating margin of 40% reflects the ongoing investment in developing both our advice and investment management capabilities. We expect an improving operating margin in the medium term as we transition and grow our business while absorbing the additional costs that will be incurred as we operate as a separate standalone business. Over the shorter term, the operating margin will be constrained by these incremental expenses.

### IFRS NAV and adjusted NAV

Net assets of £1,897 million at 31 December 2016, which includes the remaining goodwill and other unamortised intangible assets associated with the original acquisition of the remaining Skandia business, are slightly lower than the closing 2015 position (December 2015: £1,950 million). The goodwill and other intangible assets carrying value has reduced by £186 million as a result of the sale of Old Mutual Wealth Italy and the standard amortisation of the intangible assets.

Our adjusted NAV also reflects the revised expense assumption in the embedded value of the UK Heritage business following the decision, taken with our suppliers, to suspend the development of its IT system.

### Cash and capital

In 2016 we experienced good operating cash generation, from which we funded the investment in our IT infrastructure programme, converting 84% of our post-tax AOP to free surplus (2015: 102%). We remitted £33 million to Old Mutual plc in respect of interest on intercompany subordinated debt. The remaining surplus has been used to support the increased capital requirements associated with an expanding business, to fund the investment in the growth of the business and the costs associated with our platform transformation project. The proceeds from the sale of the Italian business have been repatriated to Old Mutual plc in the form of a dividend early in 2017.

The capital strength of the underlying businesses remains robust with a proforma Solvency II standalone ratio of 185%.

Our liquidity buffers currently benefit from being part of Old Mutual plc and we have a committed facility from the Group of £200 million which is presently undrawn. As part of our preparation to be a strong independent business, we are considering our future liquidity and capital requirements.

### Business developments

We continue to invest in distribution, recognising the importance of sound financial advice in securing good customer outcomes. In 2017, we have recently announced the acquisition of Caerus, subject to obtaining the necessary approvals, one of the UK's leading primarily restricted financial planning firms, which enhances our opportunity to grow our distribution capability. Caerus has over 300 advisers, including 150 restricted financial planners and more than £4 billion of assets under advice. The acquisition complements our existing controlled distribution footprint in the UK and is a modest "in-fill" acquisition.

We are committed to improving the strength and sustainability of the financial advice industry and improving customer access to advice. Before taking into account the Caerus acquisition, Intrinsic restricted financial planners have increased by 193 since 2015 to 1,423 (31 December 2015: 1,230), including 38 advisers in OMWPCA. OMWPCA's advisory capabilities and coverage was enhanced during 2016 through small-scale acquisitions made in the year.

We have increased the level of referrals from Intrinsic and OMWPCA to Quilter Cheviot and expect momentum in this part of the business to grow in 2017. OMWPCA, which started in January 2016, now has £1 billion of assets under advice and delivered £0.1 billion of assets under management to Quilter Cheviot in 2016. We expect this to increase in 2017.

Our commitment to quality advice is supported by our investment in our Financial Adviser School (FAS) where the first cohort of students will graduate in April 2017.

We are investing in Quilter Cheviot's business development and have signed a share purchase agreement to acquire Attivo Investment Management, the discretionary investment management arm of Attivo Group Limited. The transaction has received regulatory approval and we expect the deal to complete by the end of Q1 2017, at which point approximately £300 million of assets under management will transfer to Quilter Cheviot. This is a small "in-fill" acquisition that readily integrates into the existing infrastructure of Quilter Cheviot.

Our strategy is to further diversify the range of funds managed by OMGI across sectors and within single strategy, multi-asset and absolute return funds. During 2016 we embedded the Absolute Return Government Bond team which joined in 2015, and launched the *UK Specialist Equity* fund, the *Silver and Gold* fund and the *Style Premia Absolute Return (STAR)* fund.

We completed the sale of Old Mutual Wealth Italy on 9 January 2017 to Phlavia Investimenti (previously ERGO Italia), owned by Cinven, for a consideration of €278 million in cash. Italy's adjusted operating profit in 2016 was £24 million and funds under management were £6.2 billion. The sale is the final part of the divestment of Old Mutual Wealth's European businesses allowing us to focus on our core UK and cross-border markets. Since 2012 Old Mutual Wealth has divested of nine businesses operating in Continental Europe where we lacked scale, and have received c£550 million in proceeds which has been remitted to Old Mutual plc, offsetting the investment made in acquiring Intrinsic and Quilter Cheviot.

As announced at the half year, in March 2016 we completed the acquisition of AAM Advisory in Singapore as part of the expansion of our International advice capabilities. Our newly launched *Compass* fund range in OMGI, designed specifically for our International customers, generated net inflows of £345 million in 2016, and we expect traction to build over 2017.

### Delivering good customer outcomes

The delivery of good customer outcomes is a priority for Old Mutual Wealth. During H1 2016 we announced the implementation of a 1% cap on UK Heritage pensions exit charges for our customers aged over 55 years and the restructuring of our UK Heritage pension product fees. This has improved outcomes for our customers and provides increased choice for customers through improved access to market-wide pension investments, following the UK Government pension reforms introduced in 2015. In H2 2016, the FCA announced that exit charges across the pensions industry will be capped at 1% from 31 March 2017.

We have achieved strong investment performance in OMGI, with 74% of all funds above target over 3 years on an AUM-weighted basis at 31 December 2016, compared to 66% at December 2015. Our single manager funds continue to perform well, with 69% of funds ahead of their target. 60% of our multi-asset fund ranges were above their target. We have made changes to fund managers and strengthened investment process and controls where investment performance has not delivered to expectation.

Our largest absolute return fund, *Global Equity Absolute Return (GEAR)* fund, continues to outperform target performance and competitor offerings. The fund experienced strong net inflows (2016: £1.7 billion, 2015: £1.6 billion) as investors continue to look for alternative investment options delivering positive returns in a low interest rate environment.

**Managed separation and governance**

In 2016 we started our programme of activity to operate as a standalone listed business once the managed separation from Old Mutual plc has been achieved. To ensure our organisation is fit for purpose as a listed standalone entity, we have reshaped and strengthened both our executive management team and Board and enhanced our governance during the course of 2016 and will continue this in 2017. Glyn Jones joined the Board as an independent Chairman in November 2016 and Moira Kilcoyne, George Reid, Tim Tookey and Cathy Turner have joined the Board since the end of 2016 as independent non-executive directors. As announced, Rosie Harris will join the Board as an independent non-executive director in April 2017.

Following the growth of the business and the subsequent acquisitions made in the period, we are implementing our revised operating model to drive increased efficiency and collaboration and seek to offset some of the expected incremental costs associated with being a standalone business.

**UK Platform transformation**

We are continuing with our UK platform transformation. We gave guidance at the October 2016 Capital Markets Day as to timing and cost. Costs to 31 December 2016 amount to £279 million, which have been expensed and which reflect the benefit of a £30m receivable from our suppliers. Whilst progress continues to be made, this remains a complex project, and there are certain pressures which, potentially, could increase timescales and costs. We are in active negotiations on these areas to reduce delivery and cost risk and to ensure we achieve the best outcome for the business. At this point, because of commercial confidentiality and the ongoing negotiations, it would be inappropriate to disclose further details. We expect to be able to update the market by the time of the Old Mutual plc AGM in May 2017.

A robust platform that meets customer needs is vital for our future and we continue to invest in the existing platform to maintain high levels of service and resilience

**Key risks**

Old Mutual Wealth is exposed to a number of risks as a result of the market environment and our business model, including the UK Platform transformation programme, as well as the managed separation from Old Mutual plc. We have a diverse set of businesses, offering active asset and discretionary management, advice and product solutions. The diverse nature of our businesses and our integrated model expose us to certain strategic, business, operational and regulatory risks and competitive pressures. We are investing further in diversifying our asset management capabilities and in the provision of financial advice to customers. While the nature of our business risks are largely consistent with those we have faced over recent years, we are increasing our exposure to advice and conduct risk through the expansion of our distribution capabilities, and increasing both our key person dependency and reliance on fund performance to deliver desired client outcomes. The UK Platform transformation is a large scale and complex programme which carries a high degree of execution risk. More generally, operational risk, including cyber risk, is also increasing in our business.

We are affected by macroeconomic conditions and geo-political risks that arise given the impact that these conditions have on financial markets and customer behaviour. Our fund-based management fees, which comprise the majority of our revenues, are directly linked to investment markets and investor confidence.

Increased exposure to regulatory risk is expected as a consequence of our preparation for separation from Old Mutual plc and from the FCA investigation and thematic review into our Heritage business. We continue to be transparent, proactive and responsive with the regulators to help manage and build our relationships.

We manage the above risks by establishing a risk appetite and managing risks within that appetite, which is integrally linked to our business strategy. Risk appetite is used to provide boundaries for business decisions, to guide our monitoring of risks and business performance and to trigger actions to manage risks. In addition, we regularly perform stress and scenario testing in order to test the resilience of our business and validate our management action plans.

**Outlook**

We anticipate continued equity market and currency uncertainty, with the geo-political landscape increasing in complexity and as the impact of the UK's exit from the EU is progressed in 2017 and 2018. Similarly, retail investor sentiment is influenced by general market conditions and their confidence in the future outlook of economies, which has a bearing on the flows of assets that are available to be attracted to our wealth solution offering.

Following the divestment of our Italian business, year-on-year pre-tax adjusted operating profit will be reduced by £24 million in 2017. There will also be corresponding decreases to our 2017 reported funds under management (£6.2 billion at 31 December), gross sales (£0.8 billion in 2016) and net flows (£0.2 billion in 2016).

# Part 2 – Detailed Business Review

During 2017 our International South African branches will transfer to Old Mutual Emerging Markets ("OMEM"). Financial results, flows and FUM from these branches will not be reported by Old Mutual Wealth in 2017, but will be reported by OMEM instead. Operating profit for those entities in 2016 was £10 million, which benefitted from a £4 million positive exchange rate impact, expected to decrease to c£6 million in future years. The branches had funds under management of £2.0 billion at the end of 2016 and NCCF contribution for the year was £0.2 billion.

Our business is evolving as we prepare to operate on a standalone basis and continue our development for the future. Our investment in distribution and building asset management capabilities will continue. This investment will be primarily organic but minor "in-fill" acquisitions may also be considered if these fit into the core business, are readily integrated, enable good customer outcomes and are demonstrably incremental to shareholder value. Allowing for known changes in our business perimeter, we expect to deliver above-market growth in funds under management, and robust revenue growth in the face of margin and regulatory pressure and the current market environment.

We target NCCF above 5% of opening FUM (excluding Heritage business), and anticipate continued sales growth of our UK Platform products and the *Cirilium* fund range from our own advisers in 2017 as we expand our distribution network. Within OMGI, we will continue to evolve our multi-asset offering and appraise opportunities to broaden our asset management capabilities as they arise.

As we move towards being a standalone listed business, we anticipate that the one-off costs for Old Mutual Wealth in respect of separation from Old Mutual plc and listing activity will be c£50-55 million over the next 3 years. On an ongoing basis, we currently expect separation will increase our cost base by circa £25-30 million. This consists of recurring listed entity costs of up to £10 million as disclosed at the Capital Markets Day in October 2016 and circa £15-20 million of incremental costs, of which £8 million of branding costs were incurred by Old Mutual plc. Given the dynamic nature of the process, these costs will be refined further as we get closer to separation and there may be additional costs that we incur in the future as a standalone business, such as financing costs.

Taking all of this into account, we expect 2017 to be another year of transition with our costs increasing as we separate the business from Old Mutual plc. Consequently, we anticipate operating leverage benefits emerging in later years with an improving operating margin in the medium term as we transition and grow our business while absorbing the additional costs that will be incurred.

## Old Mutual Wealth data tables

| Adjusted operating profit pre-tax (£m) | 2016 | 2015 | % change |
|---|---|---|---|
| **Invest & Grow markets** | | | |
| UK Platform | **27** | 33 | (18%) |
| UK Other [1] | **6** | 17 | (65%) |
| International | **52** | 50 | 4% |
| Old Mutual Global Investors | **79** | 71 | 11% |
| Quilter Cheviot | **46** | 34 | 35% |
| **Total Invest & Grow** | **210** | 205 | 2% |
| **Manage for Value markets** | | | |
| UK Heritage | **33** | 69 | (52%) |
| Europe - Open book [2] | **24** | 24 | - |
| Europe - Closed book [3] | **-** | 9 | (100%) |
| **Total Manage for Value** | **57** | 102 | (44%) |
| Managed separation costs [4] | **(7)** | - | |
| **Total Old Mutual Wealth** | **260** | 307 | (15%) |

[1] Includes profit from Intrinsic, series 6 pensions, institutional platform assets, protection products and service companies

[2] Includes Italy (sold 9 January 2017) and France and Luxembourg (sold in February 2015, profit was zero in 2015)

[3] Includes Switzerland (sold 30 September 2015)

[4] Includes managed separation transaction costs of £3 million and standalone costs of £4 million

# Institutional Asset Management

**Institutional Asset Management consists of OM Asset Management plc (OMAM) and until 31 May 2016, Rogge. OMAM is listed on the New York Stock Exchange with market capitalisation of $1.7 billion as at 31 December 2016. Further information is included in Old Mutual plc's Financial Disclosure Supplement and at OMAM's corporate website -http://ir.omam.com/investor-relations/news/**

| Highlights: OM Asset Management | 2016 | 2015 | % change |
|---|---|---|---|
| IFRS profit pre-tax (£m) [1] | 134 | 118 | 14% |
| IFRS profit post-tax (£m) [1] | 104 | 93 | 12% |
| AOP (pre-tax, $m) | 195 | 229 | (15%) |
| ENI (post-tax, $m) [2] | 145 | 150 | (3%) |
| Operating margin, before affiliate key employee distributions | 36% | 38% | |
| Operating margin, after affiliate key employee distributions and before interest expense | 30% | 33% | |
| Net client cash flows ($bn) | (1.6) | (5.1) | |
| Funds under management ($bn) | 240.4 | 212.4 | 13% |

[1] Institutional Asset Management, including Rogge

[2] ENI is economic net income, the alternative management metric for profit used by OM Asset Management in external reporting. This excludes the exceptional performance fee from 2015

### Overview

OMAM had a strong finish to 2016, notwithstanding a challenging equity market environment in the first half of the year. OMAM's Affiliates produced solid investment performance in 4Q16 as a return to fundamental valuation in the equity markets favored active asset management. OMAM continued to produce inflows into higher fee asset classes, generating positive revenue impact from net client cash flows. In addition, the Company's successful acquisition of Landmark Partners, a leading specialist in secondary private equity, real estate and real asset investments contributed to its earnings for the year.

The full text of OMAM's 2016 earnings announcement, released on 2 February 2017, can be accessed via the OMAM corporate website – http://ir.omam.com/investor-relations/news/

### Business developments

OMAM expanded its Affiliate group to eight firms in 2016 with the acquisition of Landmark Partners, which was completed in August. In addition, in July, OMAM enhanced its long-term financial flexibility through the placement of a $275 million 10-year institutional debt offering and a $125 million 15-year retail-oriented debt offering.

In furtherance of Old Mutual plc's managed separation strategy, OMAM purchased approximately $39.6 million of seed investments from Old Mutual in September. As of 31 December 2016, OMAM managed approximately $83 million of remaining seed capital provided by Old Mutual. OMAM will purchase all remaining seed capital on or around 30 June 2017. OMAM also agreed to pay $142.6 million to Old Mutual plc over three instalments (30 June 2017, 31 December 2017 and 30 June 2018) under the terms of the amended Deferred Tax Asset Deed between Old Mutual plc and OMAM.

In December 2016, Old Mutual plc sold 14.95 million shares of OMAM to the public at $14.25 per share. The offering of shares and concurrent 6 million share buyback by OMAM brought Old Mutual's ownership of OMAM to 51.1%.

OMAM declared total dividends for 2016 of $38.8 million. Old Mutual plc's portion of this amounts to $25.4 million.

### AOP pre-tax results and operating margin

2016 pre-tax AOP decreased by 15% to $195 million, or decreased by 7% excluding the pre-tax AOP impact of exceptional performance fees in 2015.

Revenues of $679 million for the period were 5% lower than 2015 (2015: $712 million total), but 2% higher when excluding $48 million of exceptional performance fees earned in 2015. Management fees increased due to higher average bps earned on stable average AUM. Performance fees in the period were $2.6 million (2015: $13.7 million excluding exceptional performance fees, $61.8 million total).

AOP margin before Affiliate key employee distributions decreased 2% to 36%, as performance fees decreased and expenses increased. On a post-Affiliate key employee distributions basis, reported operating margin decreased to 30% in part due to the higher ownership stake (40%) retained by the Landmark Partners employees.

### Investment performance

OMAM Affiliates have produced solid long-term investment performance. While OMAM's value-oriented strategies faced headwinds through much of 2016, Affiliates continued to generate long-term track records of relative outperformance.

OMAM's aggregate investment performance is reported as weighted by the revenue generated by its products. As of 31 December 2016, assets representing 49%, 55%, and 73% of revenue were outperforming benchmarks on a one-, three- and five-year basis, respectively (31 December 2015: 60%, 83%, and 92%; 30 September 2016: 35%, 69%, and 69%).

On an asset-weighted basis, over the one-, three- and five-year periods ended 31 December 2016, 42%, 45% and 61% of assets were outperforming benchmarks (31 December 2015: 72%, 73% and 91%; 30 September 2016: 34%, 58%, and 58%).

The overall decline in investment performance during 2016 reflects an investing environment characterized by macroeconomic-driven volatility and higher demand for bond proxies in the equities markets in the first three quarters of 2016. This presented challenges for our Affiliates who employ long-term strategies in value portfolios. In the fourth quarter of 2016, there was a strong shift in the broader market away from yield securities, toward financials and value equities, which resulted in an improved one-year investment performance relative to 30 September 2016.

### Funds under management and net client cash flows

Gross inflows totalled $29.9 billion (2015: $26.6 billion) at a weighted average fee of 41.9 bps, with flows driven by global/non-US equities, managed volatility equities, dividend focus equities and secondary private equity and real estate strategies. Gross inflows of $10.5 billion were from new client accounts.

Gross outflows (including hard asset disposals) totalled $31.5 billion (2015: $31.7 billion) at a weighted average fee of 36.3 bps, driven by US value equities, hard asset disposals, and some global/non-US and emerging markets equity products.

Although negative, net client cash flows of $(1.6) billion for the year (2015: $(5.1) billion) are expected to generate positive annualised revenue of $11.0 million (2015: $18.9 million), representing 1.5% of beginning of period run rate management fee revenue, with inflows in higher fee non-US, emerging markets, and alternative products offsetting losses in lower fee US sub-advisory assets.

OMAM's FUM ended the period at $240.4 billion, up $28.0 billion, or 13%, from 2015 (31 December 2015: $212.4 billion) due to improving markets in H2 2016 and the acquisition of Landmark Partners ($8.8 billion) in the third quarter. OMAM's FUM consists of long-term investment products diversified across US equities (34%), global & non-US equities (40%), fixed income (6%) and alternative investments (20%).

The OMAM Global Distribution team continues to work with Affiliates to expand their non-US client base in key markets and jurisdictions around the world. Non-US clients currently account for approximately 20% of FUM (31 December 2015: 19%). The Global Distribution initiative raised $2 billion in 2016. Overall, gross client cash flows generated by OMAM from seed capital, expansion initiatives, Global Distribution and new Affiliate sales represented approximately 23% of OMAM's 2016 gross sales of $29.9 billion.

### Balance sheet and capital management

In July 2016, OMAM raised $400.0 million of senior notes, consisting of $275.0 million of 4.80% senior notes due 2026 and $125.0 million of 5.125% senior notes due 2031. Proceeds from the offerings were primarily used to fund the $242.4 million investment in Landmark Partners, purchase seed capital investments from Old Mutual plc, settle an interest rate hedging contract, and pay down $50.0 million on OMAM's outstanding line of credit; no debt is currently outstanding on OMAM's $350 million facility. At 31 December 2016 OMAM's debt/EBITDA ratio is 1.9x, consistent with the Company's target debt/EBTIDA ratio of 1.75-2.25x. In 2016 OMAM received investment grade long-term credit ratings of Baa2 from Moody's Investors Services and BBB- from Standard & Poor's.

At year-end, equity equalled $170.5 million and cash equalled $101.9 million, including approximately $68.5 million held at the Affiliates and $33.4 million held at the holding company.

### Outlook

While the equity market environment remained volatile for much of 2016, OMAM's Affiliates generated strong results for the year overall. In addition, the Company made excellent progress in positioning the business for continued growth through its successful acquisition of Landmark Partners. OMAM remains committed to working closely with its Affiliates to enhance and expand their businesses, and to accessing specialised and non-US markets on their behalf through its Global Distribution initiative. In addition, OMAM will continue to identify and develop relationships with at-scale asset management boutiques with strong investment and executive talent and a vision to enhance and expand their business by partnering with OMAM.

OMAM continues to enjoy the support of Old Mutual plc as the latter implements its previously announced managed separation strategy. As described in Business Developments above, OMAM intends to make payments to Old Mutual of approximately $225 million between 30 June 2017 and 30 June 2018 related to the repurchase of seed capital and deferred tax assets. Under the Deferred Tax Asset Deed, OMAM retains the benefit of certain indemnities from Old Mutual plc, related to past and future payments made by OMAM under this Deed, in the event of changes in tax laws or challenges from governmental tax authorities which reduce the value of the deferred tax assets covered by the Deed.

# NON-CORE BUSINESS – BERMUDA

### History of operation

Old Mutual's operation in Bermuda was closed to new business in March 2009 and has subsequently pursued a risk reduction strategy. The main business risks in this operation arose from Guaranteed Minimum Accumulation Benefit (GMAB) guarantees, in respect of variable annuity policies, largely written in 2007 and 2008.

The operation was reorganised in 2015, with a separate reinsurance business, Old Mutual (Bermuda) Re Ltd. (OMBRE), reinsuring the GMAB obligations of variable annuity policies originally held by Old Mutual (Bermuda) Ltd., and a holding company, Old Mutual (Bermuda) Holdings Ltd. (OMBHL) was also formed.

On 31 December 2015, Old Mutual (Bermuda) Ltd. was sold to Beechwood Bermuda Ltd. and subsequently renamed Beechwood OMNIA. OMBHL retains the risks in respect of the GMAB obligations of variable annuity policies, reinsured via OMBRE, and provides policyholder administration services to Beechwood OMNIA. All other guarantees and responsibilities for policyholder administration (post the OMBHL tenure) have been transferred to Beechwood OMNIA.

Old Mutual plc has retained a guarantee of up to $250 million to a third party in respect of certain variable annuity policies distributed by that third party. The guarantee will expire at the end of May 2018, although any payment under the guarantee is considered remote given the management of GMAB risks within OMBRE and administration services are provided by OMBHL.

### Overview of current business

As discussed above, OMBHL and its retained subsidiaries (collectively, OM Bermuda) provide reinsurance and policyholder administration services to a third party, Bermuda regulated entity, Beechwood OMNIA. The reinsurance terminates in October 2018, shortly after the final GMAB maturity in August 2018 and the policyholder administration services extend through to Q4 2018.

The reinsured GMAB obligations mainly consist of Universal Guarantee Options (UGOs), providing for a Capital Return Guarantee of 120% of the original investment value at the 10 year anniversary date, and in addition, a Highest Anniversary Value (HAV) feature whereby, if elected, guaranteed the highest policy value at any preceding anniversary date. In view of the current market conditions and the short time to maturity, the HAV risk is not considered to be material.

