News release

15 March 2018
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Old Mutual plc results for the year ending 31 December 2017

Old Mutual plc today publishes its results for the year ending 31 December 2017, as well as an update on its managed separation strategy which aimed to result in four strong separately listed businesses. For the purposes of this report, references to Old Mutual Emerging Markets (OMEM) and Old Mutual Wealth (OMW) relate to the performance and corporate activity of those businesses prior to the date of this report; references to Old Mutual Limited (OML) and Quilter plc (Quilter) relate to the future actions of those respective independent businesses following the completion of managed separation.

Bruce Hemphill, Group Chief Executive, said:

“We are delivering on both of the commitments we made in March 2016 when we announced the managed separation. First, as these results demonstrate, we have improved the performance of the underlying businesses and set them up for continued future growth. Second, we have carried out the preparation needed to give effect to the managed separation.

“The process has already delivered significant value through cost and debt reduction, and we are on track for material completion of the managed separation with the listings of Old Mutual Limited and Quilter within our expected timetable.

“A vast amount has been achieved over the past two years and I would like to pay tribute to the hard work of all my colleagues for getting us to this point. We are now focused on concluding the final processes associated with the listings, securing the shareholder and court approvals and addressing any remaining issues for the final steps of managed separation.”

Financial results ahead of expectations:

- Pre-tax adjusted operating profit (AOP) of £2.0 billion up 22% (2016: £1.7 billion)
- IFRS pre-tax profit for continuing operations of £617 million up 102% (2016: £306 million)
- IFRS profit after tax attributable to equity holders of the parent of £909 million up 59% (2016: £570 million)
- AOP earnings per share (EPS) of 24.3p up 25% (FY 2016: 19.4p), basic EPS of 19.3p up 61% (2016: 12.0p)
- 2017 second interim dividend of 3.57p per share up 5%; Full year dividend of 7.10p per share up 17%
- Adjusted Net Asset Value (ANAV) per share at 242.3p (2016: 228.6p)

All businesses have performed well:

- Old Mutual Emerging Markets AOP R13.3 billion, up 5% (2016: R12.7 billion)
- Nedbank reported AOP of R16.5 billion, up 4% (2016: R15.9 billion)
- Old Mutual Wealth reported AOP £363 million, up 40% (2016: £260 million), (including £101 million of net performance fees from the single strategy business)

Delivering the managed separation on schedule:

- Material completion of the managed separation on track for the end of 2018
- Old Mutual Emerging Markets and Old Mutual Wealth ready for independence with balance sheets finalised
- On track to deliver c. £95 million savings annually in central costs; detailed plans for wind-down of head office
- Overall managed separation one-off costs in line with original estimate of £230 million
- Improved quality of Residual plc NAV of £452 million (proforma at 31 December 2017)

Expected next steps to complete the managed separation and unlock the conglomerate discount:

- Finalisation of the regulatory and tax approvals, completion of the administration processes and addressing any remaining issues required to give effect to managed separation
- Publication of shareholder documentation
- Quilter and OML capital markets events
- Meetings for Old Mutual plc shareholder votes to approve finalisation of managed separation
- Court approval of the required steps, including a capital reduction
- Quilter plc listing expected to be coupled with an intended secondary offering of up to 9.6%: followed by OML listing
- Anticipated distribution of majority of the stake in Nedbank to OML shareholders targeted for approximately six months after OML Listing. OML to retain 19.9% of Nedbank post-distribution

Update on standalone businesses:

OML:

OML has an ambition to become a premium financial services group in Sub-Saharan Africa. It currently offers a broad spectrum of financial solutions to retail and corporate customers across key market segments in 17 countries. It is well-positioned in South Africa, Africa's largest financial services market, and Southern Africa while having exposure to key growth markets in East and West Africa.

Targets (extracted from OML business outlook):

- Results from Operations to grow at a CAGR of Nominal GDP + 2% over the three years to 2020. Nominal GDP growth is defined with reference to South Africa
- Return on Net Asset Value of average cost of equity + 4%
- R1.0 billion of pre-tax run-rate cost savings by end 2019, net of costs to achieve this
- OML SAM ratio of 155-175% (post-Nedbank distribution); OMLAC(SA) SAM ratio greater than 200%; OMLAC(SA) Insurance business solvency ratio 180%-210%
- Dividend policy: targeting FY ordinary dividends that are covered by Adjusted Headline Earnings between 1.75 and 2.25 times.

Quilter:

A leading Wealth Manager in the UK and selected offshore markets, providing advice-led investment solutions and access to investment platforms to over 900,000 customers, principally in the affluent segment. At Quilter's core is a multi-channel wealth proposition and strong investment performance driving integrated flows and long-term adviser and customer relationships.

Targets (extracted from Quilter business outlook):

- NCCF (excluding Heritage) of 5% of opening AuMA per annum over the medium term
- Subject to delivery of currently expected AuMA volumes and business mix, Quilter's overall annual rate of revenue margin decline should slow in the near-term and the revenue margin should become increasingly stable
- Operating margin, before interest costs, of 30 per cent for the year ending 31 December 2020 before implementation of any future optimisation initiatives
- Dividend policy: targeting a dividend pay-out range of 40 to 60% of post-tax operating profit. The first dividend payment which Quilter will make as a separately listed company is expected to be the final dividend in respect of the year ending 31 December 2018.

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Notes to the financial summary on the front two pages of this announcement

- Old Mutual Wealth, Nedbank and Institutional Asset management are classified as core continuing operations in determining the Group's adjusted operating profit. For the IFRS consolidated income statement these businesses are classified as discontinued operations, and are therefore excluded from IFRS profit before tax. 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.
- AOP is an Alternative Performance Measure (APM) used alongside 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 IFRS profit for a number of items as detailed in note C1 in the Old Mutual plc financial statements. 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, managed separation and business standalone costs recognised in the IFRS income statement have been excluded from the calculation of AOP on the basis that these items are one-off in nature and are not reflective of the underlying operating activity of the Group. Comparative information has not been restated.

  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, and where possible the Group seeks to minimise such changes in order to maintain consistency over time.

  In addition to IFRS profit, the Group uses a number of APMs to assess the results of the business. Some measures are applicable to the Group as a whole, such as AOP 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 APMs adopted by the Group and its businesses are included in pages 22 to 24.
- 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).
- References to Old Mutual Emerging Markets (OMEM) and Old Mutual Wealth (OMW) relate to the performance and corporate activity of those businesses prior to the date of this report; references to Old Mutual Limited (OML), incorporated and registered in South Africa and Quilter plc (Quilter), incorporated and registered in England and Wales relate to the future actions of those respective independent groups following the completion of Managed Separation.

Notes to editors

A webcast of the presentation on the results and Q&A will be broadcast live at 8:30 am UK time (10.30 am 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 81960004#:

UK/International	+44 (0) 333 300 0804
US	+1 631 913 1422
South Africa	+27 21 672 4118

Playback (available for 30 days from 15 March 2018), using pass-code 301219649#:

UK/International	+44 (0) 333 300 0819
South Africa	+ 27 21 672 4123

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 2017 and 2016, are also available from the Company's website.

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

Sterling exchange rates

		FY 2017	FY 2016	Appreciation/ (depreciation) of local currency against sterling
South African Rand	Average Rate	17.15	19.93	14%
	Closing Rate	16.76	16.96	1%
US Dollar	Average Rate	1.29	1.36	5%
	Closing Rate	1.35	1.23	(10)%

Chief Executive's review

Group Review and Business Model

Our strategy of managed separation aims to unlock and create significant long-term value for our shareholders which is currently trapped within the Group structure and to remove the costs arising from it. This structure inhibits the efficient management and funding of future growth plans for the individual businesses, restricting them from reaching their full potential. We intend to unlock value through the separation of the three underlying businesses – Old Mutual Emerging Markets (OMEM), Nedbank and Old Mutual Wealth (OMW), with OM Asset Management having already been separated from the Group.