Excluding HAVs, the funding of the remaining underlying UGO GMAB obligations is anticipated to be circa $90 million after taking into account hedging strategies used to substantially limit the downside risk to this cost. Residual risks that remain include basis risk and a small portion of un-hedged equity, foreign exchange and bond risks. Liquidity risks associated with the GMAB reinsurance obligations are managed through the holding of cash and other liquid investments, supplemented by hedge proceeds following adverse equity and foreign exchange movements.

In addition to risks associated with reinsurance obligations, the balance sheet includes Group Seed investments consisting mainly of fixed interest and real estate investment funds ($93 million at 31 December 2016).

### Abridged statement of IFRS financial position for the year ended 31 December 2016

The statement of financial position illustrates the excess assets backing the liabilities of Old Mutual (Bermuda) Holdings Ltd.

| **$m** | **31-Dec-16** | **31-Dec-15** | % change |
|---|---|---|---|
| **Assets** | | | |
| Cash | **27** | 39 | (31%) |
| U.S. Treasuries | **65** | - | 100% |
| Derivatives | **33** | 32 | 3% |
| Group Seed investments | **93** | 260 | (64%) |
| Inter-company loan notes | **71** | 118 | (40%) |
| Other assets | **6** | 18 | (67%) |
| **Total Assets** | **295** | 467 | (37%) |
| **Liabilities** | | | |
| Reinsurance (GMAB) reserves | **104** | 125 | (17%) |
| Other liabilities | **15** | 10 | 50% |
| **Total Liabilities** | **119** | 135 | (12%) |
| **Total Equity** | **176** | 332 | (47%) |

At 31 December 2016, liabilities relating to the reinsured (GMAB) reserves were $104 million (31 December 2015: $125 million), a decrease of $21 million, mainly due to the shortened time to maturity and a decrease in the value of the remaining guarantees, given the higher equity markets and foreign exchange gains at the end of 2016 compared to 2015.

Other liabilities include a provision against the Letter of Credit provided to Beechwood OMNIA. In the event that the Letter of Credit is drawn, Beechwood Bermuda Ltd is required to repay it. Further counterparty exposure to Beechwood entities is small.

### Business developments during 2016

Put options were purchased on 31 August 2016 in order to cover circa 90% of the anticipated reinsured equity and foreign exchange UGO GMAB exposures. This replaced existing hedging strategies for non-HAV risks, with the effect of insulating the business against equity and foreign exchange market declines until the GMAB maturity dates. No further significant changes to the hedging programme are expected.

OM Bermuda de-risked its balance sheet during 2016 by repatriating the majority of its Group Seed investments and certain inter-company loan notes to Old Mutual plc following approval from the Bermuda Monetary Authority (BMA). Seed investments with a fair value of $38 million were repatriated to Old Mutual plc in H1 2016 and a further $94 million in H2 2016. As a result of these de-risking initiatives, OM Bermuda's investment in Group Seed investments reduced from $260 million as at 31 December 2015 to $93 million as at 31 December 2016. In addition, approximately $50 million of inter-company loan notes were cancelled in H2 2016.

### IFRS results

Bermuda has been treated as a non-core business since its closure to new business and as such its result is excluded from AOP.

IFRS post-tax profit for the period was $25 million (FY 2015: $45 million loss) mainly due to fair value gains of $29 million arising on Group Seed investment disposals. The gains on disposal of the Group Seed investments are eliminated for Group consolidated reporting.

### Capital position

The table illustrates the reduced capital and capital requirements of the regulated insurance business:

| **OMBRE Bermuda statutory capital surplus ($m)** | **31-Dec-16** | **31-Dec-15 [1]** |
|---|---|---|
| Capital | **169** | 293 |
| Capital requirement | **92** | 219 |
| Surplus | **77** | 74 |
| Cover (times requirements) | **1.8** | 1.3 |

[1] The capital requirement has been restated to the new calculation basis of 110% of the economic capital requirement which was approved by the BMA in Q1 2016 for subsequent regulatory capital measurement

OMBRE statutory capital is calculated as 110% of economic capital requirements and has significantly improved as a result of the revised hedging strategy and repatriation of Group Seed investments.

OMBRE statutory capital of $169 million (31 December 2015: $293 million) decreased mainly due to the capital repatriations (Group Seed investments and inter-company loan notes), partially offset by profits earned in the period.

### Outlook

Reinsurance obligations will run off significantly during 2017 with circa 50% of the underlying GMAB maturities taking place during the year and the bulk of remaining maturities taking place during H1 2018. Reinsured GMAB obligations are expected to be met with existing liquid investments as well as proceeds from the hedging programme. In addition, Group Seed investments will be liquidated during 2017, adding to available liquidity. We currently anticipate that all reinsurance obligations will be met with existing assets without the need to redeem inter-company loan notes.

We expect small operating losses for the business going forward through to the end of the GMAB maturities and the ultimate wind down of Bermuda operations.

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For the year ended 31 December 2016


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# Statement of Directors' responsibilities

in respect of the preliminary announcement of the Annual Report and the financial statements

The Directors confirm that to the best of their knowledge:

- The results in this preliminary announcement have been taken from the Group's 2016 Annual Report and Accounts, which will be available on the Company's website on 11 April 2017
- The financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole, and
- The Annual Report includes a fair review of the development and performance of the business and the position of Old Mutual plc and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

| Bruce Hemphill | Ingrid Johnson |
| --- | --- |
| Group Chief Executive | Group Finance Director |

8 March 2017

# Consolidated income statement

For the year ended 31 December 2016

| | Notes | Year ended 31 December 2016 | Year ended 31 December 2015 (Restated)[1] |
|---|---|---|---|
| | | | £m |
| **Revenue** | | | |
| Gross earned premiums | B2 | **3,868** | 3,589 |
| Outward reinsurance | | **(398)** | (335) |
| Net earned premiums | | **3,470** | 3,254 |
| Investment return (non-banking) | | **8,325** | 3,805 |
| Banking interest and similar income | | **3,906** | 3,320 |
| Banking trading, investment and similar income | | **255** | 213 |
| Fee and commission income, and income from service activities | | **2,636** | 2,536 |
| Other income | | **104** | 79 |
| **Total revenue** | | **18,696** | 13,207 |
| **Expenses** | | | |
| Claims and benefits (including change in insurance contract provisions) | | **(3,682)** | (3,450) |
| Reinsurance recoveries | | **391** | 279 |
| Net claims and benefits incurred | | **(3,291)** | (3,171) |
| Change in investment contract liabilities | | **(6,216)** | (2,203) |
| Credit impairment charges | | **(272)** | (307) |
| Finance costs | | **(128)** | (47) |
| Banking interest payable and similar expenses | | **(2,401)** | (1,924) |
| Fee and commission expenses, and other acquisition costs | | **(745)** | (765) |
| Change in third-party interest in consolidated funds | | **(691)** | (226) |
| Other operating and administrative expenses | | **(3,741)** | (3,385) |
| **Total expenses** | | **(17,485)** | (12,028) |
| Share of associated undertakings' and joint ventures' profit after tax | | **4** | 59 |
| Profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments | C1(c) | **1** | (37) |
| **Profit before tax** | | **1,216** | 1,201 |
| Income tax expense | D1 | **(475)** | (347) |
| **Profit from continuing operations after tax** | | **741** | 854 |
| Discontinued operations | | | |
| Profit from discontinued operations after tax | H1(a) | **104** | 70 |
| **Profit after tax for the financial year** | | **845** | 924 |
| | | | |
| **Attributable to** | | | |
| Equity holders of the parent | | **570** | 614 |
| Non-controlling interests | | | |
| Ordinary shares | F2(a)(i) | **253** | 291 |
| Preferred securities | F2(a)(ii) | **22** | 19 |
| **Profit after tax for the financial year** | | **845** | 924 |
| | | | |
| **Earnings per ordinary share** | | | |
| Basic earnings per share based on profit from continuing operations (pence) | | **10.4** | 11.7 |
| Basic earnings per share based on profit from discontinued operations (pence) | | **1.5** | 1.0 |
| **Basic earnings per ordinary share (pence)** | C2(a) | **11.9** | 12.7 |
| Diluted basic earnings per share based on profit from continuing operations (pence) | | **10.1** | 11.2 |
| Diluted basic earnings per share based on profit from discontinued operations (pence) | | **1.5** | 1.0 |
| **Diluted basic earnings per ordinary share (pence)** | C2(b) | **11.6** | 12.2 |
| | | | |
| Weighted average number of ordinary shares (millions) | C2(a) | **4,686** | 4,641 |

[1] The year ended 31 December 2015 has been restated to reflect Institutional Asset Management as a discontinued operation and the adjustment for the consolidation of investment funds. Refer to notes A2 and H1 for more information.

# Consolidated statement of comprehensive income

For the year ended 31 December 2016

| | Notes | Year ended 31 December 2016 | Year ended 31 December 2015 (Restated)[1] |
|---|---|---|---|
| | | | £m |
| **Profit after tax for the financial year** | | **845** | 924 |
| **Other comprehensive income for the financial year** | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | |
| Fair value movements | | | |
| Property revaluation | | **7** | 18 |
| Measurement (losses)/gains on defined benefit plans | | **(27)** | 20 |
| Income tax on items that will not be reclassified subsequently to profit or loss | D1(c) | **8** | (4) |
| | | **(12)** | 34 |
| **Items that may be reclassified subsequently to profit or loss** | | | |
| Fair value movements | | | |
| Net investment hedge | | **(104)** | 13 |
| Available-for-sale investments | | | |
| Fair value losses | | **(5)** | (7) |
| Recycled to profit or loss | | **-** | (5) |
| Exchange difference recycled to profit or loss on disposal of foreign operations | | **-** | (71) |
| Shadow accounting | | **(7)** | (10) |
| Currency translation differences on translating foreign operations | | **1,904** | (1,107) |
| Other movements | | **(23)** | (28) |
| Income tax on items that may be reclassified subsequently to profit or loss | D1(c) | **8** | - |
| | | **1,773** | (1,215) |
| **Total other comprehensive income for the financial year from continuing operations** | | **1,761** | (1,181) |
| Total other comprehensive income for the financial year from discontinued operations | H1(b) | **(3)** | 5 |
| **Total other comprehensive income for the financial year** | | **1,758** | (1,176) |
| | | | |
| **Total comprehensive income for the financial year** | | **2,603** | (252) |
| | | | |
| **Attributable to** | | | |
| Equity holders of the parent | | **1,803** | (232) |
| Non-controlling interests | | | |
| Ordinary shares | | **778** | (39) |
| Preferred securities | | **22** | 19 |
| **Total comprehensive income for the financial year** | | **2,603** | (252) |

1 The year ended 31 December 2015 has been restated to reflect Institutional Asset Management as a discontinued operation. Refer to note H1 for more information.

# Reconciliation of adjusted operating profit to profit after tax

For the year ended 31 December 2016

| | Notes | Year ended 31 December 2016 | Year ended 31 December 2015 |
|---|---|---|---|
| | | | £m |
| **Core operations** | | | |
| Emerging Markets | B3 | **619** | 615 |
| Nedbank | B3 | **799** | 754 |
| Old Mutual Wealth | B3 | **260** | 307 |
| Institutional Asset Management | B3 | **141** | 149 |
| | | **1,819** | 1,825 |
| Old Mutual plc finance costs | | **(88)** | (83) |
| Long-term investment return on excess assets | | **20** | 21 |
| Corporate costs | | **(60)** | (57) |
| Other net shareholder income/(expenses) | | **(24)** | (43) |
| **Adjusted operating profit before tax** | B3 | **1,667** | 1,663 |
| Adjusting items | C1(a) | **(457)** | (344) |
| Non-core operations | B3 | **(5)** | (31) |
| **Profit before tax (net of policyholder tax)** | | **1,205** | 1,288 |
| Income tax attributable to policyholder returns | | **144** | 31 |
| **Profit before tax** | | **1,349** | 1,319 |
| Total tax expense | | **(504)** | (374) |
| **Profit from continuing operations and Institutional Asset Management after tax** | | **845** | 945 |
| Loss from discontinued operations after tax | | **-** | (21) |
| **Profit after tax for the financial year** | | **845** | 924 |

### Adjusted operating profit after tax attributable to ordinary equity holders of the parent

| | Notes | Year ended 31 December 2016 | Year ended 31 December 2015 |
|---|---|---|---|
| | | | £m |
| **Adjusted operating profit before tax** | B3 | **1,667** | 1,663 |
| Tax on adjusted operating profit | D1(d) | **(398)** | (403) |
| **Adjusted operating profit after tax** | | **1,269** | 1,260 |
| Non-controlling interests – ordinary shares | F2(a)(iii) | **(319)** | (310) |
| Non-controlling interests – preferred securities | F2(a)(ii) | **(22)** | (19) |
| **Adjusted operating profit after tax attributable to ordinary equity holders of the parent** | B3 | **928** | 931 |
| Adjusted weighted average number of shares (millions) | C2(a) | **4,773** | 4,813 |
| **Adjusted operating earnings per share (pence)** | C2(c) | **19.4** | 19.3 |

### Reconciliation of profit from continuing operations after tax and profit from discontinued operations after tax

| | Notes | Year ended 31 December 2016 | Year ended 31 December 2015 |
|---|---|---|---|
| | | | £m |
| **Profit before tax as presented in the reconciliation of adjusted operating profit to profit after tax** | | **1,349** | 1,319 |
| Profit before tax from discontinued operations (included in adjusted operating profit) | H1(a) | **(133)** | (118) |
| **Profit before tax in the consolidated income statement** | | **1,216** | 1,201 |
| Total tax expense as presented in the reconciliation of adjusted operating profit to profit after tax | | **(504)** | (374) |
| Less income tax expense from discontinued operations (included in adjusted operating profit) | H1(a) | **29** | 27 |
| **Income tax expense** | D1(a) | **(475)** | (347) |
| **Profit from continuing operations after tax** | | **741** | 854 |
| Loss from discontinued operations after tax as presented in the reconciliation of adjusted operating profit to profit after tax | | **-** | (21) |
| Profit from discontinued operations after tax included in reconciliation of adjusted operating profit to profit after tax | H1(a) | **104** | 91 |
| **Profit from discontinued operations after tax** | | **104** | 70 |

## Basis of preparation of adjusted operating profit

*Purpose of AOP*

Adjusted operating profit (AOP) is an Alternative Profit Measure used alongside basic IFRS profit to assess underlying business performance. It is a non-IFRS measure of profitability that reflects the Directors' view of the underlying long-term performance of the Group. The calculation of AOP adjusts basic IFRS profit for a number of items as detailed in note C1.

AOP is one of the bases by which operational performance is monitored and managed, similarly it is one of a range of measures by which management performance is assessed. Further detail of the performance measures applied in determining management remuneration is available in the remuneration report of the 2016 Annual Report and Accounts.

The adjusting items applied in calculating AOP seek to remove the impact of strategic activities; short term valuation movements; IFRS accounting treatments that are not reflective of the operating activity; and non-operating items. Due to the long-term nature of the majority of the Group's business, management believes that AOP is an appropriate alternative basis by which to assess the underlying operating results of these businesses and the Group as a whole and that it enhances the comparability and understanding of the financial performance of the Group.

The Group Audit Committee regularly reviews the use of determining AOP to confirm that it remains an appropriate basis on which to analyse the operating performance of the businesses. The Committee assesses refinements to the policy on a case by case basis, however where possible the Group seeks to minimise such changes in order to maintain consistency over time.

*Scope of businesses included in AOP*

AOP excludes the results of non-core operations, Old Mutual Bermuda, as these are not reflective of the underlying long-term operating performance of the Group. Refer to note B1 for further information on the basis of segmentation.

For the year ended 31 December 2016, the results of operating segments that were classified as held for sale and discontinued operations for IFRS reporting have been included in the determination of AOP. This is a change in the AOP policy compared to policy applied in respect of previously disposed operating segments, such as US Life during 2010 and Nordic during 2011. As a result, the results of OMAM have been included in AOP. In the context of the current strategy, the Directors believe the inclusion of these results will assist with the comparability of year on year performance of the core operations as the Group implements its Managed Separation strategy.

*Adjustments to profit*

For all core businesses AOP includes a number of adjustments intended to remove the impact of strategic activities. These include the exclusion of the impairment of goodwill, the impact of accounting for intangible assets acquired in a business combination, costs related to completed acquisitions, and the profit or loss on disposal of subsidiaries (note C1(b) and C1(c)). The definition of adjusting items was refined during 2016 to exclude the impairment of investments in associated undertakings (note C1(b)). Management is of the opinion that these impairments of strategic investments are not reflective of the long-term underlying operating performance of the Group.

AOP is based on a long-term shareholder investment return core for the life assurance and property & casualty businesses, which eliminates the short- term volatility movements in the value of shareholder assets (note C1(d)). Other short-term valuation movements excluded from AOP include fair value profits or losses on Group debt instruments (note C1(h)) and the revaluations of put options related to long-term incentive schemes (note C1(g)).

The impacts of accounting treatments that are not reflective of the underlying operating performance of the business are excluded from the determination of AOP. These adjustments relate to the inclusion of dividends declared to holders of perpetual preferred callable securities (note C1(f)); and the inclusion of returns on investments held by life funds in Group equity and debt instruments (note C1(e)).

Costs related to the development of the new Old Mutual Wealth platform capability and outsourcing of UK business administration are excluded from AOP as management is of the view that this long-term investment in operational capability is a non-operating item (note C1(i)).

*Adjusted Operating Profit per share*

Adjusted operating earnings applied in the calculation of adjusted operating earnings per share is calculated based on AOP after tax and non-controlling interests. It adjusts to exclude income attributable to Black Economic Empowerment trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and Black Economic Empowerment trusts.

# Consolidated statement of financial position

At 31 December 2016

| | Notes | At 31 December 2016 | At 31 December 2015 (Restated)[1] |
|---|---|---|---|
| | | | **£m** |
| **Assets** | | | |
| Goodwill and other intangible assets | F1 | **2,471** | 3,276 |
| Mandatory reserve deposits with central banks | | **1,111** | 716 |
| Property, plant and equipment | | **892** | 700 |
| Investment property | | **1,697** | 1,233 |
| Deferred tax assets | | **96** | 284 |
| Investments in associated undertakings and joint ventures | | **542** | 514 |
| Deferred acquisition costs | | **756** | 784 |
| Reinsurers' share of policyholder liabilities | | **3,115** | 2,661 |
| Loans and advances | E1 | **43,108** | 30,965 |
| Investments and securities | | **100,533** | 84,019 |
| Current tax receivable | | **74** | 88 |
| Trade, other receivables and other assets | | **2,416** | 1,947 |
| Derivative financial instruments | | **1,340** | 3,076 |
| Cash and cash equivalents | | **4,847** | 4,411 |
| Assets held for sale | H2 | **8,570** | 123 |
| **Total assets** | | **171,568** | 134,797 |
| **Liabilities** | | | |
| Long-term business insurance policyholder liabilities | | **9,982** | 7,714 |
| Investment contract liabilities | | **77,599** | 67,854 |
| Property & casualty liabilities | | **482** | 341 |
| Third-party interests in consolidated funds | | **7,981** | 5,948 |
| Borrowed funds | E2 | **4,694** | 3,524 |
| Provisions and accruals | | **160** | 199 |
| Deferred revenue | | **290** | 274 |
| Deferred tax liabilities | | **440** | 417 |
| Current tax payable | | **144** | 186 |
| Trade, other payables and other liabilities | | **5,112** | 3,749 |
| Amounts owed to bank depositors | | **45,309** | 32,328 |
| Derivative financial instruments | | **1,161** | 3,317 |
| Liabilities held for sale | H2 | **7,046** | 12 |
| **Total liabilities** | | **160,400** | 125,863 |
| **Net assets** | | **11,168** | 8,934 |
| **Shareholders' equity** | | | |
| Equity attributable to equity holders of the parent | | **8,054** | 6,680 |
| Non-controlling interests | | | |
| Ordinary shares | F2(b)(i) | **2,773** | 1,982 |
| Preferred securities | F2(b)(ii) | **341** | 272 |
| Total non-controlling interests | | **3,114** | 2,254 |
| **Total equity** | | **11,168** | 8,934 |

# Consolidated statement of cash flows

For the year ended 31 December 2016

| | Note | Year ended 31 December 2016 | Year ended 31 December 2015 (Restated)[1] |
|---|---|---|---|
| | | | £m |
| **Cash flows from operating activities** | | | |
| Profit before tax | | **1,216** | 1,201 |
| Non-cash movements in profit before tax | | **3,620** | 4,157 |
| Net changes in working capital | | **416** | 695 |
| Taxation paid | | **(468)** | (389) |
| **Net cash inflow from operating activities - continuing operations** | | **4,784** | 5,664 |
| **Cash flows from investing activities** | | | |
| Net acquisitions of financial investments | | **(4,374)** | (5,006) |
| Acquisition of investment properties | | **(83)** | (146) |
| Proceeds from disposal of investment properties | | **8** | 41 |
| Dividends received from associated undertakings | | **9** | 2 |
| Acquisition of property, plant and equipment | | **(119)** | (142) |
| Proceeds from disposal of property, plant and equipment | | **6** | 7 |
| Acquisition of intangible assets | | **(141)** | (102) |
| Acquisition of interests in subsidiaries, associated undertakings joint ventures and strategic investments[2] | | **(121)** | (796) |
| Disposal of a non-controlling interest in OM Asset Management plc | | **165** | 163 |
| Proceeds from the disposal of interests in subsidiaries, associated undertakings joint ventures and strategic investments | | **29** | 88 |
| **Net cash outflow from investing activities - continuing operations** | | **(4,621)** | (5,891) |
| **Cash flows from financing activities** | | | |
| Dividends paid to | | | |
| Ordinary equity holders of the Company | | **(426)** | (422) |
| Non-controlling interests and preferred security interests | | **(178)** | (183) |
| Interest paid (excluding banking interest paid) | | **(69)** | (51) |
| Proceeds from issue of ordinary shares (including by subsidiaries to non-controlling interests) | | **2** | 2 |
| Net acquisition of treasury shares - ordinary shares | | **(33)** | (19) |
| Sale of shares held by BEE trusts | | **-** | 175 |
| Proceeds from issue of preferred equity | | **95** | - |
| Acquisition of treasury shares - preferred equity | | **(26)** | - |
| Proceeds from issue of subordinated and other debt | | **809** | 1,595 |
| Subordinated and other debt repaid | | **(492)** | (750) |
| **Net cash (outflow)/inflow from financing activities - continuing operations** | | **(318)** | 347 |
| **Net (decrease)/increase in cash and cash equivalents - continuing operations** | | **(155)** | 120 |
| Net increase/(decrease) in cash and cash equivalents - discontinued operations | H1(c) | **45** | (13) |
| Effects of exchange rate changes on cash and cash equivalents | | **1,018** | (746) |
| Cash and cash equivalents at beginning of the year | | **5,147** | 5,786 |
| **Cash and cash equivalents at end of the year** | | **6,055** | 5,147 |
| | | | |
| **Consisting of** | | | |
| Cash and cash equivalents | | **4,847** | 4,411 |
| Mandatory reserve deposits with central banks | | **1,111** | 716 |
| Cash and cash equivalents included in assets held for sale | | **97** | 20 |
| **Total** | | **6,055** | 5,147 |

1 The year ended 31 December 2015 has been restated to reflect Institutional Asset Management as a discontinued operation and the adjustment for the consolidation of investment funds. Refer to notes A2 and H1 for more information.

2 Of the Acquisition of interests in subsidiaries, associated undertakings, joint ventures and strategic investments, £9 million relates to the acquisition of subsidiaries as described in note H2 except for the acquisition of Landmark Partners, £167m, which is included within Net increase in cash and cash equivalents - discontinued operations. The £9 million is calculated net of cash acquired. The remainder, £112 million, relates to the acquisition of associated undertakings, joint ventures and strategic investments.

Cash and cash equivalents in the cash flow statement above include mandatory reserve deposits, in line with market practice in South Africa. Except for mandatory reserve deposits with central banks of £1,111 million (December 2015: £716 million) and cash and cash equivalents subject to consolidation of funds of £976 million (December 2015: £1,534 million), management do not consider that there are any material amounts of cash and cash equivalents which are not available for use in the Group's day-to-day operations.

# Consolidated statement of changes in equity

For the year ended 31 December 2016

| Year months ended 31 December 2016 | Note | Millions<br>Number of shares issued and fully paid | Share capital | Share premium | Merger reserve | Available-for-sale reserve |
|---|---|---|---|---|---|---|
| **Shareholders' equity at beginning of the year** | | **4,929** | **563** | **1,040** | **1,252** | **40** |
| **Total comprehensive income for the financial year** | | | | | | |
| **Profit after tax for the financial year** | | - | - | - | - | - |
| **Other comprehensive income** | | | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | | | |
| Fair value gains/(losses) | | | | | | |
| Property revaluation | | - | - | - | - | - |
| Measurement loss on defined benefit plans | | - | - | - | - | - |
| Income tax on items that will not be reclassified subsequently to profit or loss | | - | - | - | - | - |
| | | - | - | - | - | - |
| **Items that may be reclassified subsequently to profit or loss** | | | | | | |
| Fair value gains/(losses) | | | | | | |
| Net investment hedge | | - | - | - | - | - |
| Available-for-sale investments | | | | | | |
| Fair value (losses)/gains[1] | | - | - | - | - | (5) |
| Recycled to profit or loss | | - | - | - | - | - |
| Shadow accounting | | - | - | - | - | - |
| Currency translation differences on translating foreign operations[1] | | - | - | - | - | - |
| Other movements | | - | - | - | - | 1 |
| Income tax on items that may be reclassified subsequently to profit or loss | | - | - | - | - | 2 |
| **Total comprehensive income for the financial year** | | - | - | - | - | (2) |
| **Transactions with the owners of the Company** | | | | | | |
| **Contributions and distributions** | | | | | | |
| Dividends for the year | C3 | - | - | - | - | - |
| Tax relief on dividends paid | | - | - | - | - | - |
| Equity share-based payment transactions | | - | - | - | - | - |
| OM Asset Management plc shares buyback | | - | - | - | - | - |
| Additional tier 1 capital instruments issued[3] | | - | - | - | - | - |
| Preferred securities repurchased[4] | | - | - | - | - | - |
| Other movements in share capital | | 1 | - | 2 | - | - |
| **Total contributions and distributions** | | 1 | - | 2 | - | - |
| **Changes in ownership** | | | | | | |
| Share of movement in associate reserves | | - | - | - | - | - |
| Acquisition of shareholding in Banco Unico, SA | | - | - | - | - | - |
| Disposal of a non-controlling interest in OM Asset Management plc | | - | - | - | - | - |
| Change in participation in subsidiaries | | - | - | - | - | - |
| **Total changes in ownership** | | - | - | - | - | - |
| **Total transactions with the owners of the Company** | | 1 | - | 2 | - | - |
| **Shareholders' equity at end of the year** | | **4,930** | **563** | **1,042** | **1,252** | **38** |

1 Included in other reserves is a gain of £1 million relating to Economic Transactional Bank (ETI) available-for-sale reserve.

2 Retained earnings were reduced in respect of own shares held in policyholder's funds, ESOP trusts, Black Economic Empowerment trusts and other undertakings at 31 December 2016 by £305 million. (2015: £243 million).

3 On 20 May 2016, Nedbank issued a R1,500 million new-style (Basel III-compliant) additional Tier 1 capital instrument at 3-month JIBAR + 7.0% with a call date of 21 May 2021. On 25 November 2016, Nedbank issued a R500 million new-style (Basel III-compliant) additional Tier 1 capital instrument at 3-month JIBAR + 6.3% with a call date of 26 November 2021. In line with regulations and subject to regulatory approval, these instruments are callable only at the option of the issuer on 21 May 2021 and any interest payment date thereafter.

4 During the year, preference shares with a carrying value of £26 million were purchased by a subsidiary of Nedbank and were classified as treasury shares.

£m

| Property revaluation reserve | Share-based payments reserve | Other reserves[1] | Foreign currency translation reserve | Retained earnings[2] | Perpetual preferred callable securities | Attributable to equity holders of the parent | Total non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| 184 | 367 | 30 | (2,243) | 5,174 | 273 | 6,680 | 2,254 | 8,934 |
| - | - | - | - | 556 | 14 | 570 | 275 | 845 |
| 7 | - | - | - | (1) | - | 6 | 1 | 7 |
| - | - | - | - | (18) | - | (18) | (9) | (27) |
| - | - | - | - | 5 | - | 5 | 3 | 8 |
| 7 | - | - | - | (14) | - | (7) | (5) | (12) |
| - | - | - | (104) | - | - | (104) | - | (104) |
| - | - | - | - | 2 | - | (3) | (2) | (5) |
| - | - | - | - | - | - | - | - | - |
| (7) | - | - | - | - | - | (7) | - | (7) |
| - | - | - | 1,365 | - | - | 1,365 | 536 | 1,901 |
| (2) | - | (12) | - | (4) | - | (17) | (6) | (23) |
| - | 4 | - | - | - | - | 6 | 2 | 8 |
| (2) | 4 | (12) | 1,261 | 540 | 14 | 1,803 | 800 | 2,603 |
| - | - | - | - | (426) | (17) | (443) | (171) | (614) |
| - | - | - | - | - | 3 | 3 | - | 3 |
| - | 38 | - | - | (4) | - | 34 | 5 | 39 |
| - | - | - | - | (8) | - | (8) | (3) | (11) |
| - | - | - | - | - | - | - | 95 | 95 |
| - | - | - | - | - | - | - | (26) | (26) |
| - | - | - | - | (35) | - | (33) | - | (33) |
| - | 38 | - | - | (473) | (14) | (447) | (100) | (547) |
| - | - | (1) | - | - | - | (1) | - | (1) |
| - | - | - | (1) | (6) | - | (7) | 7 | - |
| - | - | - | (25) | 38 | - | 13 | 153 | 166 |
| - | - | - | - | 13 | - | 13 | - | 13 |
| - | - | (1) | (26) | 45 | - | 18 | 160 | 178 |
| - | 38 | (1) | (26) | (428) | (14) | (429) | 60 | (369) |
| 182 | 409 | 17 | (1,008) | 5,286 | 273 | 8,054 | 3,114 | 11,168 |

# Consolidated statement of changes in equity

For the year ended 31 December 2016

| Year ended 31 December 2015 | Notes | Millions<br>Number of shares issued and fully paid | Share capital | Share premium | Merger reserve | Available-for-sale reserve |
|---|---|---|---|---|---|---|
| **Shareholders' equity at beginning of the year** | | 4,907 | 561 | 856 | 1,342 | 48 |
| **Total comprehensive income for the financial year** | | | | | | |
| **Profit after tax for the financial year** | | - | - | - | - | - |
| **Other comprehensive income** | | | | | | |
| **Items that will not be reclassified subsequently to profit or loss** | | | | | | |
| Fair value gains | | | | | | |
| Property revaluation | | - | - | - | - | - |
| Measurement gains on defined benefit plans | | - | - | - | - | - |
| Income tax on items that will not be reclassified subsequently to profit or loss | D1(c) | - | - | - | - | - |
| | | - | - | - | - | - |
| **Items that may be reclassified subsequently to profit or loss** | | | | | | |
| Fair value gains/(losses) | | | | | | |
| Net investment hedge | | - | - | - | - | - |
| Available-for-sale investments | | | | | | |
| Fair value gains | | - | - | - | - | - |
| Recycled to profit or loss | | - | - | - | - | (5) |
| Exchange differences recycled to profit or loss on disposal of business | | - | - | - | - | - |
| Shadow accounting | | - | - | - | - | - |
| Currency translation differences on translating foreign operations | | - | - | - | - | - |
| Other movements | | - | - | - | - | (3) |
| **Total comprehensive income for the financial year** | | - | - | - | - | (8) |
| **Transactions with the owners of the Company** | | | | | | |
| **Contributions and distributions** | | | | | | |
| Dividends for the year | C3 | - | - | - | - | - |
| Tax relief on dividends paid | | - | - | - | - | - |
| Equity share-based payment transactions | | - | - | - | - | - |
| Proceeds from BEE transactions | | - | - | 141 | - | - |
| Merger reserve released | | - | - | - | (90) | - |
| Preferred securities repurchased | | - | - | - | - | - |
| Other movements in share capital | | 3 | - | 3 | - | - |
| **Total contributions and distributions** | | 3 | - | 144 | (90) | - |
| **Changes in ownership** | | | | | | |
| Shares issued for the acquisition of Quilter Cheviott | | 19 | 2 | 40 | - | - |
| Share in movement in associate reserve | | - | - | - | - | - |
| Disposal of a non-controlling interest in OM Asset Management plc | | - | - | - | - | - |
| Non-controlling interests in subsidiaries acquired | | - | - | - | - | - |
| Change in participation in subsidiaries | | - | - | - | - | - |
| **Total changes in ownership** | | 19 | 2 | 40 | - | - |
| **Total transactions with owners of the Company** | | 22 | 2 | 184 | (90) | - |
| **Shareholders' equity at end of the year** | | 4,929 | 563 | 1,040 | 1,252 | 40 |

£m

| Property revaluation reserve | Share-based payments reserve | Other reserves | Foreign currency translation reserve | Retained earnings | Perpetual preferred callable securities | Attributable to equity holders of the parent | Total non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|
| 178 | 337 | 37 | (1,370) | 4,891 | 526 | 7,406 | 2,139 | 9,545 |
| - | - | - | - | 590 | 24 | 614 | 310 | 924 |
| 18 | - | - | - | (5) | - | 13 | 5 | 18 |
| - | - | - | - | 13 | - | 13 | 7 | 20 |
| (3) | - | - | - | (1) | - | (4) | - | (4) |
| 15 | - | - | - | 7 | - | 22 | 12 | 34 |
| - | - | - | 13 | - | - | 13 | - | 13 |
| - | - | (7) | - | 3 | - | (4) | (3) | (7) |
| - | - | - | - | - | - | (5) | - | (5) |
| - | - | - | (71) | - | - | (71) | - | (71) |
| (10) | - | - | - | - | - | (10) | - | (10) |
| - | - | - | (780) | - | - | (780) | (326) | (1,106) |
| 1 | - | (3) | - | (6) | - | (11) | (13) | (24) |
| 6 | - | (10) | (838) | 594 | 24 | (232) | (20) | (252) |
| - | - | - | - | (422) | (30) | (452) | (160) | (612) |
| - | - | - | - | - | 6 | 6 | - | 6 |
| - | 30 | - | - | 5 | - | 35 | 4 | 39 |
| - | - | - | - | 34 | - | 175 | - | 175 |
| - | - | - | - | 90 | - | - | - | - |
| - | - | - | - | (11) | (253) | (264) | - | (264) |
| - | - | - | - | (19) | - | (16) | - | (16) |
| - | 30 | - | - | (323) | (277) | (516) | (156) | (672) |
| - | - | - | - | (42) | - | - | - | - |
| - | - | 3 | - | - | - | 3 | - | 3 |
| - | - | - | (35) | 84 | - | 49 | 114 | 163 |
| - | - | - | - | - | - | - | 105 | 105 |
| - | - | - | - | (30) | - | (30) | 72 | 42 |
| - | - | 3 | (35) | 12 | - | 22 | 291 | 313 |
| - | 30 | 3 | (35) | (311) | (277) | (494) | 135 | (359) |
| 184 | 367 | 30 | (2,243) | 5,174 | 273 | 6,680 | 2,254 | 8,934 |

# Notes to the consolidated financial statements

For the year ended 31 December 2016

## A: Significant accounting policies

### A1: Basis of preparation

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

The Group financial statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and as endorsed by the European Union (EU), and those parts of the Companies Act 2006 applicable to those reporting under IFRS. The accounting policies adopted by the Group, unless otherwise stated, have been applied consistently with those applied in the preparation of the Group's 2015 Annual Report and Accounts.

The Group financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial assets and liabilities designated as fair value through profit or loss, or as available-for-sale, owner-occupied property and investment property. Non-current assets and disposal groups held for sale are stated at the lower of the carrying amount prior to disposal and the fair value less costs to sell.

The Group financial statements have been prepared on the going concern basis which the Directors believe to be appropriate.

The financial statements contained herein do not constitute the Company's statutory accounts for the financial years ended 31 December 2016 and 31 December 2015 within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the financial year ended 31 December 2015 have been reported on by the Company's auditor and delivered to the Registrar of Companies. The statutory accounts for the financial year ended 31 December 2016 will be delivered in due course. The report of the auditor for the financial year ended 31 December 2015 was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

*Translation of foreign operations*

The assets and liabilities of foreign operations are translated from their respective functional currencies into the Group's presentation currency using the year end exchange rates, and their income and expenses using the average exchange rates. Other than in respect of cumulative translation gains and losses up to 1 January 2004, cumulative unrealised gains or losses resulting from translation of functional currencies to the presentation currency are included as a separate component of shareholders' equity. To the extent that these gains and losses are effectively hedged, the cumulative effect of such gains and losses arising on the hedging instruments are also included in that component of shareholders' equity. Upon the disposal of subsidiaries the cumulative amount of exchange differences deferred in shareholders' equity, net of attributable amounts in relation to net investments, is recognised in profit or loss. Cumulative translation gains and losses up to 1 January 2004 were reset to zero.

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

| | **Year ended 31 December 2016** | | Year ended 31 December 2015 | |
|---|---|---|---|---|
| | **Income statement (average rate)** | **Statement of financial position (closing rate)** | Income statement (average rate) | Statement of financial position (closing rate) |
| Rand | **19.9305** | **16.9551** | 19.5223 | 22.8183 |
| US dollars | **1.3558** | **1.2345** | 1.5285 | 1.4734 |
| Euro | **1.2251** | **1.1705** | 1.3765 | 1.3560 |

### A2: Significant corporate activity and business changes during the year

**Acquisitions completed during the year**

The Group completed the following significant acquisitions during the year:

*Acquisition of a further stake in Banco Unico, SA*

On 3 October 2016 the Group acquired a 10.9% share in Banco Unico, SA to reach a controlling 50% plus one share (2015: 38.3% share). The acquiree is a banking entity in Mozambique and the acquisition, in line with the Group's strategy of expanding into the rest of Africa, was made by purchasing Banco Unico, SA shares from a third party.

The accounting related to the step up in ownership from 38.3% to 50% plus one share is such that it effectively requires a simultaneous sale of 38.3% followed by an acquisition of the fair value of 50% plus one share of the business. Consequently a loss of £11 million, comprising a loss on step up acquisition and a release of foreign currency translation reserves, was realised on the transaction. Consistent with usual practice, this loss was recognised in the IFRS income statement but excluded from the determination of AOP. The financial results and position of Banco Unico, SA have been consolidated with effect from 3 October 2016.

The purchase price allocation has been completed and goodwill of £1 million and other intangible assets of £8 million have been recognised on this transaction.

*Acquisition of Landmark Partners (Landmark)*

On 18 August 2016, OM Asset Management plc (OMAM) completed the acquisition of a 60% equity interest in Landmark, a leading global secondary private equity, real estate and real asset investment firm for $242 million (£185 million) in cash with the potential for an additional payment of up to $225 million (£182 million) on or around 31 December 2018. As the potential additional payment is dependent on future service and other conditions, no amounts have been attributed to the consideration of the business. Certain key members of the management team of Landmark have retained the remaining 40% interest in the business as ownership units. Both the potential additional payment and the 40% ownership units held by management are recognised as share-based payment transactions due to service conditions and settlement features. These arrangements vest over varying increments from 31 December 2018 through 31 December 2024.

Goodwill of £111 million and other intangible assets of £63 million were recognised as a result of the transaction. Refer to note H2 for more information.

*Acquisition of AAM Advisory (AAM)*

On 16 March 2016, Old Mutual Wealth completed the acquisition of 100% of AAM, a Singapore based wealth advice company. The consideration payable was an initial SGD 14 million (£7 million) with additional potential deferred consideration of SGD 26 million (£13 million), which is subject to AAM meeting certain performance targets for the period from 2016 to 2018.

Goodwill of £4 million and other intangible assets of £3 million were recognised as a result of the transaction.

*Old Mutual Private Client Advisors (PCA)*

During the second half of 2016, Old Mutual Wealth (OMW) completed the acquisition of a number of PCA businesses. The total consideration payable was an initial £8 million with additional potential deferred consideration of £8 million, dependent upon meeting certain performance targets, generally relating to funds under management. Goodwill of £8 million and other intangible assets of £7 million were recognised as a result of the transactions.

*Purchase of remaining stake in Credit Guarantee Insurance Company (CGIC)*

On 1 March 2016, Emerging Markets acquired the remaining 13.9% of the shares in CGIC for R190 million (£10 million) resulting in CGIC becoming a wholly owned subsidiary. This transaction has resulted in a debit being directly recognised in reserves of R78 million (£4 million), which is the excess of the consideration paid and the proportionate share of the net assets of CGIC acquired.

During the third quarter of 2016, Emerging Markets accepted an offer from Atradius N.V. to dispose of 25% of CGIC for R494 million (£28 million). The transaction is subject to due diligence and regulatory approval and is expected to be finalised during 2017. The Group expects to recognise a gain on disposal of approximately R289 million (£15 million) directly in equity on completion of the sale of this minority stake.

**Other activities during the year**

The following two transactions are between Group entities and therefore it has no net impact on the Group financial statements:

*Purchase of seed capital investments from Old Mutual plc*

On 15 September 2016, OM Asset Management plc (OMAM) purchased approximately $40 million (£32 million) of seed investments from Old Mutual plc under the terms of the Seed Capital Management Agreement, as amended. OMAM intends to purchase all remaining seed capital investments covered by the Seed Capital Management Agreement around 30 June 2017

*Amendment of the OMAM Deferred Tax Asset Deed (DTA)*

On 13 June 2016, OMAM and OM Group (UK) Limited (OMGUK) entered into a Heads of Agreement amending the DTA to provide that the obligations of OMAM to make future payments to OMGUK under the DTA, which were originally scheduled to continue until 31 January 2020, would be amended as of 31 December 2016 resulting in a payment of the net present value of the future payments due to OMGUK valued as of 31 December 2016. This payment equals approximately $143 million (£115 million) and will be made over three instalments on each of 30 June 2017, 31 December 2017 and 30 June 2018. The agreement contains certain provisions allowing OMAM to claw back amounts paid in the event that deferred tax assets recognised by OMAM are not recovered by the OMAM business. These claw back arrangements create a potential commitment from OMGUK to OMAM which extends beyond the period of managed separation.

**Disposals completed during the year**

*OM Asset Management plc share buyback and secondary public offering*

On 19 December 2016, the Group announced the closing of the secondary public offering of 14.95 million of OM Asset Management plc (OMAM) at a price to the public of $14.25 per share.

Additionally, on 19 December 2016, OMAM repurchased 6 million ordinary shares directly from OM Group (UK) Limited (a wholly owned subsidiary of Old Mutual plc), at a price of $14.25 per share.

The Group realised $291 million (£235 million) gross proceeds, less the underwriting discount from these transactions. A profit of £13 million was recognised directly in equity, reflecting the excess of the consideration over the share of net assets disposed. Foreign currency translation reserves of £25 million were recognised directly in equity and additional non-controlling interest of £153 million was recognised in the statement of financial position.

Following the sale, the Group now owns 51.7% of OMAM. OMAM did not sell any shares in the offering and did not receive any proceeds from the offering.

*Disposal of Rogge Global Partners Limited*

On 31 May 2016, the Group completed the sale of its interest in Rogge Global Partners Limited (Rogge), a fixed income asset manager, to Allianz Global Investors GmbH. The sales proceeds received are subject to adjustment as amounts could either be clawed back or future amounts become payable based on Rogge's future performance. Final adjustments to the sales proceeds are expected to be resolved during Q4 2017. A profit on disposal of £10 million has been recognised, which reflects the Directors' current assessment of the likely final amount recoverable.

**A: Significant accounting policies** continued

**A2: Significant corporate activity and business changes during the year** continued

### Disposals announced but not completed during the year

*Disposal of Old Mutual Wealth Italy*

On 9 January 2017, the Group completed the disposal of Old Mutual Wealth Italy, part of the Old Mutual Wealth business for a cash consideration of €278 million (£210 million net of costs) plus interest to completion.

For the year ended 31 December 2016, a goodwill impairment loss of £46 million has been recognised in profit or loss as the net asset value of the business disposed of exceeds the expected net proceeds. The related assets and liabilities were classified as held for sale at 31 December 2016. Refer to note H1 for further information.

### Financing activities completed during the year

*Nedbank*

On 20 May 2016, Nedbank Limited issued a R1,500 million new-style (Basel III-compliant) additional Tier 1 capital instrument at 3 month JIBAR + 7.0% with a call date of 21 May 2021.

On 25 November 2016, Nedbank Limited issued a R500 million new-style (Basel III-compliant) additional Tier 1 capital instrument at 3 month JIBAR + 6.3% with a call date of 26 November 2021.

These additional Tier 1 capital instruments represent perpetual, subordinated instruments, with no redemption date. The instruments are redeemable subject to regulatory approval at the sole discretion of the issuer, Nedbank Limited from the applicable call date and following a regulatory event or following a tax event. The payment of interest is at the discretion of the issuer and interest payments are non-cumulative. In addition, if certain conditions are reached the regulator may prohibit Nedbank from making interest payments. Accordingly the instruments are classified as equity instruments and disclosed as non-controlling interest.

Nedbank further issued and redeemed debt instruments in the normal course of its funding program. Refer to note E2 for further information.

### Financing activities announced but not yet completed

*Old Mutual plc*

On 3 February 2017, the Group repurchased all of the £273 million Tier 1 preferred perpetual callable securities and paid cash from the Groups' existing resources. A £29 million loss, including accrued interest and the costs of acquiring the instruments, will be recognised directly in equity in the 2017 financial statements.

### Restatement of prior year comparative amounts

Overview

In preparing the Group financial statements for the year ended 31 December 2016, the 2015 financial statements have required adjustments for:

- The classification of the Institutional Asset Management (IAM) operating segment as a discontinued operation, and
- The identification of additional investment funds managed by Emerging Markets as being controlled by the Group.

These adjustments, in aggregate and individually, result in presentational changes to the financial statements, and neither of these adjustments affects the reported IFRS or AOP results or equity attributable to equity holders of the parent.

IAM classified as a discontinued operation in 2016 (IAM – discontinued operation)

For the year ended 31 December 2016, IAM has been classified as discontinued operation in the IFRS consolidated income statement and consolidated statement of cash flows, with comparative figures being restated. The assets and liabilities of IAM are classified as held for sale in the consolidated statement of financial position in the current year. This treatment is consistent with the requirements of IFRS, given the Group's stated strategic intentions and has been presented in accordance with the requirements of IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'. Refer to note H1 for further information.