To effect the managed separation, we intend to list two separate entities, on both the London and Johannesburg stock exchanges. One will consist principally of the OMW operations and on listing will be called Quilter plc (Quilter). The other will be the new South African holding company, Old Mutual Limited (OML), which will consist of OMEM, the Old Mutual holding in Nedbank and the residual Old Mutual plc.

Once the managed separation is complete, each business will: have its local regulator as its lead regulator; continued delivery of enhanced performance and allow the market to value it appropriately; be accountable directly to its shareholders for its level of returns and cash generation from capital employed; and have direct access to its natural shareholder base.

During the period of managed separation, our business model is to actively manage the separation of the underlying businesses to realise their full potential as standalone entities, in a manner that creates value for shareholders over time. Our focus during this period has been on three areas: ensuring the businesses are ready for separation; executing the transactions needed for managed separation and winding down the plc head office.

For the purposes of this report, references to OMEM and OMW relate to the performance and corporate activity of those businesses prior to the date of this report; references to OML and Quilter relate to the future actions of those respective independent groups following the completion of managed separation.

Business Review

Challenging macro conditions continued

The challenging macroeconomic conditions in our largest market of South Africa continued throughout 2017, with weakness in consumer and business confidence creating a tough environment for banking, long-term investment and savings. The South African government's sovereign and local currency credit ratings were downgraded in April and November, but markets rallied strongly in the second half. In February 2018 Cyril Ramaphosa was sworn in as the new President of South Africa. We expect that this will lead to a recovery in sentiment and confidence over time despite stretched public finances and governance challenges. In the UK the macro-environment was characterised by strong equity markets but weak currency, considerable political uncertainty around Brexit and the general election; and legislative and regulatory developments impacting financial services. In this context, our businesses have delivered resilient operational performances demonstrating the underlying strength of their franchises.

During the year, the average rand rate was 14% stronger against sterling compared to 2016, while the average USD rate against sterling was 5% stronger. The average of the FTSE 100 during the year was 14% higher; in the US, the average of the Russell 1000 Value was 14% higher; and the average of the South African JSE All Share was 6% higher.

Old Mutual's operating performance was ahead of our expectations. Adjusted Operating Profit (AOP) in reported currency was up 22% at £2.0 billion, up 7% in constant currency. AOP in 2016 was impacted by £31 million of MS costs which were not included in 2017. The IFRS pre-tax profit was up 102% at £617 million, benefiting from a profit of £164 million from the sale of OM Asset Management (OMAM) and the joint venture with Kotak in India. AOP excluding the Institutional Asset Management segment (consolidated for the first four months of the year until it was sold) was £2.0 billion up 29% on the prior year (£1.5 billion) on a reported basis and up 12% in constant currency.

Old Mutual Emerging Markets

OMEM seeks to become a premium African financial services group that offers a broad spectrum of financial solutions to retail and corporate customers across key market segments in 17 countries. OMEM primarily operates in seven segments and its lines of business include Life and Savings, Property and Casualty, Asset Management and Banking and Lending. It distributes products and services to customers through a multi-channel distribution network spanning tied and independent advisers, branches, bancassurance, direct and digital channels, and worksites.

IFRS profit after tax of R10.2 billion increased by 46% from R7.0 billion in the prior year. This was driven primarily by higher actual investment returns in South Africa and Zimbabwe. In the context of a tough economic and political landscape across several of OMEM's key markets for much of the year, including South Africa, Zimbabwe and Kenya, the business delivered resilient financial results with pre-tax AOP of R13.3 billion, up 5% on the prior year. The improvement in AOP was driven by good progress at Old Mutual Insure and Rest of Africa, reflecting signs of a turnaround.

Key adjusting items of AOP to IFRS profit include higher short-term fluctuations on the long-term investment return of R2.2 billion (2016: negative R550 million) driven by Zimbabwe's equity market performance and the profit on disposal of our joint venture in India of R1.4 billion. This was partly offset by the one-off managed separation and standalone costs totalling R237 million (2016: Rnil); and goodwill impairments of R1.5 billion (2016: R1.3 billion) relating to East Africa and AIVA in Latin America.

OMEM's underlying IFRS operating and administration expenses of R18.8 billion were up 4% on the prior year below SA inflation in 2017.

Gross flows of R214.4 billion were flat against the prior year, with growth in the Mass and Foundation Cluster and in Wealth and Investments. Life APE sales of R13.1 billion were 3% behind the prior year, mainly due to lower group assurance and annuity sales in Corporate. This was offset by strong corporate flows in the Malawi business.

Net client cash flow (NCCF) of R14.5 billion was R2.5 billion below the prior year, with a significant non-life outflow in Corporate as well as a R3.3 billion outflow from the Namibian government pension fund. NCCF in 2017 benefited from R3.0 billion of the Old Mutual International flows that were previously reported in OMW and comparatives have not been restated. Funds under Management increased to R1.2 trillion, up 10% against the prior year.

The Property & Casualty underwriting margin of 2.5% improved from 1.5% in the prior year. This was driven by a turnaround in OM Insure's underwriting result following an improvement in claims experience despite catastrophe losses as well as an improvement in the claims environment in East Africa following the remediation of the loss-making business.

Nedbank

Nedbank ranks as a top-5 bank by capital on the African continent and Ecobank, in which Nedbank maintains a 21.2% shareholding, ranks within the top-10 banks by assets on the African continent. Nedbank is South Africa's fourth-largest bank by market capitalisation, total assets and headline earnings. It is also a leading corporate bank and a market leader in commercial property and renewable energy finance and has a strong position in household motor finance, household deposits and card acquiring. It operates a unique asset management model as part of an integrated wealth management business. Through its own operations in SADC and Rest of Africa, and through its pan-African banking alliance with Ecobank, Nedbank provides the Group's customers access to Africa's largest banking network.

Nedbank produced a solid performance in a macro and political environment that has proved volatile and challenging. Headline earnings, including losses in associate income from ETI of R744 million, increased by 2.8% to R11.8 billion. This translated into an increase in DHEPS of 2.4% to 2,406 cents and an increase in HEPS of 2.2% to 2,452 cents.

As in prior periods results are highlighted both including and excluding ETI (referred to as managed operations) to provide a better understanding of the performance of the business given the volatility in ETI's results in 2016 and 2017. Managed operations produced headline earnings growth of 7.8% to R12.8 billion, with slower than expected revenue growth, more than offset by reduced impairments and good cost management.

ROE (excluding goodwill) and ROE remained flat at 16.4% and 15.3%, respectively. ROE in managed operations (excluding goodwill and ETI) also remained stable at 18.1%. ROA decreased 0.01% to 1.22% and excluding ETI, ROA in managed operations improved from 1.29% to 1.33%. Return on RWA increased from 2.23% to 2.30%.

Nedbank's CET1 and Tier 1 capital ratios of 12.6% and 13.4% respectively, average LCR for the fourth quarter of 116.2% and an NSFR of above 100%, are all Basel III compliant and are a reflection of a strong balance sheet. On the back of solid earnings growth in managed operations and a strong capital position, a final dividend of 675 cents was declared, an increase of 7.1%. The total dividend per share increased 7.1% to 1,285 cents, ahead of HEPS growth of 2.2%.

Old Mutual Wealth

Old Mutual Wealth is a leader in the UK and in selected offshore markets in wealth management, providing advice-led investment solutions and investment platforms to over 900,000 customers, principally in the affluent market segment. At the core of its proposition is a multi-channel wealth offering driving Integrated NCCF with leading advice and investment solutions.