Consolidation of additional OMEM investment funds (Consol – Investment Funds)

During 2016, the Group has re-evaluated the criteria applied in determining whether investment funds should be consolidated under IFRS 10 'Consolidated Financial Statements' in the Group financial statements. This has resulted in the identification of additional investments funds that are required to be included in the consolidated financial statements. As a result, comparative information has been restated accordingly. The Group has not been able to determine the impact on the consolidated statement of financial position as at 1 January 2015 because the business has subsequently implemented an Investment Repository which has enabled the Group as at 31 December 2015 to identify more widely the investment funds that IFRS 10 regards as controlled. The prior year adjustment did not impact the net assets of the Group, the equity attributable to ordinary equity holders of the parent or any key performance indicators reported by the Group. If the Group were able to determine the impact on the consolidated statement of financial position at 1 January 2015, the material line items that would have been impacted are investments and securities, cash and cash equivalents and third party interest in consolidated funds. The impact on the income statement for 2015 has been obtained from the financial information available for the investment funds consolidated as at 31 December 2015. The income statement effect of any additional investment funds that have not been identified as at 1 January 2015 is likely to be immaterial.

### Summary impact

The following table summarises the restatement impact, for both the classification of IAM as a discontinued operation and the identification of additional entities to be consolidated on the Group's financial statements:

| | | Restatement | | £m |
|---|---|---|---|---|
| | 2015 As Reported | IAM – Discontinued Operations | Consol – Investment Funds | 2015 As Restated |
| **Statement of financial position** | | | | |
| **Assets** | | | | |
| Investments and securities | 82,601 | - | 1,418 | 84,019 |
| Trade, other receivables and other assets | 2,007 | - | (60) | 1,947 |
| Cash and cash equivalents | 4,520 | - | (109) | 4,411 |
| Total assets | 133,548 | - | 1,249 | 134,797 |
| **Liabilities** | | | | |
| Third-party interests in consolidated funds | 4,661 | - | 1,287 | 5,948 |
| Trade, other payables and other liabilities | 3,787 | - | (38) | 3,749 |
| Total liabilities | 124,614 | - | 1,249 | 125,863 |
| | | | | |
| **Income statement** | | | | |
| **Revenue** | | | | |
| Investment Return (non-banking) | 3,795 | 2 | 8 | 3,805 |
| Fee and commission income, and income from service activities | 3,027 | (491) | - | 2,536 |
| Other income | 86 | (8) | 1 | 79 |
| Total revenue | 13,695 | (497) | 9 | 13,207 |
| **Expenses** | | | | |
| Fee and commission expenses, and other acquisition costs | (786) | 6 | 15 | (765) |
| Change in third-party interest in consolidated funds | (208) | - | (18) | (226) |
| Finance cost | (49) | 2 | - | (47) |
| Other operating and administrative expenses | (3,759) | 380 | (6) | (3,385) |
| Total expenses | (12,407) | 388 | (9) | (12,028) |
| Share of associated undertakings profit after tax | 67 | (8) | - | 59 |
| Profit on disposal of subs, associates and strategic investments | (36) | (1) | - | (37) |
| Profit before tax | 1,319 | (118) | - | 1,201 |
| Income tax expense | (374) | 27 | - | (347) |
| Profit from continuing operations after tax | 945 | (91) | - | 854 |
| (Loss)/profit from discontinued operations after tax | (21) | 91 | - | 70 |
| | | | | |
| **Statement of cash flows** | | | | |
| Net cash inflow from operating activities - continuing operations | 5,690 | (48) | 22 | 5,664 |
| Net cash outflow from investing activities - continuing operations | (5,757) | (3) | (131) | (5,891) |
| Net cash inflow from financing activities - continuing operations | 283 | 64 | - | 347 |
| Net increase in cash and cash equivalents - discontinued operations | - | (13) | - | (13) |

## A3: Critical accounting estimates and judgements

In the preparation of these financial statements, the Group is required to make estimates and judgements that affect items reported in the consolidated income statement, statement of financial position, other primary statements and related supporting notes.

Critical accounting estimates and judgements are those which involve the most complex or subjective judgements or assessments. Where applicable the Group applies estimation and assumption setting techniques that are aligned with relevant actuarial and accounting guidance based on knowledge of the current situation. This requires assumptions and predictions of future events and actions. There have been no significant methodology changes to the critical accounting estimates and judgements that the Group applied at 31 December 2015.

# Notes to the consolidated financial statements

For the year ended 31 December 2016

## B: Segment information

### B1: Basis of segmentation

#### Segment presentation

The Group's reported segments are Emerging Markets, Nedbank Old Mutual Wealth, Institutional Asset Management and plc Head Office, (which includes the plc Parent Company and the other centre companies of the Group, which typically own and manage the Group's interests). All these businesses, except Institutional Asset Management (IAM), have been classified as continuing operations in the IFRS income statement for all reporting periods. In determining the Group's adjusted operating profit (AOP), all these businesses have been classified as core operations for all reporting periods.

For the year ended 31 December 2016, Institutional Asset Management has been classified as discontinued operation in the IFRS consolidated income statement. Comparative profit and loss segment information has been restated accordingly. This treatment is consistent with the requirements of IFRS, given the Group's stated strategic intentions. The operating result of IAM includes Rogge Global Partners Limited up to the date of disposal on 31 May 2016 and the full year result of OM Asset Management plc (OMAM). Consistent with the Group's AOP policy as described in the Basis of preparation of adjusted operating profit on page 71, we will continued to recognise OMAM's operating result within the Group's AOP despite it being classified as a discontinued operation in the IFRS income statement and as held for sale in the statement of financial position.

For all reporting periods, Old Mutual Bermuda is classified as a continuing operation in the IFRS income statement, but as non-core in determining the Group's AOP. For the year ended 31 December 2016, following the repayment of the majority of outstanding notes, interest payable in respect of Bermuda loan notes issued to Old Mutual plc are also included within non-core operations and excluded from AOP as it is no longer considered material.

For the year ended 31 December 2015, other items disclosed as discontinued operations relate to payments in respect of the disposal of US Life in 2011. Further detail is included in note H1.

The Group's segmental results are analysed and reported on a basis consistent with the way that management and the Board of Directors of Old Mutual plc assesses performance of the underlying businesses and allocates resources. Information is presented to the Board on a consolidated basis in pounds sterling (the presentation currency) and in the functional currency of each business.

Adjusted operating profit is one of the key measures reported to the Group's management and Board of Directors for their consideration in the allocation of resources to, and the review of the performance of the segments. As appropriate to the business line, the Board reviews additional measures to assess the performance of each of the segments. These typically include sales, net client cash flows, funds under management, gross earned premiums, underwriting results, net interest income, non-interest revenue and credit losses.

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

The revenues generated in each reported segment can be seen in the analysis of profits and losses in note B3. The segmental information in notes B3 and B4, reflects the adjusted and IFRS measures of profit or loss and the assets and liabilities for each operating segment as provided to management and the Board of Directors. There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments.

The Group is primarily engaged in the following business activities from which it generates revenue: life assurance (premium income), asset management business (fee and commission income), banking (banking interest receivable and investment banking income) and property & casualty (premium income). Other revenue includes gains and losses on investment securities. An analysis of segment revenues and expenses and the Group's revenues and expenses is shown in note B3.

The principal lines of business from which each operating segment derives its revenues are as follows:

#### Core operations

Emerging Markets – life assurance, property & casualty, asset management and banking

Nedbank – banking, asset management and life assurance

Old Mutual Wealth – life assurance and asset management

Institutional Asset Management – asset management

#### Non-core operation

Old Mutual Bermuda – life assurance

### B2: Gross earned premiums and deposits to investment contracts

| **Year ended 31 December 2016** | **Emerging Markets** | **Old Mutual Wealth** | **Total** |
|---|---|---|---|
| | | | **£m** |
| Life assurance – insurance contracts | **1,393** | **142** | **1,535** |
| Life assurance – investment contracts with discretionary participation features | **1,525** | **-** | **1,525** |
| Property & casualty | **808** | **-** | **808** |
| **Gross earned premiums** | **3,726** | **142** | **3,868** |
| **Life assurance – unit-linked and similar contracts and other investment contracts recognised as deposits** | **1,656** | **7,952** | **9,608** |

| Year ended 31 December 2015 | Emerging Markets | Old Mutual Wealth | Total |
|---|---|---|---|
| | | | £m |
| Life assurance – insurance contracts | 1,469 | 154 | 1,623 |
| Life assurance – investment contracts with discretionary participation features | 1,221 | - | 1,221 |
| Property & casualty | 745 | - | 745 |
| Gross earned premiums | 3,435 | 154 | 3,589 |
| Life assurance – unit-linked and similar contracts and other investment contracts recognised as deposits | 2,020 | 7,988 | 10,008 |

# Notes to the consolidated financial statements

For the year ended 31 December 2016

**B: Segment information** continued

**B3: Adjusted operating profit statement - segment information for the year ended 31 December 2016**

| | Notes | Emerging Markets | Nedbank |
|---|---|---|---|
| **Revenue** | | | |
| Gross earned premiums | B2 | 3,726 | - |
| Outward reinsurance | | (314) | - |
| Net earned premiums | | 3,412 | - |
| Investment return (non-banking) | | 1,814 | - |
| Banking interest and similar income | | 229 | 3,677 |
| Banking trading, investment and similar income | | 14 | 241 |
| Fee and commission income, and income from service activities | | 588 | 922 |
| Other income | | 64 | 24 |
| **Total revenue[3]** | | 6,121 | 4,864 |
| **Expenses** | | | |
| Claims and benefits (including change in insurance contract provisions) | | (3,507) | - |
| Reinsurance recoveries | | 222 | - |
| Net claims and benefits incurred | | (3,285) | - |
| Change in investment contract liabilities | | (545) | - |
| Credit impairment charges | | (44) | (228) |
| Finance costs | | (33) | - |
| Banking interest payable and similar expenses | | (90) | (2,311) |
| Fee and commission expenses, and other acquisition costs | | (350) | (8) |
| Change in third-party interest in consolidated funds | | - | - |
| Other operating and administrative expenses | | (1,115) | (1,512) |
| Income tax attributable to policyholder returns | | (50) | - |
| **Total expenses** | | (5,512) | (4,059) |
| Share of associated undertakings' and joint ventures' profits/(losses) after tax | | 10 | (6) |
| Profit on disposal of subsidiaries, associated undertakings and strategic investments | C1(c) | - | - |
| **Adjusted operating profit/(loss) before tax and non-controlling interests** | | 619 | 799 |
| Income tax expense | D1 | (165) | (199) |
| Non-controlling interests | | (17) | (288) |
| **Adjusted operating profit/(loss) after tax and non-controlling interests** | | 437 | 312 |
| Adjusting items after tax and non-controlling interests | C1(a) | (93) | (30) |
| **Profit/(loss) after tax from continuing operations** | | 344 | 282 |
| Profit from discontinued operations after tax | H1 | - | - |
| **Profit/(loss) after tax attributable to equity holders of the parent** | | 344 | 282 |

1 The plc Head Office segment includes the Old Mutual plc holding company and other centre companies.

2 Consolidation adjustments comprise the consolidation of investment funds and eliminations of inter-segment transactions.

3 Included within total revenue prior to consolidation adjustments are the following amounts derived from trading with other segments: Emerging Markets: £75 million (December 2015: £80 million); Nedbank: £9 million (December 2015: £3 million); Old Mutual Wealth: £2 million (December 2015: £3 million); Institutional Asset Management: £6 million (December 2015: £6 million); and non-core operations: £2 million (December 2015: £4 million).

4 Non-core operations for the year ended 31 December 2016 comprises Old Mutual Bermuda. Old Mutual Bermuda's loss for the year ended 31 December 2016 was £5 million.

5 Discontinued operations comprise the operating result of Institutional Asset Management (IAM) of £104 million that has been included in the determination of AOP. In the IFRS consolidated income statement, IAM has been classified as a discontinued operation. The discontinued operations column reflects the individual line items in the IFRS consolidated income statement that have been reclassified to discontinued operations. Refer to note B1 and H1 for further information.

£m

| Old Mutual Wealth | Institutional Asset Management | plc Head Office[1] | Consolidation adjustments[2] | Adjusted operating profit | Adjusting items (note C1) | Non-core operations[4] | Discontinued Operations[5] | IFRS Income statement |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| 142 | - | - | - | 3,868 | - | - | - | 3,868 |
| (84) | - | - | - | (398) | - | - | - | (398) |
| 58 | - | - | - | 3,470 | - | - | - | 3,470 |
| 5,827 | - | 54 | 712 | 8,407 | (69) | (13) | - | 8,325 |
| - | - | - | - | 3,906 | - | - | - | 3,906 |
| - | - | - | - | 255 | - | - | - | 255 |
| 1,168 | 500 | - | (25) | 3,153 | (17) | - | (500) | 2,636 |
| 11 | 1 | - | 4 | 104 | - | - | - | 104 |
| 7,064 | 501 | 54 | 691 | 19,295 | (86) | (13) | (500) | 18,696 |
| | | | | | | | | |
| (199) | - | - | - | (3,706) | - | 24 | - | (3,682) |
| 169 | - | - | - | 391 | - | - | - | 391 |
| (30) | - | - | - | (3,315) | - | 24 | - | (3,291) |
| (5,671) | - | - | - | (6,216) | - | - | - | (6,216) |
| - | - | - | - | (272) | - | - | - | (272) |
| - | (6) | (88) | - | (127) | (7) | - | 6 | (128) |
| - | - | - | - | (2,401) | - | - | - | (2,401) |
| (392) | (9) | - | (19) | (778) | 24 | - | 9 | (745) |
| - | - | - | (691) | (691) | - | - | - | (691) |
| (617) | (356) | (118) | 19 | (3,699) | (407) | (16) | 381 | (3,741) |
| (94) | - | - | - | (144) | 144 | - | - | - |
| (6,804) | (371) | (206) | (691) | (17,643) | (246) | 8 | 396 | (17,485) |
| - | 11 | - | - | 15 | - | - | (11) | 4 |
| | | | | | | | | |
| - | - | - | - | - | 19 | - | (18) | 1 |
| 260 | 141 | (152) | - | 1,667 | (313) | (5) | (133) | 1,216 |
| (47) | (36) | 49 | - | (398) | (106) | - | 29 | (475) |
| - | (36) | - | - | (341) | 66 | - | - | (275) |
| 213 | 69 | (103) | - | 928 | (353) | (5) | (104) | 466 |
| (217) | 3 | (16) | - | (353) | 353 | - | - | - |
| (4) | 72 | (119) | - | 575 | - | (5) | (104) | 466 |
| - | - | - | - | - | - | - | 104 | 104 |
| (4) | 72 | (119) | - | 575 | - | (5) | - | 570 |

# Notes to the consolidated financial statements

For the year ended 31 December 2016

**B: Segment information** continued

**B3: Adjusted operating profit statement - segment information for the year ended 31 December 2015 (Restated)[1]**

| | Notes | Emerging Markets | Nedbank |
|---|---|---|---|
| **Revenue** | | | |
| Gross earned premiums | B2 | 3,435 | - |
| Outward reinsurance | | (253) | - |
| Net earned premiums | | 3,182 | - |
| Investment return (non-banking) | | 2,445 | - |
| Banking interest and similar income | | 235 | 3,085 |
| Banking trading, investment and similar income | | 5 | 208 |
| Fee and commission income, and income from service activities | | 560 | 894 |
| Other income | | 70 | 12 |
| **Total revenue** | | 6,497 | 4,199 |
| **Expenses** | | | |
| Claims and benefits (including change in insurance contract provisions) | | (3,294) | - |
| Reinsurance recoveries | | 184 | - |
| Net claims and benefits incurred | | (3,110) | - |
| Change in investment contract liabilities | | (1,142) | - |
| Credit impairment charges | | (62) | (245) |
| Finance costs | | (15) | - |
| Banking interest payable and similar expenses | | (93) | (1,833) |
| Fee and commission expenses, and other acquisition costs | | (323) | (9) |
| Change in third-party interest in consolidated funds | | - | - |
| Other operating and administrative expenses | | (1,121) | (1,403) |
| Income tax attributable to policyholder returns | | (30) | - |
| **Total expenses** | | (5,896) | (3,490) |
| Share of associated undertakings' and joint ventures' profits/(losses) after tax | | 14 | 45 |
| Loss on disposal of subsidiaries, associated undertakings and strategic investments | C1(c) | - | - |
| **Adjusted operating profit/(loss) before tax and non-controlling interests** | | 615 | 754 |
| Income tax expense | D1 | (173) | (180) |
| Non-controlling interests | | (24) | (272) |
| **Adjusted operating profit/(loss) after tax and non-controlling interests** | | 418 | 302 |
| Adjusting items after tax and non-controlling interests | C1(a) | (56) | 7 |
| **Profit/(loss) after tax from continuing operations** | | 362 | 309 |
| Profit from discontinued operations after tax | H1 | - | - |
| **Profit/(loss) after tax attributable to equity holders of the parent** | | 362 | 309 |

1 The year ended 31 December 2015 has been restated to reflect Institutional Asset Management as a discontinued operation and the adjustment for the consolidation of investment funds. Refer to notes A2 and H1 for more information.

2 The plc Head Office segment includes the Old Mutual plc holding company and other centre companies.

3 Consolidation adjustments comprise the consolidation of investment funds and eliminations of inter-segment transactions.

4 Non-core operations relate to Old Mutual Bermuda. Old Mutual Bermuda's loss after tax for the year ended 31 December 2015 was £5 million.

5 Discontinued operations include the operating result of Institutional Asset Management of £91 million that has been classified as discontinued in the IFRS income statement as well as £21 million relating to the disposal of US Life in 2011. Refer to note H1 for further information.

£m

| Old Mutual Wealth | Institutional Asset Management | plc Head Office[2] | Consolidation adjustments[3] | Adjusted operating profit | Adjusting items (note C1) | Non-core operations[4] | Discontinued operations[5] | IFRS Income statement |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | | |
| 154 | - | - | - | 3,589 | - | - | - | 3,589 |
| (82) | - | - | - | (335) | - | - | - | (335) |
| 72 | - | - | - | 3,254 | - | - | - | 3,254 |
| 1,158 | - | 17 | 291 | 3,911 | (73) | (35) | 2 | 3,805 |
| - | - | - | - | 3,320 | - | - | - | 3,320 |
| - | - | - | - | 213 | - | - | - | 213 |
| 1,140 | 491 | - | (39) | 3,046 | (19) | - | (491) | 2,536 |
| 13 | 5 | - | (20) | 80 | - | 7 | (8) | 79 |
| 2,383 | 496 | 17 | 232 | 13,824 | (92) | (28) | (497) | 13,207 |
| | | | | | | | | |
| (169) | - | - | - | (3,463) | - | 13 | - | (3,450) |
| 95 | - | - | - | 279 | - | - | - | 279 |
| (74) | - | - | - | (3,184) | - | 13 | - | (3,171) |
| (1,061) | - | - | - | (2,203) | - | - | - | (2,203) |
| - | - | - | - | (307) | - | - | - | (307) |
| - | (2) | (83) | - | (100) | 51 | - | 2 | (47) |
| - | - | - | - | (1,926) | 2 | - | - | (1,924) |
| (416) | (6) | (4) | (42) | (800) | 32 | (3) | 6 | (765) |
| - | - | - | (226) | (226) | - | - | - | (226) |
| (524) | (347) | (92) | 36 | (3,451) | (301) | (13) | 380 | (3,385) |
| (1) | - | - | - | (31) | 31 | - | - | - |
| (2,076) | (355) | (179) | (232) | (12,228) | (185) | (3) | 388 | (12,028) |
| - | 8 | - | - | 67 | - | - | (8) | 59 |
| | | | | | | | | |
| - | - | - | - | - | (36) | - | (1) | (37) |
| 307 | 149 | (162) | - | 1,663 | (313) | (31) | (118) | 1,201 |
| (43) | (30) | 23 | - | (403) | 29 | - | 27 | (347) |
| - | (33) | - | - | (329) | 19 | - | - | (310) |
| 264 | 86 | (139) | - | 931 | (265) | (31) | (91) | 544 |
| (222) | (20) | 26 | - | (265) | 265 | - | - | - |
| 42 | 66 | (113) | - | 666 | - | (31) | (91) | 544 |
| - | - | - | - | - | - | - | 70 | 70 |
| 42 | 66 | (113) | - | 666 | - | (31) | (21) | 614 |

# Notes to the consolidated financial statements

For the year ended 31 December 2016

### B: Segment information continued

### B4: Statement of financial position – segment information at 31 December 2016

| | Notes | Emerging Markets[1] | Nedbank |
|---|---|---|---|
| **Assets** | | | |
| Goodwill and other intangible assets | F1 | **461** | **576** |
| Mandatory reserve deposits with central banks | | **8** | **1,103** |
| Property, plant and equipment | | **345** | **529** |
| Investment property | | **1,696** | **1** |
| Deferred tax assets | | **57** | **29** |
| Investments in associated undertakings and joint ventures | | **143** | **388** |
| Deferred acquisition costs | | **166** | **-** |
| Reinsurers' share of policyholder liabilities | | **246** | **6** |
| Loans and advances | E1 | **1,210** | **41,703** |
| Investments and securities | | **33,699** | **8,844** |
| Current tax receivable | | **20** | **33** |
| Trade, other receivables and other assets | | **843** | **966** |
| Derivative financial instruments | | **228** | **1,040** |
| Cash and cash equivalents | | **1,820** | **1,556** |
| Assets held for sale | H2 | **116** | **17** |
| Inter-segment funding - assets | | **-** | **-** |
| **Total assets** | | **41,058** | **56,791** |
| **Liabilities** | | | |
| Long-term business insurance policyholder liabilities | | **9,310** | **172** |
| Investment contract liabilities | | **23,614** | **905** |
| Property & casualty liabilities | | **482** | **-** |
| Third-party interests in consolidated funds | | **-** | **-** |
| Borrowed funds | E2 | **694** | **3,072** |
| Provisions and accruals | | **118** | **-** |
| Deferred revenue | | **68** | **1** |
| Deferred tax liabilities | | **203** | **39** |
| Current tax payable | | **100** | **13** |
| Trade, other payables and other liabilities | | **2,860** | **2,081** |
| Amounts owed to bank depositors | | **643** | **44,915** |
| Derivative financial instruments | | **295** | **784** |
| Liabilities held for sale | H2 | **1** | **-** |
| Inter-segment funding - liabilities | | **-** | **-** |
| **Total liabilities** | | **38,388** | **51,982** |
| **Net assets[1]** | | **2,670** | **4,809** |
| **Equity** | | | |
| Equity attributable to equity holders of the parent | | **2,455** | **2,476** |
| Non-controlling interests | | **215** | **2,333** |
| Ordinary shares | F2(b)(i) | **215** | **1,992** |
| Preferred securities | F2(b)(ii) | **-** | **341** |
| **Total equity** | | **2,670** | **4,809** |

1 The net assets of Emerging Markets exclude £235 million (December 2015: £167 million) of investments held by policyholder funds in Group equity and debt instruments. These investments are in the Company's ordinary shares and in the subordinated liabilities and preferred securities issued by Nedbank.