OMW's IFRS post-tax profit was £99 million for 2017, compared to a loss of £4 million in 2016, principally due to the exceptional net performance fees in Single Strategy.

Reported OMW AOP of £363 million for 2017 was 40% higher than prior year (2016: £260 million), and includes net performance fees of £101 million in 2017 (2016: £26 million). Pre-tax AOP on a standalone basis (reflecting the perimeter of the business post-listing which excludes the results from the Single Strategy business) was up 18% to £209 million (2016: £177 million, which included a £27 million charge for restructuring Heritage fees).

Key reconciling items between the IFRS profit and pre-tax Adjusted Operating Profit (AOP) were UK Platform transformation costs of £74 million (2016: £102 million), one-off costs in 2017 relating to Managed Separation of £32 million (in 2016, these one-off costs were included within AOP), costs of £69 million associated with voluntary customer remediation in legacy products, the combined effects of goodwill amortisation and the impact of acquisition accounting totalling £103 million (2016: £140 million), and movements in policyholder tax.

Reported NCCF performance was strong at £10.9 billion, up 110% on prior year (2016: £5.2 billion) driven by buoyant market conditions and robust investor confidence. Excluding the flows for the Single Strategy business, the NCCF for the standalone business was also strong, increasing 91% to £6.3 billion (2016: £3.3 billion).

Reported Assets under Management/Administration (AuMA) was £138.5 billion, up 20% from the end of 2016 (31 December 2016: £115.3 billion excluding our divested Italian business (£6.2 billion) and South African branches (£2.0 billion) which have been transferred to OMEM). Of the 20% increase in AuMA, 10% (£11.0 billion) is due to positive market performance, 9% (£10.9 billion) resulted from positive NCCF and 1% (£1.3 billion) came from the acquisition of Caerus and Attivo.

The unaudited 31 December 2017 Solvency II ratio was 155%. Adjusting for the £200m subordinated debt security issued in February 2018 and the new term loan would result in a pro forma Solvency II ratio of 171% at 31 December 2017 (before any impact of the sale of Single Strategy).

We believe this includes sufficient free cash to complete all committed strategic investments (including the UK Platform Transformation Programme) and to allow for any further potential costs associated with the FCA's Thematic Review, including for any potential fine which may be levied by the FCA, in respect of which no provision has yet been made. The impact of this prudent policy is that Quilter expects to maintain a solvency position in excess of its policy in the near-term.

Managed Separation

Delivery on schedule

When we unveiled the managed separation strategy in March 2016, we said that we aimed for it to be materially complete by the end of 2018. Subject to addressing the remaining issues, we are on track to deliver the managed separation as planned.

As part of the listing of Quilter, we intend to hold a secondary offering of up to 9.6% with the proceeds to be retained by Old Mutual plc and its subsidiaries.

Work to wind-down the plc head office and remove circa £95 million of central costs is on track and progressing well. We continue to expect managed separation one-off costs to remain in line with our previous guidance. The quality of NAV has been materially improved as we have converted uncertainties within the assets into certain cash, and continue to manage contingent liabilities and unwind complex arrangements which existed within the Group structure. Subject to addressing the remaining issues we have estimated a cash cost of £130 million for this work.

Progress

The managed separation of the Group is complex. However the process has gained momentum and we achieved significant further progress in the second half of 2017 through the conclusion of numerous transactions and other actions to reduce the Group's liabilities and exposures. Since reporting our 2017 interim results, we have achieved a number of meaningful steps:

- In October 2017, the sale of the Indian joint venture with Kotak Mahindra was completed for net proceeds of £138 million
- In November 2017, we sold the second tranche of shares of OMAM to HNA Capital and the remaining 5.5% stake for combined proceeds of $345 million
- In November 2017, we reduced holding company debt by a further £548 million
- In December 2017, we agreed the sale of Old Mutual Wealth's UK Single Strategy Asset Management business to TA Associates and Single Strategy management for a consideration of c. £600 million
- In January 2018, we received approval from the Competition Tribunal for OML to acquire Old Mutual plc – one of the key regulatory approvals for the process to be successful

We have spent much of the past two years preparing the underlying businesses for independence and working with the management teams on improving the business performance. We have taken steps to build strong foundations for the future OML and Quilter entities and both of these businesses have good momentum, competitive strategies and excellent future growth prospects. New governance structures fit for listed companies have been established at both businesses.

Their standalone balance sheets have now been finalised so as to ensure both businesses are well capitalised to fund growth plans and sustainable future dividend policies.

A strong Board has been formed for OML, under the Chairmanship of Trevor Manuel. Eight new appointments have been made to complement members of the OMEM and Old Mutual Group Holdings Board (the holding company for OMEM and Nedbank which will be replaced by OML) who will also serve on the OML Board. The OML Board will bring a range of operational skills and listed financial services company experience that will be invaluable once the business is listed. We appointed a new Chief Executive, Peter Moyo, in June 2017 and the new Finance Director (and OML Finance Director designate), Casper Troskie, will take up his role on 1 April 2018. Until Casper Troskie joins, Ingrid Johnson, Group Finance Director, has also been acting as interim Chief Financial Officer of OMEM (and acting OML Finance Director designate). We have improved the governance structures of the business and worked with the business to ensure it has appropriate functions to operate as an independently listed entity.

OMEM conducted a review of its business strategy and geographical footprint. It now has a much more focused strategy. Going forward, OML has committed to improving the sustainable returns from its cash generative businesses in sub-Saharan Africa and creating value from its recently deployed capital in East and West Africa. The new management team's initial focus will be on three areas: consolidating and growing its positions in the South African segments where it is already a leader; improving the underperforming businesses of Old Mutual Insure, East Africa and the Wealth and Investment cluster in South Africa; and building a long term competitive advantage through winning the war for talent, refreshing its technology offering and becoming a cost leader. There has been good progress on these three areas already and OML is committing to deliver R1 billion of pre-tax run rate cost savings by the end of 2019, net of costs to achieve this.

In respect of Quilter, the executive management team and Board have been reshaped and strengthened in preparation for life as a listed standalone entity. Tim Tookey was appointed as Chief Financial Officer in May 2017, Mark Satchel was appointed as Corporate Finance Director in May 2017, and new appointments were made in 2016 and 2017 to the roles of Chief Operating Officer, Chief Risk Officer, Chief Information Officer and a new HR Director. Glyn Jones was appointed Chairman of the Board in 2016 and a further six new non-executive directors have also been appointed during late 2016 and 2017.

Quilter's business model is to be a modern, integrated wealth manager. In September 2017, operations were restructured to create a separate distinct multi-asset capability at the core of the offering. In December 2017, agreement was reached to sell its Single Strategy asset management business to the Single Strategy management team and funds managed by TA Associates for approximately £600 million. This value is subject to a number of potential price adjustments depending on the net asset value of the business and a number of other factors at the disposal date. This transaction is expected to close in the second half of 2018. Following completion of the disposal of the Single Strategy business, Quilter will consider a distribution from the surplus proceeds to its shareholders.

The functions needed for the business to be operating as a standalone listed entity are now fully functional.

We are prepared for the final wind-down of the plc head office in London. As part of this process, we expect around half of the remaining c.130 head office staff to leave by the end of June, with a further 40 by September and a skeleton staff remaining into 2019. We are on track to achieve the stated operational cost savings of c. £95 million per annum by the end of 2018. We have also reduced Group exposures by de-risking the group pension scheme, mitigating various contingent exposures and converting assets to cash. Following the demerger, Old Mutual plc will become a subsidiary of Old Mutual Limited alongside other operating subsidiaries. Old Mutual plc will need to satisfy the UK Court that it will continue to hold sufficient liquid, high quality assets to meet its liabilities and deal with any contingencies, plus adequate headroom, taking into account relevant insurances.

Next steps

After addressing the remaining issues, we expect that the legal process of separation will include, inter alia, the issuance of shareholder documentation in relation to managed separation, a UK Court approved scheme of arrangement process – which will facilitate the demerger of Quilter, the creation of Old Mutual Limited as the holding company of Old Mutual plc, including its residual assets and liabilities, and a reduction in the capital of Old Mutual plc. Old Mutual plc will become a subsidiary of OML, alongside the operating businesses. Quilter and OML will also hold capital markets events.

The final step of the managed separation will be the anticipated distribution of the majority of OML's holding in Nedbank Group to its shareholders. The timing of the distribution will be determined by the OML Board but it is expected to be within approximately six months of the listing of OML.

OML will maintain a holding of 19.9% in Nedbank, forming part of Old Mutual Life Assurance Company of South Africa's capital base. The 19.9% shareholding was determined through negotiations with Nedbank and discussions with the South African Reserve Bank in order to provide stability to the broader financial system and the Nedbank and OML investor base during managed separation, whilst also supporting our ongoing commercial arrangements.

OML is committed to being a significant holder of Nedbank while retaining a right to review its precise holding as appropriate from time to time, in accordance with the terms outlined in a new Nedbank Relationship Agreement, which is expected to be finalised and executed in the coming weeks.

Capital management policy

In March 2016 we announced a new capital management policy for the period of the managed separation. This policy has provided the flexibility to balance the requirements of our multiple stakeholders and our businesses as they prepare for managed separation by enabling them to both continue to invest in order to drive enhanced performance and strengthen their balance sheets in preparation for being standalone businesses. In line with this policy we have today announced a second interim dividend of 3.57p, the rand equivalent is 66.50 cents. This will be paid on 30 April 2018. The total full year dividend for 2017 is 7.10p (2016: 6.06p).

The proposed future Capital Management Policy of the independent Old Mutual Limited and Quilter businesses are presented in their respective Business Reviews on pages 35 and 51.

The capital management policy is intended to remain in place until Old Mutual plc shares are no longer listed.

Adjusted plc NAV per ordinary share

The Adjusted Net Asset Value (ANAV) of Old Mutual plc was £11,952 million at 31 December 2017 (31 December 2016: £11,271 million), equivalent to 242.3 pence per share (31 December 2016: 228.6 pence per share). The increase in the ANAV per share largely reflects the OMEM covered business MCEV earnings (12.8p); the impact of the constant currency change in the share price of Nedbank (5.6p), reduced by the Old Mutual plc cash dividends paid in the year (-6.9p).

Board changes

On 29 June 2017, we announced that Dr Nkosana Moyo was stepping down from the Board of Old Mutual plc in order to pursue his political interests. As a result, Dr Alan Gillespie, the Senior Independent Director, joined the Group Audit Committee with effect from 1 August 2017. Nonkululeko Nyembezi stepped down from the Old Mutual plc Board on 31 December 2017. Ms Nyembezi joined the Old Mutual plc Board in 2012 and had also served on the Board Risk and Nomination and Governance Committees since 2013.

Following the finalisation of the managed separation, including approval by shareholders and the court, the Boards of OML and Quilter will have the primary responsibility for the governance of their respective groups. Accordingly, the current governance structure of Old Mutual plc will be replaced and the Board will have fewer members. Until the managed separation transactions are completed, the current Board will continue as presently constituted, with the appropriate resolutions regarding the Directors' annual reappointment being proposed at the Company's AGM.

Outlook

The global economy is recovering which provides a positive backdrop for all of our businesses. In our key market of South Africa, we expect sentiment and confidence to improve following the appointment of the new South African president and we expect improved GDP growth in the coming year. In the UK, while there remains uncertainty over the outcome of the Brexit negotiations, the economy continues to grow. Global markets have performed strongly which combined with geopolitical developments, means that there are downside risks to our businesses.

Full outlooks for the three underlying businesses are given in their respective business review sections of the annual report and accounts. The following are extracts of current trading commentaries from each:

OML's outlook: The OML Group's continuing operations have started the year on a positive note. Results from operations are trading in line with expectations since the 2017 year end. Nedbank reported its annual results on Friday 2 March 2018, and further details are available on its website.

Quilter: Quilter has continued to trade in line with expectations since the year end. Overall, we continue to remain confident in Quilter's prospects and it is anticipated that the next trading update will be for the first quarter of 2018, which is expected to be published in April 2018.

The managed separation process has already delivered significant value through the reduction in plc debt and in central costs. We believe that further value will be delivered once the managed separation is completed through the following developments:

- The removal of the conglomerate discount
- c.£95 million of savings in central costs
- Continued improvement in the performance of underlying businesses
- Each business accessing its natural shareholder base and achieving appropriate valuations
- Each business accountable to its shareholders for returns and cash generation from capital employed
- And will have its local regulator as its lead regulator

Old Mutual plc's next update will be at our Annual General Meeting on 30 April 2018.

Bruce Hemphill
Group Chief Executive

Review of financial performance

Analysis of performance for the year ended 31 December 2017

2017 IFRS results

IFRS profit after tax attributable to equity holders was £909 million in 2017 compared to £570 million in 2016. This result includes the £107 million benefit from the weakness in sterling compared to the prior year. Excluding this impact, the IFRS profit attributable to ordinary equity holders is up 34% reflecting higher profits in Old Mutual Wealth, as a result of exceptional net performance fees in its Single Strategy business and higher investment returns in OMEM due to Zimbabwe's significant equity market performance. Zimbabwean equity markets have fallen by more than 10% in the first two months of 2018.

An overview of the financial performance of Old Mutual Emerging Markets (OMEM), Nedbank and Old Mutual Wealth (OMW) is set out in the Chief Executive Review. Detailed financial reviews of these businesses are set out later in this document and an overview of plc Head Office, taxation and non-controlling interests (NCI) is included on page 11.

Alternative performance measures

In addition to IFRS profit, the consolidated Group uses a number of Alternative Performance Measures (APMs) to assess the performance of the business. Some are applicable to the Group as a whole, such as Adjusted Operating Profit (AOP). Others are more specific to the business lines within the component businesses, for example Net Client Cash Flows (NCCF) 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 on pages 22 to 24.

The Group Finance Director's review includes a reconciliation between AOP and IFRS profit for each of the Group's businesses. Further details of the adjusting items between IFRS and AOP are provided in the basis of preparation and Note C1 of the Old Mutual plc Financial Statements.

2017 AOP Results

The 2017 pre-tax AOP for the year of £2,037 million was 22% above the prior year (2016: £1,667 million).

The weakness in sterling during the year was responsible for £241 million of this increase. During 2017 the average sterling to rand exchange rate reduced to R17.15 (2016: R19.93). This had the effect of increasing the sterling reported results of both OMEM and Nedbank, which source the majority of their earnings from South Africa.

During 2017, Old Mutual plc sold its shareholding in OMAM. As a result, OMAM was consolidated in the Group's results for only four months of 2017 (2016: consolidated for 12 months). Accordingly the AOP of the Institutional Asset Management segment, which included OMAM, reduced from £141 million in 2016 to £64 million in 2017.

Excluding Institutional Asset Management and the impact of the weakness in sterling, pre-tax AOP was 12% higher than 2016. This compares favourably with the nominal GDP growth of 6.6%[1] in South Africa and 4.4%[2] in the UK.

Changes to the presentation between segments of AOP

The following changes have been made in 2017 to the presentation within AOP.