2 The plc Head Office segment includes the Old Mutual plc holding company and other centre companies.

3 Consolidation adjustments comprise the consolidation of investment funds and eliminations of inter-segment balances.

£m

| Old Mutual Wealth | Institutional Asset Management | plc Head Office[2] | Non-core operation | Consolidation adjustments[3] | Total |
|---|---|---|---|---|---|
| | | | | | |
| 1,434 | - | - | - | - | 2,471 |
| - | - | - | - | - | 1,111 |
| 18 | - | - | - | - | 892 |
| - | - | - | - | - | 1,697 |
| 8 | - | - | 2 | - | 96 |
| 1 | - | 10 | - | - | 542 |
| 590 | - | - | - | - | 756 |
| 2,863 | - | - | - | - | 3,115 |
| 220 | - | - | - | (25) | 43,108 |
| 50,784 | - | 309 | 53 | 6,844 | 100,533 |
| 21 | - | - | - | - | 74 |
| 590 | - | 157 | 3 | (143) | 2,416 |
| - | - | 31 | 27 | 14 | 1,340 |
| 769 | - | 611 | 22 | 69 | 4,847 |
| 6,478 | 1,959 | - | - | - | 8,570 |
| - | - | 874 | 58 | (932) | - |
| 63,776 | 1,959 | 1,992 | 165 | 5,827 | 171,568 |
| | | | | | |
| 416 | - | - | 84 | - | 9,982 |
| 53,080 | - | - | - | - | 77,599 |
| - | - | - | - | - | 482 |
| - | - | - | - | 7,981 | 7,981 |
| - | - | 1,017 | - | (89) | 4,694 |
| 29 | - | 6 | 7 | - | 160 |
| 221 | - | - | - | - | 290 |
| 193 | - | 5 | - | - | 440 |
| 21 | - | 10 | - | - | 144 |
| 865 | - | 226 | 6 | (926) | 5,112 |
| - | - | - | - | (249) | 45,309 |
| 1 | - | 39 | - | 42 | 1,161 |
| 6,264 | 781 | - | - | - | 7,046 |
| 789 | 85 | 58 | - | (932) | - |
| 61,879 | 866 | 1,361 | 97 | 5,827 | 160,400 |
| 1,897 | 1,093 | 631 | 68 | - | 11,168 |
| | | | | | |
| 1,897 | 527 | 631 | 68 | - | 8,054 |
| - | 566 | - | - | - | 3,114 |
| - | 566 | - | - | - | 2,773 |
| - | - | - | - | - | 341 |
| | | | | | |
| 1,897 | 1,093 | 631 | 68 | - | 11,168 |

# Notes to the consolidated financial statements

For the year ended 31 December 2016

**B: Segment information** continued

**B4: Statement of financial position – segment information at 31 December 2015 (Restated)[1]**

| | Notes | Emerging Markets | Nedbank |
|---|---|---|---|
| **Assets** | | | |
| Goodwill and other intangible assets | F1 | 415 | 378 |
| Mandatory reserve deposits with central banks | | 5 | 711 |
| Property, plant and equipment | | 275 | 385 |
| Investment property | | 1,232 | 1 |
| Deferred tax assets | | 47 | 10 |
| Investments in associated undertakings and joint ventures | | 60 | 420 |
| Deferred acquisition costs | | 87 | - |
| Reinsurers' share of policyholder liabilities | | 150 | 4 |
| Loans and advances | E1 | 912 | 29,873 |
| Investments and securities | | 24,983 | 5,777 |
| Current tax receivable | | 14 | 46 |
| Trade, other receivables and other assets | | 759 | 495 |
| Derivative financial instruments | | 386 | 1,335 |
| Cash and cash equivalents | | 1,088 | 1,001 |
| Assets held for sale | H2 | 84 | - |
| Inter-segment funding - assets | | - | - |
| **Total assets** | | 30,497 | 40,436 |
| **Liabilities** | | | |
| Long-term business insurance policyholder liabilities | | 7,262 | 159 |
| Investment contract liabilities | | 16,943 | 482 |
| Property & casualty liabilities | | 341 | - |
| Third-party interests in consolidated funds | | - | - |
| Borrowed funds | E2 | 449 | 1,971 |
| Provisions and accruals | | 143 | - |
| Deferred revenue | | 20 | - |
| Deferred tax liabilities | | 183 | 45 |
| Current tax payable | | 73 | 18 |
| Trade, other payables and other liabilities | | 2,006 | 1,036 |
| Amounts owed to bank depositors | | 518 | 31,810 |
| Derivative financial instruments | | 558 | 1,474 |
| Liabilities held for sale | H2 | - | - |
| Inter-segment funding - liabilities | | - | - |
| **Total liabilities** | | 28,496 | 36,995 |
| **Net assets** | | 2,001 | 3,441 |
| **Equity** | | | |
| Equity attributable to equity holders of the parent | | 1,805 | 1,710 |
| Non-controlling interests | | 196 | 1,731 |
| Ordinary shares | F2(b)(i) | 196 | 1,459 |
| Preferred securities | F2(b)(ii) | - | 272 |
| **Total equity** | | 2,001 | 3,441 |

1 The comparative information for 2015 has been restated to reflect the adjustment for the consolidation of investment funds. Refer to note A2 for more information.

2 The plc Head Office segment includes the Old Mutual plc holding company and other centre companies.

£m

| Old Mutual Wealth | Institutional Asset Management | plc Head Office[2] | Non-core operations | Consolidation adjustments | Total |
|---|---|---|---|---|---|
| | | | | | |
| 1,620 | 863 | - | - | - | 3,276 |
| - | - | - | - | - | 716 |
| 19 | 21 | - | - | - | 700 |
| - | - | - | - | - | 1,233 |
| 8 | 218 | - | 1 | - | 284 |
| 1 | 23 | 10 | - | - | 514 |
| 673 | 24 | - | - | - | 784 |
| 2,507 | - | - | - | - | 2,661 |
| 180 | - | - | - | - | 30,965 |
| 48,157 | 80 | 467 | - | 4,555 | 84,019 |
| 28 | - | - | - | - | 88 |
| 618 | 119 | 102 | 16 | (162) | 1,947 |
| - | - | 55 | 17 | 1,283 | 3,076 |
| 792 | 92 | 527 | 26 | 885 | 4,411 |
| 4 | 35 | - | - | - | 123 |
| - | - | 860 | 80 | (940) | - |
| 54,607 | 1,475 | 2,021 | 140 | 5,621 | 134,797 |
| | | | | | |
| 293 | - | - | - | - | 7,714 |
| 50,344 | - | - | 85 | - | 67,854 |
| - | - | - | - | - | 341 |
| - | - | - | - | 5,948 | 5,948 |
| - | 61 | 1,098 | - | (55) | 3,524 |
| 34 | 3 | 19 | - | - | 199 |
| 254 | - | - | - | - | 274 |
| 172 | - | 17 | - | - | 417 |
| 13 | 59 | 23 | - | - | 186 |
| 799 | 297 | 212 | 6 | (607) | 3,749 |
| - | - | - | - | - | 32,328 |
| - | 6 | 4 | - | 1,275 | 3,317 |
| - | 12 | - | - | - | 12 |
| 748 | 99 | 93 | - | (940) | - |
| 52,657 | 537 | 1,466 | 91 | 5,621 | 125,863 |
| 1,950 | 938 | 555 | 49 | - | 8,934 |
| | | | | | |
| 1,950 | 611 | 555 | 49 | - | 6,680 |
| - | 327 | - | - | - | 2,254 |
| - | 327 | - | - | - | 1,982 |
| - | - | - | - | - | 272 |
| | | | | | |
| 1,950 | 938 | 555 | 49 | - | 8,934 |

## C: Other key performance information

### C1: Operating profit adjusting items

*(a) Summary of adjusting items for determination of adjusted operating profit (AOP)*

In determining the AOP of the Group for core operations, certain adjustments are made to profit before tax to reflect the Directors' view of the underlying long-term performance of the Group. The following table shows an analysis of those adjustments from AOP to profit before and after tax.

| | Notes | **Year ended 31 December 2016** | Year ended 31 December 2015 |
|---|---|---|---|
| | | | £m |
| **(Expense)/income** | | | |
| Goodwill impairment and impact of acquisition accounting | C1(b) | **(278)** | (167) |
| Net profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments | C1(c) | **19** | (36) |
| Short-term fluctuations in investment return | C1(d) | **(26)** | (42) |
| Investment return adjustment for Group equity and debt instruments held in life funds | C1(e) | **(43)** | (31) |
| Dividends declared to holders of perpetual preferred callable securities | C1(f) | **17** | 31 |
| Institutional Asset Management equity plans | C1(g) | **(20)** | (9) |
| Credit-related fair value (losses)/gains on Group debt instruments | C1(h) | **(24)** | 7 |
| Old Mutual Wealth business transformation costs | C1(i) | **(102)** | (97) |
| **Total adjusting items** | | **(457)** | (344) |
| Tax on adjusting items | D1(d) | **38** | 60 |
| Non-controlling interest on adjusting items | | **66** | 19 |
| **Total adjusting items after tax and non-controlling interests** | | **(353)** | (265) |

*(b) Goodwill impairment and impact of acquisition accounting*

The application of acquisition accounting results in, deferred acquisition costs and deferred revenue existing at the point of acquisition that are not recognised under IFRS. These are reversed on acquisition in the statement of financial position and replaced by goodwill and other intangible assets, including the value of the acquired present value of in-force business (acquired PVIF). In determining AOP, the Group recognises deferred revenue, acquisition costs and deferred revenue in relation to policies sold by acquired businesses prior to the acquisition date. The Group excludes the impairment of goodwill, the impairment of investments in associated undertakings, the amortisation and impairment of acquired other intangible assets, acquired PVIF and the movements in certain acquisition date provisions from the determination of AOP. Costs incurred on completed acquisitions are also excluded from AOP.

Certain deferred consideration recognised as compensation expenses under accounting rules is excluded from the determination of AOP where these payments meet the criteria that suggest they are capital in nature.

The net effect of these adjustments to determine AOP are summarised below:

| **Year months ended 31 December 2016** | **Emerging Markets** | **Old Mutual Wealth** | **Nedbank** | **Institutional Asset Management** | **plc Head Office** | **Total** |
|---|---|---|---|---|---|---|
| | | | | | | **£m** |
| Impairment of goodwill and other intangible assets | **(64)** | **(46)** | **-** | **-** | **-** | **(110)** |
| Impairment of investment in associated undertakings | **-** | **-** | **(50)** | **-** | **-** | **(50)** |
| Amortisation of acquired PVIF | **(4)** | **(45)** | **-** | **-** | **-** | **(49)** |
| Amortisation of acquired deferred costs and revenue | **-** | **8** | **-** | **-** | **-** | **8** |
| Amortisation of other acquired intangible assets | **(14)** | **(38)** | **-** | **(2)** | **-** | **(54)** |
| Acquisition costs | **-** | **(17)** | **-** | **(5)** | **-** | **(22)** |
| Deferred consideration and other acquisition date provisions | **6** | **-** | **-** | **-** | **(7)** | **(1)** |
| | **(76)** | **(138)** | **(50)** | **(7)** | **(7)** | **(278)** |

| Year ended 31 December 2015 | Emerging Markets | Old Mutual Wealth | Nedbank | Institutional Asset Management | plc Head Office | Total |
|---|---|---|---|---|---|---|
| | | | | | | £m |
| Impairment of goodwill and other intangible assets | - | - | - | (23) | - | (23) |
| Amortisation of acquired PVIF | (7) | (51) | - | - | - | (58) |
| Amortisation of acquired deferred costs and revenue | - | 13 | - | - | - | 13 |
| Amortisation of other acquired intangible assets | (13) | (56) | - | - | - | (69) |
| Acquisition costs | (4) | (10) | - | - | - | (14) |
| Deferred consideration and other acquisition date provisions | - | (16) | - | - | - | (16) |
| | (24) | (120) | - | (23) | - | (167) |

The impairment of goodwill and other intangible assets and impairment of investment in associated undertakings relate to:

#### Emerging Markets

The goodwill impairment loss of £64 million relates to the Old Mutual Southern and East Africa (OMSEA) cash generating unit. Refer to note H1 in the 2016 Annual Report and Accounts for further information.

#### Old Mutual Wealth

On 9 January 2017, the Group completed the disposal of Old Mutual Wealth Italy. A goodwill impairment loss of £46 million has been recognised in profit or loss as the net asset value of the business disposed of exceeds the expected net proceeds. Refer to note A2 for further information.

#### Nedbank

A £50 million impairment loss has been recognised in relation to Nedbank's investment in Ecobank Transinternational Incorporated, an associated undertaking. Refer to note I2(b) in the 2016 Annual Report and Accounts for further information.

### *(c) Net profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments*

The net profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments is analysed below:

| | Notes | **Year ended 31 December 2016** | Year ended 31 December 2015 |
|---|---|---|---|
| | | | **£m** |
| Emerging Markets | | **3** | 15 |
| Nedbank | | **(12)** | - |
| Old Mutual Wealth | | **-** | (52) |
| Old Mutual plc | | **10** | - |
| **Net profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments - continuing operations** | | **1** | (37) |
| Net profit on disposal of subsidiaries, associated undertakings and strategic investments - discontinued operations | H1 | **18** | 1 |
| **Net profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments** | | **19** | (36) |

#### Emerging Markets

*Current period transaction*

During the year, OMEM reduced or disposed of its holdings in a number of associated undertakings resulting in a net profit on disposal of £3 million.

*Prior period transaction*

On 10 December 2015, Old Mutual Investment Group, a subsidiary of the Group, acquired an additional 50% stake in African Infrastructure Investment Managers (Pty) Limited (AIIM). The accounting related to the step up in ownership from 50% to 100% effectively involved a simultaneous sale of 50% of the business, followed by an acquisition of the fair value of 100% of the business. The profit of £15 million realised in the financial year ended 31 December 2015 represents the difference between the fair value of the initial 50% and the carrying amount of the investment in AIIM at 10 December 2015.

#### Nedbank

*Current period transaction*

On 3 October 2016, Nedbank acquired an additional 10.9% stake in Banco Unico, SA. The accounting related to the step up in ownership from 38.3% to 50% plus one share is such that it effectively requires a simultaneous sale of 38.3% followed by an acquisition of the fair value of 50% plus one share of the business. Consequently a loss of £11 million, comprising of a loss on step up acquisition of the associate and a release of foreign currency translation reserves, was realised on the transaction. In addition, a loss of £1 million was recognised on conversion of preference shares to ordinary shares by ETI. Consistent with usual Group practice, these losses were recognised in profit or loss but excluded from the determination of AOP.

#### Old Mutual Wealth

*Prior period transactions*

On 2 February 2015, the Group completed the sale of Skandia Luxembourg and Skandia France. For the year ended 31 December 2015, the Group recognised a loss on disposal of £1 million, which comprised a loss on disposing the net assets of the sold business of £31 million and a gain of £30 million relating to amounts recycled from foreign currency translation reserve.

On 30 September 2015, the Group completed the sale of its Switzerland business, Skandia Leben AG. For the year ended 31 December 2015, the Group recognised a loss on disposal of £51 million which comprised a loss on disposing the net assets of the sold business of £91 million and a gain of £40 million relating to amounts recycled from foreign currency translation reserve

**C: Other key performance information** continued

**C1: Operating profit adjusting items** continued

*(c) Net profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments* continued

Institutional Asset Management

*Current period transaction*

On 31 May 2016, the Group completed the sale of its interest in Rogge Global Partners Limited (Rogge), a fixed income asset manager, to Allianz Global Investors GmbH. The sales proceeds received are subject to adjustment as amounts could either be clawed back or future amounts become payable based on Rogge's future performance. A profit on disposal of £10 million has been recognised in the current period reflecting the director's current assessment of the likely final amount recoverable.

*Current and prior period transactions*

During the year ended 31 December 2016, the Group received additional income of £8 million (year ended 31 December 2015: £1 million) from earn-outs on affiliates disposed in prior periods.

Old Mutual plc

*Current period transactions*

During the period, Old Mutual plc received £10 million from Skandia Liv in respect of various matters relating to the completion of the separation of the Skandia Nordic business from the Group.

*(d) Short-term fluctuations in investment return*

Profit before tax, as disclosed in the consolidated IFRS income statement, includes actual investment returns earned on the shareholder assets of the Group's life assurance and property & casualty businesses. AOP is stated after recalculating shareholder asset investment returns based on a long-term investment return rate. The difference between the actual and the long-term investment returns is referred to as the short-term fluctuation in investment return.

Long-term rates of investment return are based on achieved rates of return appropriate to the underlying asset base, adjusted for current inflation expectations, default assumptions, costs of investment management and consensus economic investment forecasts. The underlying rates are principally derived with reference to 10-year government bond rates, cash and money market rates and an explicit equity risk premium for South African businesses. The rates set out below reflect the apportionment of underlying investments in cash deposits, money market instruments and equity assets. Long-term rates of return are reviewed annually by the Board. The Board's review of the long-term rates of return seeks to ensure that the returns credited to AOP are consistent with the actual returns expected to be earned over the long-term.

For Emerging Markets, the return is applied to an average value of investible shareholders' assets, adjusted for net fund flows. For Old Mutual Wealth, the return is applied to average investible assets.

| | | % |
|---|---|---|
| **Long-term investment rates** | **Year ended 31 December 2016** | Year ended 31 December 2015 |
| Emerging Markets | | |
| Mutual & Federal[1] - (Cash: 90%; Equities: 10%) (2015: Cash: 90%; Equities: 10%) | **7.4** | 7.4 |
| Old Mutual South Africa - (Cash: 75%; Equities: 25%) (2015: Cash: 75%; Equities: 25%) | **8.0** | 8.0 |
| Rest of Africa - (Cash: 57%; Equities: 43%) (2015: Cash: 57%; Equities: 43%) | **8.5** | 8.5 |
| Old Mutual Wealth - (Cash: 80%; Equities: 20%) (2015: Cash: 75%; Equities: 25%) | **1.0** | 1.0 |

[1] The long-term investment rate for Mutual & Federal relates solely to its South African business.

*Analysis of short-term fluctuations in investment return*

| | | | | **£m** |
|---|---|---|---|---|
| **Year ended 31 December 2016** | **Emerging Markets** | **Old Mutual Wealth** | **plc Head Office** | **Total** |
| Actual shareholder investment return | **111** | **7** | **9** | **127** |
| Less: Long-term investment return | **127** | **6** | **20** | **153** |
| **Short-term fluctuations in investment return** | **(16)** | **1** | **(11)** | **(26)** |

| | | | | £m |
|---|---|---|---|---|
| Year months ended 31 December 2015 | Emerging Markets | Old Mutual Wealth | plc Head Office | Total |
| Actual shareholder investment return | 88 | 8 | 12 | 108 |
| Less: Long-term investment return | 124 | 5 | 21 | 150 |
| **Short-term fluctuations in investment return** | (36) | 3 | (9) | (42) |

*(e) Investment return adjustment for Group equity and debt instruments held in policyholder funds*

AOP includes investment returns on policyholder investments in Group equity and debt instruments held by the Group's life funds. These include investments in the Company's ordinary shares and the subordinated liabilities and ordinary shares issued by the Group. These investment returns are eliminated within the consolidated income statement in arriving at profit before tax, but are included in AOP. This ensures consistency of treatment with the measures in the related policyholder liability. During the year ended 31 December 2016, the investment return adjustment increased AOP by £43 million (year ended 31 December 2015: £31 million).

*(f) Dividends declared to holders of perpetual preferred callable securities*

Dividends declared to the holders of the Group's perpetual preferred callable securities on an AOP basis were £17 million for the year ended 31 December 2016 (year ended 31 December 2015: £31 million). For the purpose of determining AOP, these are recognised in finance costs on an accrual basis. In accordance with IFRS, the total cash distribution is recognised directly in equity.

*(g) Institutional Asset Management equity plans*

Institutional Asset Management has a number of long-term incentive arrangements with senior employees in its asset management affiliates.

As part of the incentive schemes in the Institutional Asset Management business, the Group has granted put options over the equity of certain affiliates to senior affiliate employees. The impact of revaluing these instruments in accordance with IFRS, is excluded from AOP. At 31 December 2016, the impact of revaluing these instruments and the exclusion of acquisition related compensation expense with Landmark employees was a loss of £20 million (year ended 31 December 2015: loss of £9 million).

*(h) Credit-related fair value losses on Group debt instruments*

The widening of the credit spread on the Group's debt instruments can cause the market value of these instruments to decrease, resulting in gains being recognised in profit or loss. Conversely, if the credit spread narrows the market value of debt instruments will increase causing losses to be recognised in the consolidated income statement. In the Directors' view, such movements are not reflective of the underlying performance of the Group and will reverse over time until the date of maturity. Therefore they have been excluded from AOP. For the year ended 31 December 2016, due to the narrowing of credit spreads, a net loss of £24 million was recognised (year ended 31 December 2015: net gain of £7 million).

*(i) Old Mutual Wealth business transformation costs*

In 2013, Old Mutual Wealth UK business embarked on a significant programme to develop new platform capabilities and to outsource UK business administration. This will involve replacing many aspects of the existing UK platform, and on completion certain elements of service provision will be migrated to International Financial Data Services (IFDS) under a long-term outsourcing agreement. Management has determined that the cost of developing the new technology cannot be capitalised, hence these costs and the costs of decommissioning existing technology and migrating of services to IFDS are excluded from AOP. Only costs that are directly attributable to the programme are excluded from AOP as management is of the view that this long-term investment in operational capability is a non-operating item. For the year ended 31 December 2016, these costs totalled £102 million (year ended 31 December 2015: £97 million).

### C2: Earnings and earnings per share

| | | | Pence | |
|---|---|---|---|---|
| | Source of guidance | Notes | **Year ended 31 December 2016** | Year ended 31 December 2015 (Restated)[1] |
| Basic earnings per share | IFRS | C2(a) | **11.9** | 12.7 |
| Diluted basic earnings per share | IFRS | C2(b) | **11.6** | 12.2 |
| Adjusted operating earnings per share | Group policy | C2(c) | **19.4** | 19.3 |
| | | | | |
| Headline earnings per share (Gross of tax) | JSE Listing Requirements | C2(d) | **14.8** | 13.9 |
| Headline earnings per share (Net of tax) | JSE Listing Requirements | C2(d) | **14.9** | 13.9 |
| | | | | |
| Diluted headline earnings per share (Gross of tax) | JSE Listing Requirements | C2(d) | **14.5** | 13.3 |
| Diluted headline earnings per share (Net of tax) | JSE Listing Requirements | C2(d) | **14.5** | 13.3 |

[1] The year ended 31 December 2015 has been restated to reflect Institutional Asset Management as a discontinued operation. Refer to note H1 for more information.

### C: Other key performance information continued

### C2: Earnings and earnings per share continued

*(a) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit for the financial year attributable to ordinary equity shareholders of the parent by the weighted average number of ordinary shares in issue during the year excluding own shares held in policyholder funds, Employee Share Ownership Plan Trusts (ESOP), Black Economic Empowerment trusts and other related undertakings.

The table below reconciles the profit attributable to equity holders of the parent to profit attributable to ordinary equity holders:

| | Note | Year ended 31 December 2016 | Year ended 31 December 2015 (Restated)[1] |
|---|---|---|---|
| | | £m | |
| Profit for the financial year attributable to equity holders of the parent from continuing operations | | **498** | 569 |
| Profit for the financial year attributable to equity holders of the parent from discontinued operations | H1 | **72** | 45 |
| **Profit for the financial year attributable to equity holders of the parent** | | **570** | 614 |
| Dividends paid to holders of perpetual preferred callable securities, net of tax credits | | **(14)** | (24) |
| **Profit attributable to ordinary equity holders** | | **556** | 590 |

[1] The year ended 31 December 2015 has been restated to reflect Institutional Asset Management as a discontinued operation. Refer to note H1 for more information.

Total dividends paid to holders of perpetual preferred callable securities of £14 million for the year ended 31 December 2016 (year ended 31 December 2015: £24 million) are stated net of tax credits of £3 million (year ended 31 December 2015: £6 million).