- 2017 OMEM AOP now includes the long-term investment return (LTIR) on excess assets previously shown as a separate item within plc Head Office AOP. The LTIR on excess assets was £20 million in 2017 (2016: £20 million).
- Corporate costs are now shown before recharges to the businesses, with the recharges included within other net shareholders income/expenses (OSIE). The recharge in 2017 was £4 million (2016: £19 million).

Comparative information has been re-presented to be consistent with the treatment of the items described above and does not alter the consolidated AOP result as previously reported.

Old Mutual Wealth, Nedbank and Institutional Asset Management are classified as core operations in determining the Group's AOP. For the IFRS consolidated income statement these businesses are classified as discontinued operations, and are therefore excluded from IFRS profit before tax.

1 The South Africa nominal GDP rate is calculated as the average Consumer Price Index rate of inflation during 2017 of 5.3% plus the 2017 real GDP growth rate in South Africa of 1.3%.
2 The UK nominal GDP rate is calculated as the average Consumer Price Index rate of inflation during 2017 of 2.7% plus the 2017 real GDP growth rate in the UK of 1.7%.

The tables below summarise the AOP and IFRS results of the Group in 2017 and 2016:

AOP analysis (£m)	2017	2016 Re-presented[1]	% change
Old Mutual Emerging Markets	**777**	639	22%
Nedbank	**963**	799	21%
Old Mutual Wealth	**363**	260	40%
	2,103	1,698	24%
Institutional Asset Management (OMAM and Rogge)	**64**	141	(55%)
plc Head Office[2]:			
Old Mutual plc finance costs	**(66)**	(88)	25%
Corporate costs (before recharges)	**(58)**	(79)	27%
Other net shareholder income/(expenses) (OSIE)	**(6)**	(5)	(20%)
Adjusted operating profit before tax	**2,037**	1,667	22%
Tax on adjusted operating profit	**(477)**	(398)	(20%)
Adjusted operating profit after tax	**1,560**	1,269	23%
Non-controlling interests – ordinary shares	**(364)**	(319)	(14%)
Non-controlling interests – preferred securities	**(34)**	(22)	(55%)
Adjusted operating profit after tax attributable to ordinary equity holders of the parent	**1,162**	928	25%
Adjusted weighted average number of shares (millions)	**4,776**	4,773	–
Adjusted operating earnings per share (pence)	**24.3**	19.4	25%

IFRS profit analysis (£m)	2017	2016 Re-presented[3]	% change
Core operations:			
Old Mutual Emerging Markets	**909**	547	66%
Nedbank	**967**	737	31%
Old Mutual Wealth	**173**	113	53%
	2,049	1,398	47%
Institutional Asset Management (OMAM and Rogge)	**29**	133	(78%)
plc Head Office[2]	**(242)**	(176)	(38%)
Non-core operations	**26**	(5)	620%
Consolidation adjustments	**(24)**	-	n/a
Discontinued operations excluded from profit before tax[3]	**(1,221)**	(1,043)	(17%)
IFRS profit from continuing items before tax	**617**	306	102%
Income tax expense	**(240)**	(142)	(69%)
IFRS profit from continuing operations after tax	**377**	164	130%
IFRS profit from discontinued operations after tax	**881**	681	29%
IFRS profit after tax for the financial year	**1,258**	845	49%
Attributable to:			
Equity holders of the parent	**909**	570	59%
Non-controlling interests	**315**	253	25%
Dividends paid to holders of perpetual preferred callable securities, net of tax credits	**34**	22	55%
Profit after tax for the financial year	**1,258**	845	49%
Weighted average number of shares (millions)	**4,633**	4,635	–
Basic earnings per share (pence)	**19.3**	12.0	61%

1 AOP has been re-presented to report LTIR on excess assets, which was previously reported as a separate item in plc Head Office, within OMEM. In addition, corporate costs are now shown before recharges to the businesses, with the recharges included within other net shareholders income/expenses (OSIE).
2 Plc Head Office includes the Old Mutual plc parent company and other centre companies.
3 Old Mutual Wealth, Nedbank and Institutional Asset Management are classified as core operations in determining the Group's adjusted operating profit. For the IFRS consolidated income statement these businesses are classified as discontinued operations, and are therefore excluded from IFRS profit before tax.

Reconciliation of AOP to IFRS profit attributable to equity holders of the parent:

Year ended December 2017 (£m)	OMEM	Nedbank	OMW	IAM	plc Head Office	Non-core	Consolidation adjustments[1]	Discontinued[2]	Total
Adjusted operating profit before tax	**777**	**963**	**363**	**64**	**(130)**	**–**	**-**	**–**	**2,037**
Goodwill, intangible and associate charges	(88)	7	(103)	(2)	–	–	-	–	**(186)**
Profit on business disposals	81	–	24	–	92	–	-	–	**197**
Short-term fluctuations in investment return	127	–	(2)	–	–	–	-	–	**125**
Returns on own debt and equity	(55)	–	–	–	–	–	(24)	–	**(79)**
Institutional Asset Management equity plans	–	–	–	(33)	–	–	-	–	**(33)**
Dividends on preferred securities	–	–	–	–	2	–	-	–	**2**
Credit-related fair value losses on Group debt	–	–	–	–	(128)	–	-	–	**(128)**
One-off managed separation and business standalone costs	(14)	(3)	(32)	–	(51)	–	-	–	**(100)**
Resolution of plc pre-existing items	–	–	–	–	(27)	–	-	–	**(27)**
OMW UK Platform transformation costs	–	–	(74)	–	–	–	-	–	**(74)**
Voluntary customer remediation provision	–	–	(69)	–	–	–	-	–	**(69)**
Total adjusting items	51	4	(256)	(35)	(112)	–	(24)	–	**(372)**
Non-core operations	–	–	–	–	–	26	-	–	**26**
Income tax attributable to policyholder returns	81	–	66	–	–	–	-	–	**147**
Discontinued operations included in AOP[2]	–	–	–	–	–	–	-	(1,221)	**(1,221)**
IFRS profit from continuing operations before tax	**909**	**967**	**173**	**29**	**(242)**	**26**	**(24)**	**(1,221)**	**617**
Tax on adjusted operating profit	(214)	(244)	(44)	(18)	43	–	-	–	**(477)**
Tax on adjusting items	(19)	(2)	36	12	19	–	-	–	**46**
Income tax attributable to policyholder returns	(81)	–	(66)	–	–	–	-	–	**(147)**
Tax on discontinued and non-core operations[1]	–	–	–		–	(2)	-	340	**338**
IFRS profit from continuing operations after tax	**595**	**720**	**99**	**23**	**(180)**	**24**	**(24)**	**(881)**	**377**
NCI in adjusted operating profit	(27)	(351)	–	(20)	–	–	-	–	**(398)**
NCI in adjusting items	26	5	–	9	9	–	-	–	**49**
Discontinued operations[1]	–	–	–	–	–	–	-	881	**881**
IFRS profit attributable to equity holders after tax	**594**	**375**	**99**	**12**	**(171)**	**24**	**(24)**	**–**	**909**

Year ended December 2016 (£m)	OMEM	Nedbank	OMW	IAM	plc Head Office	Non-core	Consolidation adjustments[1]	Discontinued[2]	Total
Adjusted operating profit before tax	639	799	260	141	(172)	–	-	–	1,667
Goodwill, intangible and associate charges	(75)	(50)	(140)	(6)	(7)	–	-	–	(278)
Profit on business disposals	3	(12)	–	18	10	–	-	–	19
Short-term fluctuations in investment return	(27)	–	1	–	–	–	-	–	(26)
Returns on own debt and equity	(43)	–	–	–	–	–	-	–	(43)
Institutional Asset Management equity plans	–	–	–	(20)	–	–	-	–	(20)
Dividends on preferred securities	–	–	–	–	17	–	-	–	17
Credit-related fair value losses on Group debt	–	–	–	–	(24)	–	-	–	(24)
OMW UK Platform transformation costs	–	–	(102)	–	–	–	-	–	(102)
Total adjusting items	(142)	(62)	(241)	(8)	(4)	–	-	–	(457)
Non-core operations	–	–	–	–	–	(5)	-	–	(5)
Income tax attributable to policyholder returns	50	–	94	–	–	–	-	–	144
Discontinued operations included in AOP[2]	–	–	–	–	–	–	-	(1,043)	(1,043)
IFRS profit from continuing operations before tax	547	737	113	133	(176)	(5)	-	(1,043)	306
Tax on adjusted operating profit	(170)	(199)	(47)	(36)	54	–	-	–	(398)
Tax on adjusting items	13	–	24	5	(4)	–	-	–	38
Income tax attributable to policyholder returns	(50)	–	(94)	–	–	–	-	–	(144)
Tax on discontinued operations[1]	–	–	–	–	–	–	-	362	362
IFRS profit from continuing operations after tax	340	538	(4)	102	(126)	(5)	-	(681)	164
NCI in adjusted operating profit	(17)	(288)	–	(36)	–	–	-	–	(341)
NCI in adjusting items	30	32	–	4	–	–	-	–	66
Discontinued operations[1]	–	–	–	–	–	–	-	681	681
IFRS profit attributable to equity holders after tax	353	282	(4)	70	(126)	(5)	-	–	570

1 Consolidation adjustments reflects Old Mutual plc shares held by consolidated investment funds, which are treated as treasury shares within IFRS.
2 Discontinued operations relate to Nedbank, OMW and Institutional Asset Management earnings included within AOP; but reported as discontinued operations within IFRS.

Explanation of adjusting items between AOP and IFRS

In determining the AOP of the Group for core operations, certain adjustments are made to IFRS profit before tax to reflect the Directors' view of the Group's long-term performance. Details of these adjustments are provided in Note C1 of the Consolidated Financial Statements, and in respect of tax in note D1. A summary of significant adjustments is provided below.

Goodwill, intangible and associate charges were £186 million in 2017 (2016: £278 million). In OMEM the charges for 2017 include goodwill impairment of £71 million recognised in the first half of 2017 relating to the UAP-Old Mutual Group entity in East Africa. This followed the simplification of the operating structure of the Rest of Africa portfolio and the consequential alignment of the routine goodwill valuation review in accordance with accounting requirements. A further goodwill impairment of £14 million was recognised in the second half of the year relating to the AIVA business in Uruguay, as a result of weaker than anticipated performance at the time of the impairment review.

In OMW, goodwill, intangible and associate charges were £103 million (2016: £140 million). The charge was lower due to an additional £46 million impairment of goodwill and intangibles in 2016 as a result of the anticipated sale of OMW Italy.

Profit on business disposals includes a £81 million profit in OMEM on disposal of Kotak Mahindra Old Mutual Life Insurance Limited (Kotak) and a £24 million profit in OMW on disposal of OMW Italy. In the plc Head Office, the £92 million profit on disposal results largely from the sale of our holding in OMAM.

Within AOP the investment return on shareholder funds is calculated using a Long Term Investment Return (LTIR) rate. Any short-term fluctuations between the LTIR in AOP and actual returns are included in adjusting items. In 2017, the actual investment return was higher than the LTIR assumed in AOP by £125 million (2016: £26 million lower). This reflects the impact of the significant growth in Zimbabwe's equity markets which resulted in a short term fluctuation of positive £106 million. Following recent political developments in Zimbabwe, the current macro-economic situation remains fluid, and the market reaction remains volatile. Zimbabwean equity markets have fallen by more than 10% in the first two months of 2018.

Adjusting items include a £33 million expense (2016: £20 million) due to the revaluation of Institutional Asset Management equity plans held by Affiliate key employees, and Landmark acquisition related expenses.

Credit-related fair value losses on Group debt were £128 million in 2017 (2016: £24 million loss). In 2017 this includes £102 million to reflect the difference between the cash paid to repurchase and redeem debt securities during the year and the IFRS book value of those debt securities at the date of repurchase.

In 2017, OMW UK Platform transformation costs were £74 million (2016: £102 million). These costs relate to both the closure of the previous programme and costs associated with the new proposition supplied by FNZ.

New Adjusting items between AOP and IFRS in 2017

An expense of £27 million related to the resolution of plc Head Office pre-existing items includes expenses of £20 million for insuring and de-risking certain indemnities associated with businesses previously owned by the Group. In addition costs of £7 million were incurred in disposing of the Group's captive insurance entity which covered plc Head Office and subsidiary companies. Further details of costs related to addressing plc Head Office pre-existing items is provided on page 18.

One-off managed separation and business standalone costs were £100 million in 2017. In 2016 these costs, which were included within AOP, totalled £31 million. If the 2016 costs were excluded from AOP, the growth in AOP pre-tax would reduce from 22% to 20%.

As part of OMW's ongoing work to promote fair customer outcomes, product reviews consistent with the recommendations from the FCA's thematic feedback and the FCA's guidance 'FG16/8 Fair Treatment of long-standing customers in the life insurance sector' have been conducted. Following these reviews, it has been decided to commence voluntary remediation to customers in certain legacy products within the Heritage book. As part of this, OMW have decided to cap early encashment charges at 5% for pension customers under 55, to refund all early encashment charges over 5% on pensions products applied since 1 January 2009 and to refund certain paid-up charges also since 1 January 2009.

A provision of £69 million has been made within the 2017 results for the aggregate of these remediation costs, and this has been reported outside of AOP because it does not reflect the 2017 operating performance of Old Mutual Wealth and reflects operations in the past.

In 2016 the AOP of Old Mutual Wealth included a £27 million charge for the restructuring of Heritage fees. This was largely related to changes to future charges for certain continuing customers of the Heritage business. On the basis of the forward looking nature of these charges the 2016 AOP was not adjusted for this impact.

Discontinued and non-core operations

For IFRS reporting the results of Nedbank, Old Mutual Wealth and Institutional Asset Management are discontinued operations because they have been classified as held for distribution. These businesses remain within AOP in 2017 reflecting our continued management of these businesses, their contribution to the Group result for the year and to aid comparability.

Non-core operations relates to Old Mutual Bermuda IFRS pre-tax profit of £26 million (2016: £5 million loss). The increase in profit largely reflects the favourable developments in the run-off of this closed book of business.

Plc Head Office AOP

The plc Head Office represents the plc Parent Company and the other centre companies of the Group, which typically own and manage the Group's interests. The AOP of the plc Head Office is detailed below:

Plc Head Office (£m)	**2017**	2016
Old Mutual plc finance costs	**(66)**	(88)
Corporate costs (before recharges)	**(58)**	(79)
Other net shareholder income/ (expenses) (OSIE)	**(6)**	(5)
Total plc Head Office AOP	**(130)**	(172)

Old Mutual plc finance costs

Old Mutual plc finance costs reduced from £88 million in 2016 to £66 million in 2017, in-line with the guidance communicated at our 2016 Preliminary Results. The reduction in finance costs largely reflects the repayment of £112 million of senior debt in October 2016 and the repurchase and redemption of £273 million of perpetual preferred callable securities in February 2017.

Corporate costs before recharges

Corporate costs before recharges of £58 million in 2017 are £21 million below the prior period (2016: £79 million).