The table below summarises the calculation of the weighted average number of ordinary shares for the purposes of calculating basic earnings per share:

| | Year ended 31 December 2016 | Year ended 31 December 2015 (Restated)[1] |
|---|---|---|
| | Millions | |
| **Weighted average number of ordinary shares in issue** | **4,929** | 4,924 |
| Shares held in charitable foundations and trusts | **(21)** | (13) |
| Shares held in ESOP and similar trusts | **(135)** | (98) |
| **Adjusted weighted average number of ordinary shares** | **4,773** | 4,813 |
| Shares held in life funds | **(80)** | (81) |
| Shares held in Black Economic Empowerment trusts | **(7)** | (91) |
| **Weighted average number of ordinary shares used to calculate basic earnings per share** | **4,686** | 4,641 |
| | | |
| **Basic earnings per ordinary share (pence)** | **11.9** | 12.7 |

[1] Basic earnings per ordinary share (pence) for the year ended 31 December 2015 has been restated to reflect Institutional Asset Management as a discontinued operation. Refer to note H1 for more information.

*(b) Diluted basic earnings per share*

Diluted basic EPS recognises the dilutive impact of shares and options held in ESOP and similar trusts and Black Economic Empowerment trusts, to the extent they have value, in the calculation of the weighted average number of shares, as if the relevant shares were in issue for the full year.

The table below reconciles the profit attributable to ordinary equity holders to diluted profit attributable to ordinary equity holders and summarises the calculation of weighted average number of shares for the purpose of calculating diluted basic earnings per share:

| | Note | **Year ended 31 December 2016** | Year ended 31 December 2015 |
|---|---|---|---|
| Profit attributable to ordinary equity holders (£m) | | **556** | 590 |
| Dilution effect on profit relating to share options issued by subsidiaries (£m) | | **(7)** | (7) |
| **Diluted profit attributable to ordinary equity holders (£m)** | | **549** | 583 |
| Weighted average number of ordinary shares (millions) | C2(a) | **4,686** | 4,641 |
| Adjustments for share options held by ESOP and similar trusts (millions) | | **59** | 47 |
| Adjustments for shares held in Black Economic Empowerment trusts (millions) | | **7** | 91 |
| **Weighted average number of ordinary shares used to calculate diluted basic earnings per share (millions)** | | **4,752** | 4,779 |
| **Diluted basic earnings per ordinary share (pence)** | | **11.6** | 12.2 |

*(c) Adjusted operating earnings per share*

The following table presents a reconciliation of profit for the financial year to adjusted operating profit after tax attributable to ordinary equity holders and summarises the calculation of adjusted operating earnings per share:

| | Notes | **Year ended 31 December 2016** | Year ended 31 December 2015 |
|---|---|---|---|
| **Profit for the financial year attributable to equity holders of the parent** | | **570** | 614 |
| Adjusting items | C1(a) | **457** | 344 |
| Tax on adjusting items | C1(a) | **(38)** | (60) |
| Non-core operations | B3 | **5** | 31 |
| Loss from discontinued operations | H1(a) | **-** | 21 |
| Non-controlling interest on adjusting items | | **(66)** | (19) |
| **Adjusted operating profit after tax attributable to ordinary equity holders (£m)** | | **928** | 931 |
| **Adjusted weighted average number of ordinary shares used to calculate adjusted operating earnings per share (millions)** | C2(a) | **4,773** | 4,813 |
| **Adjusted operating earnings per share (pence)** | | **19.4** | 19.3 |

# Notes to the consolidated financial statements

For the year ended 31 December 2016

**C: Other key performance information** continued

**C2: Earnings and earnings per share** continued

*(d) Headline earnings per share*

The Group is required to calculate headline earnings per share (HEPS) in accordance with the JSE Limited (JSE) Listing Requirements, determined by reference to the South African Institute of Chartered Accountants' circular 02/2015 'Headline Earnings'. The table below sets out a reconciliation of basic EPS and HEPS in accordance with that circular. Disclosure of HEPS is not a requirement of IFRS, but it is a commonly used measure of earnings in South Africa. The table below reconciles the profit for the financial year attributable to equity holders of the parent to headline earnings and summarises the calculation of basic HEPS:

| | | **Year ended 31 December 2016** | | Year ended 31 December 2015 (Restated)[1] | |
|---|---|---|---|---|---|
| | Notes | **Gross** | **Net** | Gross | Net |
| **Profit for the financial year attributable to equity holders of the parent** | | **570** | **570** | 614 | 614 |
| Dividends paid to holders of perpetual preferred callable securities | | **(14)** | **(14)** | (24) | (24) |
| **Profit attributable to ordinary equity holders** | | **556** | **556** | 590 | 590 |
| Adjustments: | | | | | |
| Impairments of goodwill and other intangible assets | | **113** | **113** | 23 | 23 |
| Impairment of investment in associated undertakings | | **50** | **50** | - | - |
| (Profit)/loss on disposal of subsidiaries, associated undertakings and strategic investments | | **(19)** | **(16)** | 36 | 35 |
| Realised gains (net of impairments) on available-for-sale financial assets | | **(5)** | **(5)** | (5) | (5) |
| **Headline earnings** | | **695** | **698** | 644 | 643 |
| **Dilution effect on earnings relating to share options issued by subsidiaries** | | **(7)** | **(7)** | (7) | (7) |
| **Diluted headline earnings (£m)** | | **688** | **691** | 637 | 636 |
| | | | | | |
| **Weighted average number of ordinary shares (millions)** | C2(a) | **4,686** | **4,686** | 4,641 | 4,641 |
| **Diluted weighted average number of ordinary shares (millions)** | C2(b) | **4,752** | **4,752** | 4,779 | 4,779 |
| | | | | | |
| **Headline earnings per share (pence)** | | **14.8** | **14.9** | 13.9 | 13.9 |
| **Diluted headline earnings per share (pence)** | | **14.5** | **14.5** | 13.3 | 13.3 |

[1] The year ended 31 December 2015 has been restated to reflect Institutional Asset Management as a discontinued operation. Refer to note H1 for more information.

**C3: Dividends**

| | | | **£m** |
|---|---|---|---|
| | Ordinary dividend payment date | **Year ended 31 December 2016** | Year ended 31 December 2015 |
| 2014 Final dividend paid – 6.25p per 11 3/7p ordinary share | 29 May 2015 | **-** | 296 |
| 2015 Interim dividend paid – 2.65p per 11 3/7p ordinary share | 30 October 2015 | **-** | 126 |
| 2015 Second interim dividend paid – 6.25p per 11 3/7p ordinary share | 26 April 2016 | **299** | - |
| 2016 Interim dividend paid – 2.67p per 11 3/7p ordinary share | 28 October 2016 | **127** | - |
| **Dividends to ordinary equity holders** | | **426** | 422 |
| Dividends paid to holders of perpetual preferred callable securities | | **17** | 30 |
| **Dividend payments for the year** | | **443** | 452 |

The total dividend paid to ordinary equity holders is calculated using the number of shares in issue at the record date less own shares held in ESOP trusts, life funds of Group entities, Black Economic Empowerment trusts and related undertakings.

As a consequence of the exchange control arrangements in place in certain African territories, dividends to ordinary equity holders on the branch registers of those countries (or, in the case of Namibia, the Namibian section of the principal register) are settled through Dividend Access Trusts established for that purpose.

A second interim dividend of 3.39 pence (or its equivalent in other applicable currencies) per ordinary share in the Company has been declared by the Directors. The second interim dividend will be paid on 28 April 2017 to shareholders on the register at the close of business on 31 March 2017. The dividend will absorb an estimated £162 million of shareholders' funds.

In March 2016, £17 million was declared and paid to holders of perpetual preferred callable securities (March 2015: £17 million and November 2015: £13 million).

## D: Other income statement notes

### D1: Income tax expense

This note analyses the income tax expense recognised in profit or loss for the year and the various factors that have contributed to the composition of the charge.

#### Current tax

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

#### Deferred tax

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

In certain circumstances, as permitted by accounting guidance, deferred tax balances are not recognised. In particular where the liability relates to the initial recognition of goodwill, or transactions that are not a business combination and at the time of their occurrence affect neither accounting nor taxable profit.

**Critical accounting estimates and judgements – Income tax**

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

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

*(a) Analysis of total income tax expense*

The total income tax expense for the year comprises:

| | | £m |
|---|---|---|
| | **Year ended 31 December 2016** | Year ended 31 December 2015 (Restated)[1] |
| **Current tax** | | |
| United Kingdom | **56** | 31 |
| Overseas tax | | |
| - South Africa | **401** | 272 |
| - Rest of Africa | **28** | 19 |
| - Europe | **15** | 17 |
| - Rest of the world | **10** | 9 |
| Withholding taxes | **9** | 11 |
| Adjustments to current tax in respect of prior years | **(20)** | (1) |
| **Total current tax** | **499** | 358 |
| **Deferred tax** | | |
| Origination and reversal of temporary differences | **(43)** | - |
| Effect on deferred tax of changes in tax rates | **21** | (8) |
| Adjustments to deferred tax in respect of prior years | **(2)** | (3) |
| **Total deferred tax** | **(24)** | (11) |
| **Total income tax expense** | **475** | 347 |

[1] The year ended 31 December 2015 has been restated to reflect Institutional Asset Management as a discontinued operation. Refer to note H1 for more information.

## D: Other income statement notes continued

### D1: Income tax expense continued

*(b) Reconciliation of total income tax expense*

The income tax expense charged to profit or loss differs from the income tax expense that would apply if all of the Group's profits from the different tax jurisdictions had been taxed at the UK standard corporation tax rate. The difference in the effective rate is explained below:

| | | £m |
|---|---|---|
| | **Year ended 31 December 2016** | Year ended 31 December 2015 (Restated)[1] |
| **Profit before tax** | **1,216** | 1,201 |
| Tax at UK standard rate of 20% (2015: 20.25%) | **243** | 243 |
| Different tax rate or basis on overseas operations | **105** | 107 |
| Untaxed and low taxed income | **(121)** | (76) |
| Disallowable expenses | **103** | 42 |
| Adjustments to current tax in respect of prior years | **(20)** | (1) |
| Net movement on deferred tax assets not recognised | **30** | 8 |
| Effect on deferred tax of changes in tax rates | **21** | (8) |
| Adjustments to deferred tax in respect of prior years | **(2)** | (3) |
| Withholding taxes | **2** | 5 |
| Income tax attributable to policyholder returns | **115** | 25 |
| Other | **(1)** | 5 |
| **Total income tax expense** | **475** | 347 |

[1] The year ended 31 December 2015 has been restated to reflect Institutional Asset Management as a discontinued operation. Refer to note H1 for more information.

*(c) Income tax relating to components of other comprehensive income*

The total income tax expense relating to items recognised in other comprehensive income for the year comprises of the following:

| | | £m |
|---|---|---|
| | **Year ended 31 December 2016** | Year ended 31 December 2015 |
| Measurement gains on defined benefit plans | **(8)** | 1 |
| Property revaluation | **-** | 3 |
| **Income tax on items that will not be reclassified subsequently to profit or loss** | **(8)** | 4 |
| Available-for-sale reserves | **(2)** | - |
| Share-based payments | **(6)** | - |
| **Income tax on items that may be reclassified subsequently to profit or loss** | **(8)** | - |
| **Income tax expense relating to components of other comprehensive income** | **(16)** | 4 |

*(d) Reconciliation of income tax expense in the IFRS income statement to income tax on adjusted operating profit*

| | | £m |
|---|---|---|
| | **Year ended 31 December 2016** | Year ended 31 December 2015 |
| **Income tax expense - excluding discontinued operation** | **475** | 347 |
| **Income tax expense - discontinued operation** | **29** | 27 |
| **Tax on adjusting items** | | |
| Goodwill impairment and impact of acquisition accounting | **19** | 20 |
| Profit on disposal of subsidiaries, associates and strategic investments | **(3)** | 1 |
| Short-term fluctuations in investment return | **-** | 22 |
| Tax on dividends declared to holders of perpetual preferred callable securities recognised in equity | **(3)** | (6) |
| Institutional Asset Management equity plans | **6** | 5 |
| Old Mutual Wealth business transformation costs | **19** | 18 |
| **Total tax on adjusting items** | **38** | 60 |
| Income tax attributable to policyholders returns | **(144)** | (31) |
| **Income tax on adjusted operating profit** | **398** | 403 |

## E: Analysis of financial assets and liabilities

### E1: Loans and advances

The Group extends advances to individuals and to the corporate, commercial and public sectors. The majority of loans and advances are in respect of Nedbank which represents 97% (£ 41,703 million); (2015: 96% (£ 29,873 million)) of the carrying value of the Group's loans and advances. Nedbank assesses its loan portfolios for impairment at each financial reporting date and manages its exposure to loans and advances through a documented credit approval processes.

Emerging Markets has lending exposure, net of credit impairment provisions, of £1,210 million (2015: (£912 million) through its non-wholly owned subsidiaries in South Africa, Namibia, Kenya and Zimbabwe. Credit loss ratios are monitored at each individual business unit level.

| | | £m |
|---|---|---|
| | **At 31 December 2016** | At 31 December 2015 |
| Home loans | **8,772** | 6,409 |
| Commercial mortgages | **9,085** | 6,098 |
| Unsecured retail lending | **2,215** | 1,558 |
| Other term loans | **6,068** | 3,961 |
| Other loans to clients | **7,099** | 5,663 |
| Net finance leases and instalment debtors | **6,221** | 4,377 |
| Deposits placed under reverse purchase agreements | **923** | 884 |
| Overdrafts | **1,182** | 751 |
| Preference shares and debentures | **1,184** | 907 |
| Credit cards | **877** | 616 |
| Factoring accounts | **296** | 234 |
| Policyholder loans | **278** | 241 |
| Properties in possession | **15** | 16 |
| Remittances in transit | **22** | 9 |
| **Gross loans and advances** | **44,237** | 31,724 |
| | | |
| **Provisions for impairment** | **(1,129)** | (759) |
| Specific provisions | **(820)** | (529) |
| Portfolio provisions | **(309)** | (230) |
| | | |
| **Total net loans and advances** | **43,108** | 30,965 |

**E: Analysis of financial assets and liabilities** continued

**E2: Borrowed funds**

The Group raises funding in the normal course of business. The borrowed funds raised for the banking business support the lending and banking operations of the Group. Other borrowed funds raised support the general funding needs of the Group and the expense has been recognised as finance costs.

The table below presents an analysis of the Group's borrowed funds net of any holdings that are principally held by the policyholder funds.

**Summary of Borrowed Funds**

£m

| Type of securities | Notes | Old Mutual plc | Emerging Markets | Nedbank | Institutional Asset Management[3] | At 31 December 2016 |
|---|---|---|---|---|---|---|
| Senior debt securities and term loans | | - | 287 | 2,088 | - | 2,375 |
| Floating rate notes | E2(a)(i) | - | - | 1,046 | - | 1,046 |
| Fixed rate notes | E2(a)(ii) | - | - | 1,042 | - | 1,042 |
| Term loans | E2(a)(iii) | - | 287 | - | - | 287 |
| Revolving credit facilities | E2(b) | - | 34 | - | - | 34 |
| Mortgage-backed securities | E2(c) | - | - | 153 | - | 153 |
| Subordinated debt securities | E2(d) | 1,017 | 348 | 767 | - | 2,132 |
| **Total Borrowed funds** | | 1,017 | 669 | 3,008 | - | 4,694 |
| **Other instruments treated as equity for accounting purposes** | | | | | | |
| £273 million perpetual preferred callable securities at 6.38%[1] | | 273 | - | - | - | 273 |
| **Total book value of Group debt[2]** | | 1,290 | 669 | 3,008 | - | 4,967 |

1 Perpetual preferred callable securities of £273 million; (December 2015: £273 million) are classified as non-banking.

2 The nominal value of non-banking related "Group debt" is £1,685 million (December 2015: £1,710 million).

3 No borrowed funds are reflected in Institutional Asset Management at 31 December 2016 as it has been classified as held for sale. Refer to note H2 for more information.

£m

| Type of securities | Notes | Old Mutual plc | Emerging Markets | Nedbank | Institutional Asset Management | At 31 December 2015 |
|---|---|---|---|---|---|---|
| Senior debt securities and term loans | | 112 | 198 | 1,331 | - | 1,641 |
| Floating rate notes | E2(a)(i) | - | - | 571 | - | 571 |
| Fixed rate notes | E2(a)(ii) | 112 | - | 760 | - | 872 |
| Term loans | E2(a)(iii) | - | 198 | - | - | 198 |
| Revolving credit facilities | E2(b) | - | - | - | 61 | 61 |
| Mortgage-backed securities | E2(c) | - | - | 97 | - | 97 |
| Subordinated debt securities | E2(d) | 986 | 251 | 488 | - | 1,725 |
| **Total Borrowed funds** | | 1,098 | 449 | 1,916 | 61 | 3,524 |
| **Other instruments treated as equity for accounting purposes** | | | | | | |
| £273 million perpetual preferred callable securities at 6.38% | | 273 | - | - | - | 273 |
| **Total book value of Group debt** | | 1,371 | 449 | 1,916 | 61 | 3,797 |

Total borrowed funds can be further analysed between non-banking and banking as follows:

£m

| | At 31 December 2016 | | | At 31 December 2015 | | |
|---|---|---|---|---|---|---|
| Type of security | Non-banking | Banking[1] | Total | Non-banking | Banking[1] | Total |
| Senior debt securities and term loans | 96 | 2,279 | 2,375 | 160 | 1,481 | 1,641 |
| Revolving credit facilities | 16 | 18 | 34 | 61 | - | 61 |
| Mortgage-backed securities | - | 153 | 153 | - | 97 | 97 |
| Subordinated debt securities | 1,365 | 767 | 2,132 | 1,237 | 488 | 1,725 |
| **Total Borrowed funds** | 1,477 | 3,217 | 4,694 | 1,458 | 2,066 | 3,524 |

1 Borrowed funds identified as Banking are those which are directly related to the lending and banking businesses in Nedbank and Emerging Markets.

***Maturity analysis***

The table below is a maturity analysis of the liability cash flows based on contractual maturity dates for borrowed funds. Maturity analysis is undiscounted and based on year-end exchange rates.

| | | | | | **£m** |
|---|---|---|---|---|---|
| | **Old Mutual plc** | **Emerging Markets** | **Nedbank** | **Institutional Asset Management** | **At 31 December 2016** |
| Less than 1 year | **75** | **59** | **-** | **-** | **134** |
| Greater than 1 year and less than 5 years | **782** | **235** | **-** | **-** | **1,017** |
| Greater than 5 years | **592** | **614** | **-** | **-** | **1,206** |
| **Total non-banking** | **1,449** | **908** | **-** | **-** | **2,357** |
| Less than 1 year | **-** | **115** | **370** | **-** | **485** |
| Greater than 1 year and less than 5 years | **-** | **118** | **1,587** | **-** | **1,705** |
| Greater than 5 years | **-** | **5** | **1,115** | **-** | **1,120** |
| **Total banking** | **-** | **238** | **3,072** | **-** | **3,310** |
| **Total** | **1,449** | **1,146** | **3,072** | **-** | **5,667** |

| | | | | | £m |
|---|---|---|---|---|---|
| | Old Mutual plc | Emerging Markets | Nedbank | Institutional Asset Management | At 31 December 2015 |
| Less than 1 year | 196 | 50 | - | 2 | 248 |
| Greater than 1 year and less than 5 years | 302 | 135 | - | 66 | 503 |
| Greater than 5 years | 1,147 | 493 | - | - | 1,640 |
| **Total non-banking** | 1,645 | 678 | - | 68 | 2,391 |
| Less than 1 year | - | 15 | 614 | - | 629 |
| Greater than 1 year and less than 5 years | - | 166 | 1,236 | - | 1,402 |
| Greater than 5 years | - | 17 | 973 | - | 990 |
| **Total banking** | - | 198 | 2,823 | - | 3,021 |
| **Total** | 1,645 | 876 | 2,823 | 68 | 5,412 |

***Interest rate profile***

The interest rate profiles of the Group's borrowed funds are analysed as follows:

| | | | | | **£m** |
|---|---|---|---|---|---|
| | **Old Mutual plc[1]** | **Emerging Markets** | **Nedbank** | **Institutional Asset Management** | **At 31 December 2016** |
| Fixed rate | **1,017** | **278** | **1,042** | **-** | **2,337** |
| Floating rate | **-** | **391** | **1,966** | **-** | **2,357** |
| **Total** | **1,017** | **669** | **3,008** | **-** | **4,694** |

| | | | | | £m |
|---|---|---|---|---|---|
| | Old Mutual plc[1] | Emerging Markets | Nedbank | Institutional Asset Management | At 31 December 2015 |
| Fixed rate | 1,098 | 218 | 760 | - | 2,076 |
| Floating rate | - | 231 | 1,156 | 61 | 1,448 |
| **Total** | 1,098 | 449 | 1,916 | 61 | 3,524 |

1 Old Mutual plc has cross currency interest rate swaps related to £500 million Tier 2 debt. Old Mutual plc receives fixed interest and pays floating interest.

**E: Analysis of financial assets and liabilities** continued

**E2: Borrowed funds** continued

***Currency exposure***

The currency exposures of the Groups borrowed funds are analysed as follows:

| | **Old Mutual plc** | **Emerging Markets** | **Nedbank** | **Institutional Asset Management** | **£m At 31 December 2016** |
|---|---|---|---|---|---|
| ZAR | **-** | **524** | **3,008** | **-** | **3,532** |
| GBP | **1,017** | **-** | **-** | **-** | **1,017** |
| USD | **-** | **101** | **-** | **-** | **101** |
| Other | **-** | **44** | **-** | - | **44** |
| **Total** | **1,017** | **669** | **3,008** | **-** | **4,694** |

| | Old Mutual plc | Emerging Markets | Nedbank | Institutional Asset Management | £m At 31 December 2015 |
|---|---|---|---|---|---|
| ZAR | - | 356 | 1,847 | - | 2,203 |
| GBP | 1,098 | - | - | - | 1,098 |
| USD | - | 55 | 69 | 61 | 185 |
| Other | - | 38 | - | - | 38 |
| **Total** | 1,098 | 449 | 1,916 | 61 | 3,524 |

***Analysis of security types***

*(a) Senior debt securities and term loans*

(i) Floating rate notes (net of Group holdings)

| | **Maturity date** | **At 31 December 2016** | £m At 31 December 2015 |
|---|---|---|---|
| **Banking - Nedbank Floating rate unsecured senior debt** | | | |
| R677 million at JIBAR + 1.25% | Repaid | **-** | 30 |
| R3,056 million at JIBAR + 0.80% | Repaid | **-** | 135 |
| R694 million at JIBAR + 0.75% | Repaid | **-** | 31 |
| R405 million at JIBAR + 1.30% | February 2017 | **22** | 18 |
| R1,035 million at JIBAR + 0.85% | March 2017 | **61** | 45 |
| R806 million at JIBAR + 0.90% | June 2017 | **48** | 35 |
| R786 million at JIBAR + 1.30% | August 2017 | **27** | 31 |
| R241 million at JIBAR + 1.12% | November 2017 | **14** | 11 |
| R472 million at JIBAR + 1.25% | February 2018 | **28** | 21 |
| R1,427 million at JIBAR + 1.30% | June 2018 | **85** | 63 |
| R1,427 million at JIBAR + 1.45% | February 2019 | **85** | - |
| R1,472 million at JIBAR + 1.45% | May 2019 | **149** | - |
| R612 million at JIBAR + 1.40% | August 2019 | **37** | - |
| R90 million at JIBAR + 1.45% | February 2020 | **5** | 4 |
| R80 million at JIBAR + 2.15% | April 2020 | **5** | 4 |
| R476 million at JIBAR + 1.55% | November 2020 | **28** | 21 |
| R830 million at JIBAR + 1.80% | February 2021 | **49** | - |
| R1,054 million at JIBAR + 1.80% | May 2021 | **88** | - |
| R650 million at JIBAR + 1.30% | June 2021 | **38** | 29 |
| R287 million at JIBAR +1.75% | August 2021 | **17** | - |
| R12 million at JIBAR + 1.55% | February 2022 | **1** | 1 |
| R270 million at JIBAR + 2.00% | February 2023 | **16** | - |
| R528 million at JIBAR + 2.00% | May 2023 | **32** | - |
| R1,980 million at JIBAR + 2.00% | February 2025 | **118** | 88 |
| R500 million at JIBAR + 2.10% | April 2026 | **30** | 22 |
| R750 million at JIBAR + 2.25% | May 2026 | **45** | - |
| R302 million at JIBAR + 2.20% | July 2026 | **18** | - |
| | | **1,046** | 589 |
| Less: floating rate notes held by other Group companies | | **-** | (18) |
| **Total floating rate notes** | | **1,046** | 571 |

All floating rate unsecured senior debt are non-qualifying for the purposes of regulatory tiers of capital.