The reduction in corporate costs reflects savings of £11 million as a result of retrenchment activity in 2016 and 2017 and wider repurposing of the plc Head Office, including an over 50% reduction in headcount compared with January 2016. These reductions are in-line with our guidance provided at the 2016 Preliminary Results announcement.

The reduction in corporate costs also includes the impact of property and insurance costs of £10 million which were previously incurred by plc, and therefore reflected in corporate costs, but which are now directly incurred by the businesses.

Other net shareholder income / (expenses) (OSIE)

The table below sets out other net shareholder expenses of £6 million in 2017 (2016: £5 million):

OSIE (£m)	2017	2016
Share based payment charges	**(9)**	(10)
Solvency II costs and other projects	**–**	(5)
Brand costs	**–**	(8)
Other net expenses	**(7)**	(7)
Recharge of plc Head Office costs	**4**	19
OSIE, excluding fx, seed capital gains and one-off MS cost	**(12)**	(11)
One-off managed separation costs	**–**	(22)
FX (losses)/gains	**(1)**	20
Seed capital gains	**7**	8
Total other net shareholder income/(expenses) (OSIE)	**(6)**	(5)

In 2017 OSIE includes expenses related to share based payment charges of £9 million (2016: £10 million). In 2016 Solvency II and other project costs of £5 million and OMW brand costs of £8 million were also incurred. The on-going brand costs are now incurred directly by OMW. The recharge of plc Head Office costs has reduced significantly to £4 million (2016: £19 million) as costs previously incurred by the plc and recharged to OMEM and OMW are now incurred directly by these businesses.

One-off plc Head Office costs of managed separation were £22 million in 2016. These costs have been excluded from AOP in 2017. Foreign exchange losses in 2017 of £1 million (2016: £20 million gain) were incurred on US dollar denominated cash and seed investments.

In 2017 seed capital gains were £7 million (2016: £8 million), largely on funds managed by OMAM. The plc Head Office has substantially reduced its seed portfolio as part of the managed separation. At 31 December 2017 the plc Head Office held seed investments of £6 million (31 December 2016: £148 million).

Tax

The AOP effective tax rate (ETR) for the Group is 23% (2016: 24%). 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 AOP ETR for OMEM, calculated in sterling, has increased slightly to the statutory rate of 28% (2016: 27%). The Nedbank AOP ETR remained constant at 25%.

The ETR for the Old Mutual Wealth business is generally lower than in the African 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

AOP attributable to non-controlling interests increased from £341 million to £398 million. The proportion of Group AOP attributable to non-controlling interests has reduced from 27% in 2016 to 26% in 2017. This reflects the sell-down of OMAM during 2017.

Managed separation and business standalone one-off and incremental recurring costs

The section below summarises the one-off and recurring costs associated with managed separation and includes forward looking estimates of these costs. These estimates are sensitive to how we execute the managed separation, including the timing of execution and are subject to stakeholder and market dependencies. By their nature, forward-looking estimates involve risk and uncertainty because they relate to future events and circumstances which may be beyond Old Mutual plc's control. Following the managed separation each business may adopt cost definitions different from the Group-wide definition that is currently applied.

The tables below include the one-off costs related to plc wind-down and business standalone costs and advisory costs. They compare the costs incurred to date against the original estimates. Costs are likely to be at the upper end of our estimates leaving limited contingency remaining.

Removal and transition of plc Head Office operational costs

The managed separation will lead to the eventual closure of the plc Head Office and elimination of its operational costs, which totalled £123 million before recharges in 2015, the year before the managed separation began. The table below shows the evolution of these plc Head Office operating costs since 2015:

Plc Head Office operational costs before recharges[1] (£m)	2015	2016	2017	Estimated by 2019
Corporate costs before plc recharge	80	79	**58**	–
OSIE before plc recharge	43	24[2]	**10**	–
	123	103	**68**	–

1. Plc Head Office operational costs are stated before recharges of £23 million in 2015; £19 million in 2016 and £4 million in 2017.
2. One-off plc wind down costs of £8 million and transaction advisory costs of £14 million are included in AOP in 2016. From 2017 these costs have been excluded from AOP.

An estimated £29 million per annum of plc Head Office operational costs previously incurred by the plc Head Office will ultimately be borne directly by OMEM and OMW. Given the 2015 cost base of £123 million set out above, this will result in an estimated net saving of £94 million per annum. The table below shows the development in the costs of OMW and OMEM as they begin to incur the plc Head Office operational costs directly:

Plc Head Office operational costs absorbed by OMW and OMEM (£m)	2016	2017	Estimated after MS
Costs previously recharged and listing related costs now incurred directly by OMEM	–	**4**	7
Costs previously recharged now incurred directly by OMW	–	**6**	7
Listing related costs not recharged now incurred directly by OMW	–	**1**	7
Brand costs not recharged now incurred directly by OMW	–	**7**	8
	–	**18**	29

Incremental recurring business standalone costs

In addition to the £29 million above, we estimate OMW and OMEM will incur a combined incremental cost of £20 million per annum as a result of being standalone businesses. The table below illustrates the costs incurred to date.

Recurring business standalone costs (£m)	2016	2017	Estimated after MS (annualised)
Old Mutual Emerging Markets	–	**4**	8
Old Mutual Wealth	–	**8**	12
	–	**12**	20

One-off plc wind down and business standalone costs

As communicated at the 2016 Preliminary Results announcement, we estimate the one-off costs to unlock the £94 million of plc Head Office run-rate savings to be in the region of £130 million. This includes costs at the plc Head Office, which we expect to be at the upper end of our £50 million to £65 million range, with the balance to be incurred by OMEM and OMW. The table below sets out the one-off costs that have been incurred to date:

One-off plc wind down and business standalone costs[1] (£m)	2016	2017	Total to date	Total estimated over MS
Plc Head Office	8	**31**	39	
Old Mutual Emerging Markets	1	**12**	13	
Old Mutual Wealth	4	**20**	24	
	13	**63**	76	130

1. One-off plc wind down and business standalone costs are included in AOP in 2016. From 2017 these costs have been excluded from AOP. Comparatives have not been restated.

One-off advisory costs

We estimate one-off advisory costs of at least £100 million during the period of implementing the managed separation. This estimate is sensitive to how we execute the managed separation and subject to stakeholder and market dependencies. These costs will facilitate unlocking the current conglomerate discount to the Group's value. The table below sets out the one-off advisory costs that have been incurred to date:

One-off advisory costs[1] (£m)	2016	2017	Total to date	Total estimated over MS
Plc Head Office[2]	14	**19**	33	
Old Mutual Emerging Markets	1	**1**	2	
Old Mutual Wealth	3	**11**	14	
Nedbank	–	**3**	3	
	18	**34**	52	at least 100

1. One-off advisory costs were included in AOP in 2016. From 2017 these costs have been excluded from AOP. Comparatives have not been restated.

2. Includes costs related to Old Mutual Limited

One-off transaction costs

Transaction costs incurred as at 31 December totalled £19 million. This includes £16 million of costs related to the sell-down of OMAM during 2016 and 2017, which were deducted from proceeds in line with accounting policies and costs which were not deductible from proceeds related to OMEM (£1 million); OMW (£1 million) and plc Head Office (£1 million). Further transaction costs of £20 million to £25 million are estimated to be incurred by the plc Head Office and the businesses, excluding any costs associated with the intended secondary offering of Quilter.