(ii) Fixed rate notes (net of Group holdings)

| | Maturity date | At 31 December 2016 £m | At 31 December 2015 £m |
|---|---|---|---|
| **Non-banking - Old Mutual plc** | | | |
| £112 million at 7.13% | Repaid | **-** | 112 |
| **Total non-banking fixed rate unsecured senior debt** | | **-** | 112 |
| | | | |
| **Banking - Nedbank Fixed rate unsecured senior debt** | | | |
| R1,137 million at 9.36% | Repaid | **-** | 51 |
| R151 million at 6.91% | Repaid | **-** | 7 |
| R1,273 million at 11.39% | September 2019 | **80** | 60 |
| R380 million at 9.26% | June 2020 | **23** | 17 |
| R1,888 million at 8.92% | November 2020 | **112** | 83 |
| R855 million at 9.38% | March 2021 | **52** | 38 |
| R417 million at 10.68% | May 2021 | **25** | - |
| R500 million at 9.29% | June 2021 | **30** | 22 |
| R215 million at 8.79% | February 2022 | **13** | 10 |
| R280 million at 9.64% | June 2022 | **17** | 12 |
| R250 million at 10.66% | February 2023 | **15** | - |
| R334 million at 10.01% | August 2023 | **21** | - |
| R952 million at 10.07% | November 2023 | **57** | 42 |
| R391 million at 9.73% | March 2024 | **24** | 18 |
| R660 million at zero coupon | October 2024 | **18** | 11 |
| R2,607 million at 9.44% | February 2025 | **159** | 118 |
| R884 million at 10.69% | November 2025 | **53** | 39 |
| R800 million at 9.95% | April 2026 | **48** | 36 |
| R360 million at 11.15% | May 2026 | **22** | - |
| R1,739 million at 10.36% | June 2026 | **103** | 77 |
| R423 million at 10.50% | July 2026 | **26** | - |
| R2,000 million at 10.63% | July 2027 | **124** | 92 |
| R666 million at 10.94% | November 2027 | **40** | 30 |
| | | **1,062** | 763 |
| Less: Fixed rate notes held by other Group companies | | **(20)** | (3) |
| **Total banking fixed rate unsecured senior debt (net of Group holdings)** | | **1,042** | 760 |
| **Total fixed rate notes** | | **1,042** | 872 |

All fixed rate notes are non-qualifying for the purpose of regulatory tiers of capital.

**E: Analysis of financial assets and liabilities** continued

**E2: Borrowed funds** continued

*(a) Senior debt securities and term loans* continued

(iii) Term loans

| | Maturity date | At 31 December 2016 £m | At 31 December 2015 £m |
|---|---|---|---|
| **Emerging Markets Floating rate loans** | | | |
| $7 million at 3 month LIBOR + 7.50%[2] | Repaid | **-** | 5 |
| $5 million at 3 month LIBOR + 7.50%[2] | Repaid | **-** | 3 |
| $5 million at 3 month LIBOR + 7.50%[2] | Repaid | **-** | 3 |
| KES451 million at KBRR + 3.87%[1] | Repaid | **-** | 3 |
| KES450 million rate at GOK 182 days TB + 2.50%[1] | May 2017 | **3** | - |
| R1,500 million at JIBAR + 2.95%[1] | June 2017 | **94** | 70 |
| R800 million at JIBAR + 2.75%[1] | July 2018 | **47** | 35 |
| KES75 million rate at KBRR + 3.78%[1] | November 2019 | **1** | - |
| $65 million at 3 month JIBAR + 2.80%[2] | December 2020 | **55** | - |
| KES954 million rate at KBRR + 3.78%[1] | August 2021 | **7** | - |
| $31 million at 3 month LIBOR plus 3.50%[2] | September 2021 | **25** | - |
| **Emerging Markets Fixed rate loans** | | | |
| KES1,000 million at 12.50%[2] | Repaid | **-** | 7 |
| KES225 million at 11.70%[1] | Repaid | **-** | 1 |
| KES150 million at 5.00%[1] | Repaid | **-** | 1 |
| KES2,000m at 13.00%[2] | July 2017 | **17** | 13 |
| $2 million at 8.24%[1] | August 2017 | **2** | 3 |
| $6 million at 8.72%[1] | September 2017 | **5** | 9 |
| $3 million at 5.00%[1] | December 2017 | **2** | - |
| KES101 million at 13.00%[1] | June 2018 | **1** | - |
| KES102 million at 13.50%[1] | June 2018 | **1** | - |
| KES607 million at 12.50%[1] | December 2018 | **5** | - |
| KES411 million at 11.50%[1] | April 2020 | **3** | 3 |
| KES474 million at 9.20%[1] | August 2020 | **4** | 8 |
| $6 million at 8.31%[1] | May 2020 | **5** | 5 |
| KES200 million at 5.00%[1] | July 2022 | **2** | 2 |
| $15million at 8.75%[2] | August 2022 | **12** | 11 |
| $3 million at 12.00%[1] | September 2022 | **3** | 3 |
| $4 million at 6.50%[2] | June 2023 | **3** | 3 |
| $4 million at 6.50%[2] | June 2023 | **3** | 3 |
| $6 million at 6.50%[2] | June 2023 | **5** | - |
| $8 million at 10.00%[1] | December 2023 | **7** | 7 |
| | | **312** | 198 |
| Less: Term loans held by other Group companies[2] | | **(25)** | - |
| **Total term loans and other loans** | | **287** | 198 |
| Analysed as: | | | |
| [1] Banking | | **192** | 150 |
| [2] Non-banking | | **120** | 48 |
| **Total term loans and other loans** | | **312** | 198 |

*(b) Revolving credit facilities*

| | Maturity date | At 31 December 2016 | At 31 December 2015 |
|---|---|---|---|
| | | | £m |
| **Non-banking** | | | |
| **Institutional Asset Management** | | | |
| Fully undrawn $350 million facility at USD LIBOR + 1.25% (31 December 2015: $90 million) | Oct 2019 | **-** | 61 |
| **Emerging Markets** | | | |
| R3,125 million facility at 3 month JIBAR + 1.60% | Jan 2019 | **16** | - |
| **Banking - Emerging Markets** | | | |
| R1,200 million facility at 3 month JIBAR + 2.95% | July 2018 | **18** | - |
| **Total revolving credit facilities** | | **34** | 61 |

The Group has access to a £800 million (2015: £800 million) multi-currency revolving credit facility available to the Holding Company. £73 million facility matures in August 2019, a further £73 million of facility matures in August 2020 and the remaining £654 million of the facility matures in August 2021. At 31 December 2016 none of this facility was drawn.

In July 2015, Emerging Markets obtained access to a R1,200 million revolving credit facility which matures in July 2018. At 31 December 2016 R300 million (£18 million) of this facility was drawn (2015: Fully undrawn)

In December 2015, Emerging Markets obtained access to a R3,125 million revolving credit facility which matures in January 2019 with an option to renew for a further year. At 31 December 2016 R260 million (£16 million) of this facility was drawn (2015: Fully undrawn).

*(c) Mortgage-backed securities (net of Group holdings)*

| | Tier | Maturity date | At 31 December 2016 | At 31 December 2015 |
|---|---|---|---|---|
| | | | | £m |
| **Banking - Nedbank** | | | | |
| R161 million (class A2) at JIBAR + 1.25% | Tier 2 | Repaid | **-** | 7 |
| R900 million (class A3) at JIBAR + 1.54% | Tier 2 | October 2039 | **50** | 40 |
| R110 million (class B) at JIBAR + 1.90% | Tier 2 | October 2039 | **7** | 5 |
| R600 million JIBAR + 1.34% | Tier 2 | January 2028 | **30** | - |
| R300 million JIBAR + 1.54% | Tier 2 | January 2028 | **16** | - |
| R558 million at JIBAR + 1.20% | Tier 2 | February 2042 | **19** | 24 |
| R100 million at JIBAR + 1.45% | Tier 2 | February 2042 | **6** | 4 |
| R680 million at JIBAR + 1.55% | Tier 2 | February 2042 | **40** | 30 |
| R80 million at JIBAR + 2.20% | Tier 2 | February 2042 | **5** | 4 |
| R65 million at JIBAR + 3.00% | Tier 2 | February 2042 | **4** | 3 |
| | | | **177** | 117 |
| Less: Mortgage backed securities held by other Group companies | | | **(24)** | (20) |
| **Total mortgage-backed securities** | | | **153** | **97** |

**E: Analysis of assets and liabilities** continued

**E2: Borrowed funds** continued

*(d) Subordinated debt securities (net of Group holdings)*

| | Tier | Maturity date | At 31 December 2016 £m | At 31 December 2015 £m |
|---|---|---|---|---|
| **Banking - Nedbank** | | | | |
| $100 million at 3 month USD LIBOR | Tier 2 (secondary) | March 2022 | **81** | 69 |
| R2,000 million at JIBAR + 0.47% | Tier 2 | July 2022 | **120** | 89 |
| R1,800 million at JIBAR + 2.75% | Tier 2 | July 2023 | **108** | 80 |
| R1,200 million at JIBAR + 2.55% | Tier 2 | November 2023 | **71** | 53 |
| R450 million at JIBAR + 10.49% | Tier 2 | April 2024 | **27** | 20 |
| R1,737 million at 3 month JIBAR + 2.55% | Tier 2 | April 2024 | **105** | 78 |
| R300 million at JIBAR + 2.75% | Tier 2 | October 2024 | **18** | 13 |
| R225 million at JIBAR +2.75% | Tier 2 | January 2025 | **14** | 10 |
| R1,624 million at JIBAR + 3.5% | Tier 2 | July 2025 | **98** | 73 |
| R407 million at 11.29% | Tier 2 | July 2025 | **25** | 19 |
| R2,000 million at JIBAR + 4.00% | Tier 2 | September 2026 | **118** | - |
| | | | **785** | 504 |
| Less: Banking subordinated debt securities held by other Group companies | | | **(18)** | (16) |
| **Banking subordinated securities** | | | **767** | 488 |
| **Non-banking - Old Mutual plc** | | | | |
| £500 million at 8.00% | Tier 2 | June 2021 | **569** | 536 |
| £450 million at 7.88% | Tier 2 | November 2025 | **448** | 450 |
| | | | **1,017** | 986 |
| **Non-banking - Emerging Markets**[1] | | | | |
| R300 million at 9.26% | Tier 2 | November 2024 | **17** | 12 |
| R700 million at 3 month JIBAR + 2.20% | Tier 2 | November 2024 | **41** | 31 |
| R537 million at 3 month JIBAR + 2.30% | Tier 2 | March 2025 | **32** | 24 |
| R425 million at 9.76% | Tier 2 | March 2025 | **25** | 17 |
| R1,288 million at 3 month JIBAR + 2.25% | Tier 2 | September 2025 | **76** | 57 |
| R409 million at 10.32% | Tier 2 | March 2027 | **23** | 16 |
| R568 million at 10.90% | Tier 2 | September 2027 | **33** | 23 |
| R1,150 million at 10.96% | Tier 2 | March 2030 | **65** | 46 |
| R623 million at 11.35% | Tier 2 | September 2030 | **36** | 25 |
| | | | **348** | 251 |
| **Total subordinated debt securities** | | | **2,132** | 1,725 |

[1] All callable subordinated debt securities have a first call date five years before the maturity date.

## F: Non-financial assets and liabilities

### F1: Goodwill and other intangible assets

*Analysis of goodwill and other intangible assets*

This note shows the movements in cost, amortisation and impairment of goodwill and other intangible assets for the year ended 31 December 2016 and year ended 31 December 2015.

£m

| | Goodwill | | Present value of acquired in-force business development costs | | Software development costs | | Other intangible assets | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| **Cost** | | | | | | | | | | |
| Balance at beginning of the year | **3,129** | 2,756 | **982** | 1,107 | **598** | 669 | **710** | 402 | **5,419** | 4,934 |
| Acquisitions through business combinations[1] | **124** | 467 | **-** | - | **1** | - | **76** | 308 | **201** | 775 |
| Purchase price adjustments[2] | **(12)** | 22 | **-** | - | **-** | - | **17** | - | **5** | 22 |
| Additions | - | - | **-** | - | **132** | 72 | **9** | 9 | **141** | 81 |
| Disposal of interests in subsidiaries | **-** | (41) | **-** | (125) | **-** | (1) | **-** | (4) | **-** | (171) |
| Disposals or retirements | **-** | - | **-** | - | **(12)** | (8) | **-** | (1) | **(12)** | (9) |
| Transfer to assets held for sale[3] | **(1,561)** | (29) | **(80)** | - | **-** | - | **(72)** | - | **(1,713)** | (29) |
| Foreign exchange and other movements | **409** | (46) | **12** | - | **194** | (134) | **32** | (4) | **647** | (184) |
| **Cost at end of the year** | **2,089** | 3,129 | **914** | 982 | **913** | 598 | **772** | 710 | **4,688** | 5,419 |
| **Amortisation and impairment losses** | | | | | | | | | | |
| Balance at beginning of the year | **(617)** | (624) | **(751)** | (792) | **(403)** | (449) | **(372)** | (306) | **(2,143)** | (2,171) |
| Amortisation charge for the year | **-** | - | **(49)** | (58) | **(51)** | (49) | **(55)** | (70) | **(155)** | (177) |
| Impairment losses[4] | **(110)** | (23) | **-** | - | **(3)** | - | **-** | - | **(113)** | (23) |
| Disposal of interests in subsidiaries | **-** | **-** | **-** | 102 | **-** | 1 | **-** | - | **-** | 103 |
| Disposals or retirements | **-** | - | **-** | - | **10** | 7 | **-** | 1 | **10** | 8 |
| Transfer to assets held for sale[3] | **337** | 29 | **77** | - | **-** | - | **3** | - | **417** | 29 |
| Foreign exchange and other movements | **(81)** | 1 | **(9)** | (3) | **(121)** | 87 | **(22)** | 3 | **(233)** | 88 |
| **Accumulated amortisation and impairment losses at end of the year** | **(471)** | (617) | **(732)** | (751) | **(568)** | (403) | **(446)** | (372) | **(2,217)** | (2,143) |
| **Carrying amount** | | | | | | | | | | |
| Balance at beginning of the year | **2,512** | 2,132 | **231** | 315 | **195** | 220 | **338** | 96 | **3,276** | 2,763 |
| **Balance at end of the year** | **1,618** | 2,512 | **182** | 231 | **345** | 195 | **326** | 338 | **2,471** | 3,276 |

1 Goodwill acquired through business combinations for the year ended 31 December 2016 of £124 million relates to the acquisition of Landmark Partners (£111 million), AAM Advisory (£4 million), various acquisitions by the Old Mutual Private Client Advisors business (£8 million) and the acquisition of Banco Unico, SA (£1 million). Refer to note A2 for further information.

2 The purchase price adjustment for the year ended 31 December 2016 of £12 million relates to adjustments in connection with the acquisition of African Infrastructure Investment Managers (Pty) Limited that were identified by the Group in the 12 month period after acquisition and which comprises £17 million of other intangible assets identified subsequent to the initial calculation of goodwill less £5 million relating to an increase in the value of liabilities identified.

3 Amounts transferred to assets held for sale principally relate to the Institutional Asset Management (IAM) segment. Refer to note H2 for more details.

4 Of the impairment losses for the year ended 31 December 2016, £46 million relates to the disposal of Old Mutual Italy (note A2)), which completed on 9 January 2017, and £64 million relates to the Old Mutual Southern and Eastern Africa (OMSEA) Cash Generating Unit within Emerging Markets.

**F: Non-financial assets and liabilities** (continued)

**F1: Goodwill and other intangible assets** (continued)

*Segmental analysis of goodwill and other intangibles*

The following table shows a segmental analysis of the carrying amounts of goodwill and other intangible assets, together with amortisation and impairment charges, by operating segment at 30 June 2016 and 31 December 2015:

| | Goodwill and intangible assets (carrying amount) | | Amortisation | | Impairment | £m |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 | **2016** | 2015 |
| Emerging Markets | **461** | 415 | **25** | 28 | **67** | - |
| Old Mutual Wealth | **1,434** | 1,620 | **87** | 112 | **46** | - |
| Nedbank | **576** | 378 | **41** | 37 | **-** | - |
| Institutional Asset Management[1] | **-** | 863 | **2** | - | **-** | 23 |
| | **2,471** | 3,276 | **155** | 177 | **113** | 23 |

[1] Goodwill for the Institutional Asset Management segment was transferred to assets held for sale in the Consolidated Statement of Financial Position. Refer to note H2 for further details.

**F2: Non-controlling interests**

*(a) Profit or loss*

(i) Ordinary shares

The non-controlling interests' share of profit for the financial year has been calculated on the basis of the Group's effective ownership of the subsidiaries in which it does not own 100% of the ordinary equity. The principal subsidiaries where a non-controlling interest exists is Nedbank, the Group's South African banking business and OM Asset Management plc, the Group's US asset management business. For the year ended 31 December 2016 the non-controlling interests attributable to ordinary shares was £253 million (2015: £291 million).

(ii) Preferred securities

| | **At 31 December 2016** | At 31 December 2015 £m |
|---|---|---|
| **Nedbank** | | |
| R3,222 million (2015: 3,560 million) non-cumulative preference shares | **18** | 19 |
| R2,000 million (2015: nil) subordinated callable notes | **4** | - |
| | **22** | 19 |

(iii) Non-controlling interests - adjusted operating profit

The following table reconciles non-controlling interests' share of profit for the financial year to non-controlling interests' share of adjusted operating profit:

| **Reconciliation of non-controlling interests' share of profit for the financial year** | **Year ended 31 December 2016** | Year ended 31 December 2015 £m |
|---|---|---|
| The non-controlling interests share is analysed as follows: | | |
| Non-controlling interests – ordinary shares | **253** | 291 |
| Impact of acquisition accounting | **53** | **-** |
| Income attributable to Black Economic Empowerment trusts of listed subsidiaries | **10** | 15 |
| Attributable to Institutional Asset Management equity plans | **3** | 4 |
| **Non-controlling interests share of adjusted operating profit** | **319** | 310 |

The Group uses an adjusted weighted average effective ownership interests when calculating the non-controllable interest applicable to the adjusted operating profit of its Southern African banking businesses. These reflect the legal ownership of this business following the implementation for Black Economic Empowerment (BEE) schemes in 2005. In accordance with IFRS accounting rules the shares issued for BEE purposes are deemed to be, in substance, options. Therefore the effective ownership interest of the minorities reflected in arriving at profit after tax in the consolidated income statement is lower than that applied in arriving at adjusted operating profit after tax. In 2016 the increase in adjusted operating profit attributable to non-controlling interests as a result of this was £10 million (2015: £15 million).

*(b) Statement of financial position*

(i) Ordinary shares

| Reconciliation of movements in non-controlling interests | **At 31 December 2016** £m | At 31 December 2015 |
|---|---|---|
| Balance at beginning of the year | **1,982** | 1,867 |
| Non-controlling interests' share of profit | **253** | 291 |
| Non-controlling interests' share of dividends paid | **(149)** | (141) |
| Disposal of interest in OM Asset Management plc | **153** | 114 |
| Acquisition of businesses | **-** | 105 |
| Net disposal of interests | **-** | 72 |
| Foreign exchange and other movements | **534** | (326) |
| **Balance at end of the year** | **2,773** | 1,982 |

(ii) Preferred securities

| | **At 31 December 2016** £m | At 31 December 2015 |
|---|---|---|
| **Nedbank** | | |
| 358.3 million (2015: 358.3 million) non-cumulative preference shares | **272** | 272 |
| Repurchased by Nedbank subsidiaries | **(26)** | - |
| | **246** | 272 |
| R2,000 million Tier 1 perpetual subordinated instruments | **95** | - |
| **Total** | **341** | 272 |

Preferred securities are held at the value of consideration received less unamortised issue costs and are stated net of securities held by Group companies.

### Non-cumulative preference shares

These preference shares were issued by Nedbank Limited (Nedbank), the Group's banking subsidiary.

Each preference share confers on the holder the right to capital of the company in the form of a cash dividend prior to payment of dividends to any other class of shareholder. The rate is limited to 83,33% of the prevailing prime rate on a deemed value of R10 and is never compounded.

If a preference dividend is not declared, the dividend will not accumulate and will never become payable by the company, whether in preference to payments to any other class of share or otherwise.

Each preference share confers on the holder the right to a return of capital on the winding-up of the company prior to any payment to any other class of share, but holders are not entitled to any further participation in the profits, assets or any surplus assets of the company in such circumstances.

Preference shareholders are only entitled to vote during periods when a dividend or any part of it remains unpaid after the due date for payment or when resolutions are proposed that directly affect any rights attaching to the shares or the rights of the holders.

During the year, preference shares with a carrying value of £26 million were purchased by a subsidiary of Nedbank and were classified as treasury shares.

### Tier 1 perpetual subordinated instruments

On 20 May 2016, Nedbank Limited issued a R1,500 million new-style (Basel III-compliant) additional Tier 1 capital instrument at 3-month JIBAR + 7.0% with a call date of 21 May 2021.

On 25 November 2016, Nedbank Limited issued a R500 million new-style (Basel III-compliant) additional Tier 1 capital instrument at 3-month JIBAR + 6.3% with a call date of 26 November 2021.

These additional Tier 1 capital instruments represent perpetual, subordinated instruments, with no redemption date. The instruments are redeemable subject to regulatory approval at the sole discretion of the issuer, Nedbank Limited from the applicable call date and following a regulatory event or following a tax event. The payment of interest is at the discretion of the issuer and interest payments are non-cumulative. In addition, if certain conditions are reached the regulator may prohibit Nedbank from making interest payments. Accordingly the instruments are classified as equity instruments and disclosed as non-controlling interest.

### G: Other notes

### G1: Contingent liabilities

| | | £m |
|---|---|---|
| | **At 31 December 2016** | At 31 December 2015 |
| Guarantees and assets pledged as collateral security | **965** | 1,198 |
| Secured lending | **806** | 401 |
| Irrevocable letters of credit | **210** | 196 |
| Other contingent liabilities | **10** | 4 |

The Group has provided certain guarantees for specific client obligations, in return for which the Group has received a fee. The Group has evaluated the extent of the possibility of the guarantees being called on and has provided appropriately.

The Group, through its South African banking business, has pledged debt securities and negotiable certificates of deposit amounting to £1,128 million (2015: £681 million) as collateral for deposits received under re-purchase agreements. These amounts represent assets that have been transferred but do not qualify for derecognition under IAS 39. These transactions are entered into under terms and conditions that are standard industry practice to securities borrowing and lending activities.

*Contingent liabilities – tax*

The Revenue authorities in the principal jurisdictions in which the Group operates (South Africa, the United Kingdom and the United States) routinely review historic transactions undertaken and tax law interpretations made by the Group. The Group is committed to conducting its tax affairs in accordance with the tax legislation of the jurisdictions in which they operate. All interpretations made by management are made with reference to the specific facts and circumstances of the transaction and the relevant legislation.

There are occasions where the Group’s interpretation of tax law may be challenged by the Revenue authorities. The financial statements include provisions that reflect the Group’s assessment of liabilities which might reasonably be expected to materialise as part of their review. The Board is satisfied that adequate provisions have been made to cater for the resolution of tax uncertainties and that the resources required to fund such potential settlements are sufficient.

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

*Nedbank litigation*

There are a number of legal or potential claims against Nedbank Group Ltd and its subsidiary companies, the outcome of which cannot at present be foreseen.

The largest potential claim relates to Pinnacle Point Group Limited, where ABSA Bank Limited (ABSA) has initiated an action in the High Court against Nedbank Limited (Nedbank) for the sum of R773 million, where ABSA alleges that Nedbank had a legal duty of care to it in relation to certain single stock futures transactions.

In a matter relating to the same events, New Port Finance Company (Pty) Ltd and Winifred Trust have sued ABSA for R405 million and R65 million respectively, alleging that ABSA had a duty of care towards them. During November 2016 ABSA joined Nedbank as a third party to that action claiming that, should ABSA be held liable, then ABSA would be entitled to claim a contribution from Nedbank.

Nedbank's counsel is of the view that Nedbank has a strong case to successfully resist both matters.

*Consumer protection*

Old Mutual is committed to treating customers fairly and supporting its customers in meeting their lifetime goals and treating customers fairly is central to how our businesses operate. We routinely engage with customers and regulators to ensure that we meet this commitment, but there is the risk of regulatory intervention across various jurisdictions, giving rise to the potential for customer redress which can result in retrospective changes to policyholder benefits, penalties or fines. The Group monitors the exposure to these actions and makes provision for the related costs as appropriate.

On 3 March 2016, the UK Financial Conduct Authority (FCA) issued a report detailing its findings of their industry-wide thematic review on the fair treatment of long-standing customers invested in closed-book products sold by the life insurance sector (Thematic Review) and announced that it was initiating an investigation into a number of firms, including Old Mutual Wealth Life Assurance Limited (OMWLA), a subsidiary of Old Mutual Wealth, in relation to potential breaches of the FCA’s standards relevant to the matters covered by the Thematic Review. OWMLA is working with the FCA and is cooperating with its investigation, but as with any regulatory investigation of this nature it is difficult to predict when the investigation will be completed or its outcome and therefore no provision has been recognised in the financial statements for the year ended 31 December 2016.

*Implications of the Managed Separation strategy*

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

## G2: Businesses acquired during the year

The Group continued to expand operations in Africa and the United Kingdom through the following completed acquisitions:

### *(a) Acquisition of Banco Unico, SA*

On 3 October 2016 the Group acquired a 10.9% share in Banco Unico, SA to reach a controlling 50% plus one share (2015: 38.3% share). The acquiree is a banking entity in Mozambique and the acquisition, in line with the Group's strategy of expanding into the rest of Africa, was made by purchasing Banco Unico, SA shares from a third party.

The accounting related to the step up in ownership from 38.3% to 50% plus one share is such that it effectively requires a simultaneous sale of 38.3% followed by an acquisition of the fair value of 50% plus one share of the business. Consequently a loss of £11 million was realised on the transaction. Consistent with usual Group practice, this loss was recognised in profit or loss but excluded from the determination of AOP. As the Group now has a controlling interest of 50% plus one share, the financial results and position of Banco Unico, SA have been consolidated with effect from 3 October 2016.

The assets and liabilities acquired have been recorded at their fair values for purposes of the opening balance sheet and included in the consolidated accounts of the Group using the Group's accounting policies in accordance with IFRS.

The table below sets out the consolidated assets and liabilities acquired as a result of the acquisition of Banco Unico, SA:

| | | £m |
|---|---|---|
| | Acquiree's carrying amount | Fair value |
| **Assets** | | |
| Goodwill and other intangible assets | - | 8 |
| Property, plant and equipment | 6 | 6 |
| Deferred tax assets | 3 | 3 |
| Loans and advances | 188 | 188 |
| Investments and securities | 8 | 8 |
| Cash and cash equivalents | 30 | 30 |
| **Total assets** | **235** | **243** |
| **Liabilities** | | |
| Borrowed funds | (1) | (1) |
| Deferred tax liabilities | - | (2) |
| Amounts owed to bank depositors | (206) | (206) |
| Trade, other payables and other liabilities | (6) | (6) |
| **Total liabilities** | **(213)** | **(215)** |
| **Total net assets acquired** | **22** | **28** |
| | | |
| **Acquisition-date fair value of consideration transferred** | | **29** |
| Acquisition-date fair value of consideration held[1] | | 12 |
| Cash | | 5 |
| Share of non-controlling interests[2] | | 14 |
| Capitalised derivative financial instrument | | (2) |
| | | |
| **Goodwill recognised** | | **1** |

1 A £1 million loss was recognised in non-trading and capital items as a result of remeasuring to fair value the equity interest in Banco Unico, SA held by the Group before the business combination. In addition, a £10 million foreign currency translation reserve loss was recognised in profit or loss on completion of the step-up acquisition. Refer to note A2 for further information.

2 The Group elected to measure non-controlling interests at the proportionate share of the fair value of net assets.

The goodwill recognised at acquisition is attributable to the delivery of cost and revenue synergies that could not be linked to identifiable intangible assets.

There were no contingent consideration arrangements and indemnification assets recognised on the acquisition.

£2 million profit from operations and £2 million profit for the year have been included in the consolidated income statement since the acquisition date.

**G: Other notes** continued

## G2: Businesses acquired during the year (continued)

### (b) Other acquisitions

*AAM Advisory (AAM)*

On 16 March 2016, Old Mutual Wealth completed the acquisition of 100% of AAM, a Singapore based wealth advice company. The consideration payable was an initial SGD 14 million (£7 million) with additional potential deferred consideration of SGD 26 million (£13 million), which is subject to AAM meeting certain performance targets for the period from 2016 to 2018. Goodwill of £4 million and other intangible assets of £3 million were recognised as a result of the transaction.

*Old Mutual Private Client Advisors (PCA)*

During the second half of 2016, Old Mutual Wealth (OMW) completed the acquisition of a number of advisor businesses as part of the expansion of its PCA business that was launched in October 2015. The aim is to develop an OMW branded, employed adviser business focused upon servicing upper affluent and high-net worth clients, offering a restricted advice proposition focused upon OMW's investment solutions and platform. The total consideration payable was an initial £8 million with additional potential deferred consideration of £8 million, dependent upon meeting certain performance targets, generally relating to funds under management. Goodwill of £8 million and other intangible assets of £7 million were recognised as a result of the transaction. The deferred consideration was included in the calculation of goodwill recognised.

*Purchase of remaining stake in Credit Guarantee Insurance Company (CGIC)*

On 1 March 2016 Emerging Markets acquired the remaining 13.9% of the shares in CGIC for R190 million (£10 million) taking its share to 100%. This transaction has resulted in a debit being directly recognised in reserves of R78 million (£4 million), which is the excess of the consideration paid and the proportionate share of the net assets of CGIC acquired.

### (c) Acquisitions through businesses classified as held for sale

Acquisitions through businesses classified as held for sale are disclosed in note H2.

## G3: Events after the reporting date

*Old Mutual Wealth acquisition of Caerus Capital Group*

On 28 February 2017, Old Mutual Wealth announced that it had reached a conditional agreement to acquire the financial adviser network, Caerus Capital Group (Caerus). The proposed acquisition is subject to a number of conditions, including shareholder agreement and regulatory approval. The transaction is expected to complete in Q2 2017.

The acquisition will complement Old Mutual Wealth's existing controlled distribution footprint in the UK, which includes Intrinsic, and Old Mutual Wealth Private Client Advisers, the branded national adviser firm established in 2015. Caerus has more than 300 advisers that are authorised and are responsible for more than £4 billion of assets under advice.

*Old Mutual Wealth acquisition of Attivo Investment Management Limited*

During 2016, the Group entered into a purchase agreement to acquire Attivo Investment Management Limited ("AIM") from Attivo Group Limited. The purchase has received regulatory approval, and is expected to be completed in the first quarter of 2017.

*Repurchase of the outstanding Old Mutual plc perpetual preferred callable securities*

On 3 February 2017 the Group repurchased all of the £273 million Tier 1 preferred perpetual callable securities and paid cash from the Groups' existing resources. A £29 million loss, including accrued interest and the costs of acquiring the instruments, will be recognised directly in equity in the 2017 financial statements.

*Disposal of Old Mutual Wealth Italy*

On 9 January 2017, the Group completed the disposal of Old Mutual Wealth Italy, part of the Old Mutual Wealth business for a cash consideration of €278 million (£210 million net of costs) plus interest to completion.

A goodwill impairment loss of £46 million has been recognised in profit or loss as the net asset value of the business disposed of exceeds the expected net proceeds. The related assets and liabilities were classified as held for sale at 31 December 2016. Refer to note H1 for further information.

## H: Discontinued operations and disposal groups held for sale

### H1: Discontinued operations

On 9 March 2016, the Group announced its managed separation strategy, which included the phased reduction of the majority stake in OM Asset Management plc (OMAM) and in addition, on 31 May 2016, the Group sold its interest in Rogge Global Partners Limited (Rogge). These two businesses comprised one of the Group's reported segments, International Asset Management (IAM). For the year ended 31 December 2016, IAM has been classified as a discontinued operation. Comparative profit and loss information has been restated accordingly. This treatment is consistent with the requirements of IFRS, given the Group's stated strategic intentions. In addition, as it is probable that the reduction of the holding in OMAM, such that the Group loses control, will occur within twelve months of the reporting date, the assets and liabilities of this business have been disclosed as held for sale. Details relating to the financial position of IAM is included in held for sale assets and liabilities and are disclosed in note H2.

During the year ended 31 December 2015, a loss on disposal of £21 million was incurred as a result of the settlement of litigation arising on the disposal of the US Life in 2011 following a court order in favour of the plaintiff.

*(a) Income statement from discontinued operations*

£m

| | **Year ended 31 December 2016** | | | Year ended 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | **Institutional Asset Management** | **US Life** | **Total** | Institutional Asset Management | US Life | Total |
| Revenue | **503** | **-** | **503** | 497 | - | 497 |
| Expenses | **(399)** | **-** | **(399)** | (388) | - | (388) |
| Share of associated undertakings' and joint ventures' profit after tax | **11** | **-** | **11** | 8 | - | 8 |
| Profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments | **18** | **-** | **18** | 1 | (21) | (20) |
| **Profit/(loss) before tax from discontinued operations** | **133** | **-** | **133** | 118 | (21) | 97 |
| Income tax expense | **(29)** | **-** | **(29)** | (27) | - | (27) |
| **Profit/(loss) after tax from discontinued operations** | **104** | **-** | **104** | 91 | (21) | 70 |
| **Attributable to:** | | | | | | |
| Equity holders of the parent | **72** | **-** | **72** | 66 | (21) | 45 |
| Non-controlling interests - ordinary shares | **32** | **-** | **32** | 25 | - | 25 |
| | **104** | **-** | **104** | 91 | (21) | 70 |

*(b) Statement of comprehensive income from discontinued operations*

£m

| | **Year ended 31 December 2016** | | | Year ended 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | **Institutional Asset Management** | **US Life** | **Total** | Institutional Asset Management | US Life | Total |
| **Profit/(loss) after tax from discontinued operations** | **104** | **-** | **104** | 91 | (21) | 70 |
| **Items that may be reclassified subsequently to profit or loss** | | | | | | |
| Currency translation differences/exchange differences on translating foreign operations | **(3)** | **-** | **(3)** | 1 | - | 1 |
| Other movements | **-** | **-** | **-** | 4 | - | 4 |
| **Total comprehensive income for the financial year from discontinued operations** | **101** | **-** | **101** | 96 | (21) | 75 |

# Notes to the consolidated financial statements

For the year ended 31 December 2016

**H: Discontinued operations and disposal groups held for sale** (continued)

**H1: Discontinued operations** (continued)

*(c) Net cash flows from discontinued operations*

£m

| | Year ended 31 December 2016 | | | Year ended 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | **Institutional Asset Management** | **US Life** | **Total** | Institutional Asset Management | US Life | Total |
| Operating activities | **14** | **-** | **14** | 69 | (21) | 48 |
| Investing activities | **(172)** | **-** | **(172)** | 3 | - | 3 |
| Financing activities [1] | **203** | **-** | **203** | (64) | - | (64) |
| **Net cash flows from discontinued operations** | **45** | **-** | **45** | 8 | (21) | (13) |

[1] Excludes dividend and financing payments made to Old Mutual plc

**H2: Assets and liabilities held for sale**

£m

| **At 31 December 2016** | **Emerging Markets** | **Nedbank** | **Old Mutual Wealth** | **Institutional Asset Management** | **Total** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Goodwill and other intangible assets | **-** | **-** | **78** | **1,216** | **1,294** |
| Investment properties | **116** | **-** | **-** | **-** | **116** |
| Property, plant and equipment | **-** | **17** | **4** | **32** | **53** |
| Deferred tax assets | **-** | **-** | **3** | **247** | **250** |
| Investments in associated undertaking and joint ventures | **-** | **-** | **-** | **29** | **29** |
| Deferred acquisition costs | **-** | **-** | **63** | **32** | **95** |
| Investments and securities | **-** | **-** | **6,189** | **165** | **6,354** |
| Other assets | **-** | **-** | **127** | **155** | **282** |
| Cash and balances with central banks | **-** | **-** | **14** | **83** | **97** |
| **Total assets** | **116** | **17** | **6,478** | **1,959** | **8,570** |
| **Liabilities** | | | | | |
| Long-term business policyholder liabilities | **-** | **-** | **6,164** | **-** | **6,164** |
| Borrowed funds | **-** | **-** | **-** | **319** | **319** |
| Provisions | **-** | **-** | **3** | **3** | **6** |
| Deferred revenue | **-** | **-** | **5** | **-** | **5** |
| Deferred tax liabilities | **-** | **-** | **21** | **4** | **25** |
| Current tax payable | **-** | **-** | **-** | **67** | **67** |
| Other liabilities | **1** | **-** | **71** | **388** | **460** |
| **Total liabilities** | **1** | **-** | **6,264** | **781** | **7,046** |

£m

| At 31 December 2015 | **Emerging Markets** | **Nedbank** | **Old Mutual Wealth** | **Institutional Asset Management** | **Total** |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Goodwill and other intangible assets | - | - | - | 1 | 1 |
| Investment properties | 84 | - | - | - | 84 |
| Property, plant and equipment | - | - | 4 | 1 | 5 |
| Deferred acquisition costs | - | - | - | 2 | 2 |
| Other assets | - | - | - | 11 | 11 |
| Cash and balances with central banks | - | - | - | 20 | 20 |
| **Total assets** | 84 | - | 4 | 35 | 123 |
| **Liabilities** | | | | | |
| Other liabilities | - | - | - | 12 | 12 |
| **Total liabilities** | - | - | - | 12 | 12 |

### Institutional Asset Management

*Current period transactions*

On 9 March 2016, the Group announced its managed separation strategy, which included the phased reduction of the majority stake in OM Asset Management plc (OMAM). As such, the assets and liabilities of OMAM, part of the Institutional Asset Management segment, are classified as held for sale at 31 December 2016.

Further analysis of significant balances included in OMAM assets and liabilities held for sale are as follows:

(a) Goodwill and other intangible assets

As at 31 December 2016, the market value of the Group's investment in OMAM, based on its quoted share price, was £863 million, compared to a carrying value of £602 million. The Group has therefore concluded that the goodwill related to OMAM is not impaired.

(b) Deferred tax assets

In evaluating OMAM's ability to recover its deferred tax assets, management considers all available positive and negative evidence including the existence of cumulative income in the most recent financial years, changes in the business in which the OMAM operates, and the ability to forecast future taxable income. The weight given to the evidence is commensurate with the extent to which it can be objectively verified. The more negative evidence that exists, the more positive evidence that is necessary and the more difficult it is to support a conclusion that a valuation allowance is not needed. OMAM has three years of cumulative earnings as of December 31, 2016, 2015, and 2014. As of December 31, 2016, management believes it is more likely than not that the balance of the deferred tax asset will be realised based on forecasted taxable income.

(c) Investments and securities

Investments and securities of £165 million comprise listed pooled investments of £64 million and unlisted pooled investments of £101 million.

The classification of investments and securities, in terms of the fair value hierarchy described in note E2 of the 2016 Annual Report and Accounts is follows:

| | | | | £m |
|---|---|---|---|---|
| **At 31 December 2016** | **Total** | **Level 1** | **Level 2** | **Level 3** |
| Designated (fair value through profit or loss) | | | | |
| Investments and securities | **165** | **70** | **28** | **67** |

Investments and securities classified as Level 3 relate to timber and real estate assets held by funds of OMAM. Accounting standards require consideration of the effect of reasonable possible alternative assumptions on the fair value of Level 3 financial assets and liabilities. A 10% change to the significant unobservable inputs of the Level 3 investments and securities above is in the range of £6 million favourable and £6 million unfavourable.

There have been no transfers between Level 1 and Level 2 or between Level 2 and Level 3 during the year.

Of the £67 million Level 3 investments and securities, OMAM disposed of a £41 million timber investment in January 2017.

(d) Borrowed funds

In July, 2016 OMAM announced underwritten public offerings of $400 million aggregate principal amount of senior notes, consisting of $275 million of senior notes due 2026 (the Institutional Notes), and $125 million of senior notes due 2031 (the Retail Notes). The Institutional Notes will bear interest at a fixed rate of 4.8% per year, payable on a semi-annual basis.

The Retail Notes will bear interest at a fixed rate of 5.1% per year, payable on a quarterly basis. The Retail Notes are callable at par as of 1 August 2019.

### H: Discontinued operations and disposal groups held for sale continued

### H2: Assets and liabilities held for sale continued

#### (e) Acquisition of Landmark Partners LLC (Landmark)

On 18 August 2016, the Group's US listed subsidiary, OM Asset Management plc (OMAM), acquired a 60% stake in the equity share capital of Landmark in exchange for cash consideration of $242 million (£185 million) in cash with the potential for an additional payment of up to $225 million (£182 million) on or around 31 December 2018. As this potential additional payment is dependent on future service and other conditions, no amounts have been attributed to the consideration of the business. Certain key members of the management team of Landmark have retained the remaining 40% interest in the business as ownership units. Both the potential additional payment and the 40% ownership units held by management are recognised as share-based payment transactions due to service conditions and settlement features. These arrangements vest over varying increments from 31 December 2018 through 31 December 2024. At the date of acquisition, the Group's stake in OMAM's equity was 66%.

Landmark is based in the United States of America and is a leading global secondary private equity and property investment firm. OMAM financed the acquisition through the proceeds of various note offerings, in particular $275 million of 4.8% senior notes due 27 July 2026 and $125 million of 5.1% senior notes due 1 August 2031.

Subsequent to the acquisition, the Group decided to dispose of its holding in OMAM and consequently the goodwill recognised on this acquisition was transferred from goodwill and other intangible assets to assets held for sale in the Consolidated Statement of Financial Position.

The results from the business have been consolidated since the date of the acquisition and the table below sets out the consolidated assets and liabilities acquired:

| | | £m |
|---|---|---|
| | **Acquiree's carrying amount** | **Fair value** |
| **Assets** | | |
| Intangible assets | - | 65 |
| Property, plant and equipment | 4 | 4 |
| Cash and cash equivalents | 18 | 18 |
| Trade, other receivables and other assets | 7 | 7 |
| **Total assets** | **29** | **94** |
| **Liabilities** | | |
| Deferred revenue | (7) | (7) |
| Trade, other payables and other liabilities | (19) | (13) |
| **Total liabilities** | **(26)** | **(20)** |
| **Total net assets acquired** | **3** | **74** |
| **Total cash consideration paid** | | **185** |
| **Goodwill recognised** | | **111** |

The purchase price has been allocated based on a provisional estimate of the fair value of assets acquired and liabilities assumed at the date of acquisition determined in accordance to IFRS 3 'Business Combinations'. The provisional allocation required significant assumptions and the use of external expertise and it is possible that the preliminary estimates may change materially as the purchase price allocations are finalised. The accounting must be finalised within 12 months of the acquisition date.

The carrying value of assets and liabilities in Landmark's consolidated statement of financial position at acquisition date approximated the fair value of these items determined by the Group, with the exception of identified intangible assets of £65 million and a reduction in other liabilities of £6 million. Of the £65 million identified intangibles assets, £64 million relates to the value attributable to contractual relationships existing at the acquisition date to provide asset management advisory services and the remaining £1m relates to the Landmark trade name. The value of the asset management contracts was determined using the excess earnings method in which the value is equal to the present value of the after-tax cash flows attributable to the intangible asset. The preliminary useful life for the asset management contacts has initially been estimated to be 13.4 years.

Goodwill is calculated as the difference between the fair value of the consideration paid and the net value assigned to the identified assets and liabilities acquired and are attributable to the delivery of cost and revenue synergies that cannot be linked to identifiable intangible assets. Under US tax law, the goodwill and other intangibles recognised as a result of this acquisition is expected to be deductible for tax purposes over a period of 15 years.

Transaction costs incurred of £5 million relating to the acquisition have been recognised within other operating expenses in the consolidated income statement, but excluded from the determination of adjusted operating profit. From the date of acquisition to 31 December 2016, Landmark contributed a loss of £16 million to the profit after tax attributable to equity holders of OMAM, which includes amortisation of intangible assets recorded in purchase accounting and compensation expense for the arrangements with employees of Landmark noted above.

*Prior period transactions*

At 31 December 2015, the Group classified total assets of £35 million (comprising £20 million cash and cash equivalents and £10 million other assets) and total liabilities of £12 million as held for sale in relation to the disposal of Rogge Global Partners plc. This transaction completed on 31 May 2016.

### Emerging Markets

*Current and prior period transactions*

Emerging Markets has classified £116 million (2015: £84 million) of investment properties as held for sale. These transactions are expected to complete in the next 12 months. The investment properties form part of the policyholder assets and therefore have no impact on profit or loss of the Group.

### Nedbank

*Current period*

Following an internal review of its own office space requirements, Nedbank has identified buildings with a carrying value of £17 million (2015: £nil) that are no longer required and which are currently being marketed for sale.

### Old Mutual Wealth

*Current period*

On 9 August 2016, the Group announced that it had agreed to sell Old Mutual Wealth Italy, part of the Old Mutual Wealth business, to ERGO Italia (now renamed Phlavia Investimenti), subject to regulatory approval. From this date the business was disclosed as held for sale.

A goodwill impairment loss of £46 million has been recognised in profit or loss for the year ended 31 December 2016 as the net asset value of the business exceeded the net proceeds.

At 31 December 2016, the principal financial assets and liabilities included as held for sale were investments and securities of £6,189 million and investment contract liabilities of £6,164 million, all of which were classified as Level 1 in terms of the fair value hierarchy.

The sale completed on 9 January 2017.

*Current and prior period*

Old Mutual Wealth has also identified property, plant and equipment of £4 million (December 2016: £4 million) as held for sale.