Return on Equity (ROE)

2017 (£m)	AOP (post-tax & NCI)	Average shareholder equity excl. intangibles[1]	Return on shareholder equity excl. intangibles	Average shareholder equity incl. intangibles	Return on shareholder equity incl. intangibles
Adjusted ROE[2]:					
Old Mutual Emerging Markets	536	2,293	23.4%	2,639	20.3%
Nedbank	368	2,222	16.6%	2,558	14.4%
Old Mutual Wealth[3]	319	990	32.2%	2,414	13.2%
	1,223	5,505	22.2%	7,611	16.1%
Residual plc[4]	(61)	2,430[1,5]	n/a	324	n/a
Adjusted ROE	**1,162**	**7,935**	**14.6%**	**7,935**	**14.6%**
IFRS ROE	**909**			**8,019**	**11.3%**

2016 (£m)	AOP (post-tax & NCI)	Average shareholder equity excl. intangibles[1]	Return on shareholder equity excl. intangibles	Average shareholder equity incl. intangibles	Return on shareholder equity incl. intangibles
Adjusted ROE[2]:					
Old Mutual Emerging Markets[6]	452	1,805	25.0%	2,150	21.0%
Nedbank	312	1,834	17.0%	2,094	14.9%
Old Mutual Wealth[3]	213	974	21.9%	2,475	8.6%
	977	4,613	21.2%	6,719	14.5%
Residual plc[4]	(49)	2,374[1,5]	n/a	268	n/a
Adjusted ROE	928	6,987	13.3%	6,987	13.3%
IFRS ROE	570			7,237	7.9%

1 The businesses figures exclude the plc share of 'Goodwill and other intangible assets' as reported in the segmental balance sheet; and these assets are included in Residual plc
2 Group Adjusted ROE is calculated as AOP (post-tax and NCI) divided by average ordinary shareholders equity. Ordinary shareholders equity excludes the perpetual preferred callable securities, non-core operations and the decrease in value of equity due to treasury shares held within consolidated investment funds.
3 The intercompany loan of £566 million provided to Old Mutual Wealth to acquire Quilter Cheviot has been equitised for the purposes of calculating the average equity of Old Mutual Wealth. The average shareholders equity including intangibles includes £0.7 billion of goodwill on the acquisition of Skandia which is allocated to Old Mutual Wealth. Excluding this goodwill the return on equity of Old Mutual Wealth is 19%.
4 Residual plc includes the plc Head Office and the Institutional Asset Management segments.
5 Includes plc portion of 'Goodwill and other intangible assets' and excludes the perpetual preferred callable securities (31 December 2017: nil; 31 December 2016: £273 million) that were repurchased and redeemed in February 2017 and non-core operations (31 December 2017: £124 million; 31 December 2016: £68 million).
6 2016 OMEM AOP (post-tax and NCI) now includes the LTIR on excess assets previously reported within the plc Head Office.

Adjusted ROE by business has been calculated in sterling in order to give a shareholder view of returns in the reported currency.

Old Mutual plc adjusted ROE increased from 13.3% in 2016 to 14.6% in 2017. This largely reflects a higher ROE in OMW, which benefited from exceptional net performance fees in the Single Strategy business in 2017.

The IFRS ROE of 11.3% (2016: 7.9%) has increased as a result of the significant increase in IFRS profit attributable to equity holders which benefited from higher profits in Old Mutual Wealth, as a result of exceptional net performance fees in the Single Strategy business and higher investment returns in OMEM due to Zimbabwe's significant equity market performance.

Plc cash flows and liquidity

The plc Head Office cash position was £540 million as at 31 December 2017 (£743 million as at 31 December 2016). This is invested in cash and near cash instruments, including money market funds. The plc Head Office also has access to an undrawn committed facility of £800 million (as at 31 December 2016: £800 million). The table below summarises plc Head Office cash flows in 2017 and 2016:

Plc cash flows (£m)	2017	2016
Opening cash and liquid assets at holding company at 1 January	**743**	750
Operational flows		
Operational receipts from OMAM and OMW	**74**	84
Impact of foreign currency hedging	**(3)**	(6)
Operational receipts from OMAM and OMW after hedging	**71**	78
Operational receipts from OMEM and Nedbank	**345**	410
Impact of foreign currency hedging	**(14)**	(37)
Operational receipts from OMEM and Nedbank after hedging	**331**	373
Corporate costs before recharges	**(58)**	(79)
Other operational flows	**34**	(27)
Total operational flows	**378**	345
Servicing of capital		
Interest paid	**(64)**	(72)
Preference dividends	**(15)**	(17)
Ordinary cash dividends	**(339)**	(451)
Paid to northern hemisphere shareholders	**(128)**	(160)
Paid to southern hemisphere shareholders	**(211)**	(291)
Total servicing of capital	**(418)**	(540)
Capital movements		
Debt repaid in the period	**(955)**	(112)
Capital contribution to OMW	**(200)**	–
Net proceeds from the sell-down of OMAM[1]	**664**	230
Net proceeds from the sale of OMW Italy[1]	**210**	–
Net proceeds from the sale of Kotak[1]	**138**	–
Return of seed capital	**69**	31
Resolution of plc Head Office pre-existing items	**(62)**	–
Plc wind-down and advisory costs	**(26)**	(9)
Other capital movements	**(1)**	48
Total capital movements	**(163)**	188
Closing cash and liquid assets at holding company at 31 December	**540**	743

1 Proceeds from the sell-down of OMAM and sales of OMW Italy and Kotak are stated net of costs and foreign currency hedging

Operational flows

Our conservative capital management policy has provided the flexibility to pay an appropriate dividend to shareholders during the managed separation and enabled the unlisted OMEM and OMW businesses to prepare for independence with strong standalone balance sheets, improved quality of capital and future dividend paying capacity.

Operational receipts from OMW and OMAM, after foreign currency hedging, were £71 million in 2017 (2016: £78 million). For OMAM, remittances of £7 million were received in 2017 (2016: £19 million) and payments of £35 million were received pursuant to the Deferred Tax Asset Agreement (2016: £32 million).

OMEM and Nedbank dividend receipts are available to meet the plc dividend, consistent with the original terms of demutualisation and in line with plc's capital management policy.

Other operational flows in 2017 include the impact of collateral movements on foreign currency hedging of both operational and capital inflows of £29 million (2016: £28 million outflow).

Servicing of capital

Dividend payments to ordinary shareholders of £339 million (2016: £451 million) have been made in the year in relation to the second interim dividend for 2016 of 3.39 pence per share (second interim dividend for 2015: 6.25 pence per share) and first interim dividend for 2017 of 3.53 pence per share (first interim dividend for 2016: 2.67 pence per share). Of this, £211 million was paid to shareholders on the South African and other African registers (2016: £291 million).

Preference dividend payments in 2017 reflect interest on the £273 million of perpetual preferred callable securities, which were repurchased and fully redeemed on 3 February 2017. The payment represents 11 months of the interest accrued up to the point the security was redeemed.

Interest paid in 2017 was £8 million lower than 2016, due largely to the repayment of £112 million of senior debt in October 2016.

Capital movements

Debt repaid in 2017 includes £273 million of perpetual preferred callable securities that were repurchased and fully redeemed at a cost of £288 million in February 2017. In addition, in November 2017 we repurchased and redeemed £389 million of Tier 2 subordinated 2025 securities, and £159 million nominal of Tier 2 subordinated 2021 securities for a total cost of £667 million, net of interest rate hedging.

Old Mutual Wealth received £200 million of capital in May 2017 from Old Mutual plc with a consequential reduction in the RCF provided by Old Mutual plc to Old Mutual Wealth from £200 million to £70 million.

Cash flows from corporate activity in 2017 include proceeds net of costs and foreign currency hedging of £664 million from the sell-down of OMAM during the period, £210 million from the sale of Old Mutual Wealth Italy and £138 million from the sale of Kotak.

Costs to address plc Head Office pre-existing items largely reflects £27 million paid into two legacy defined benefit pension schemes to effect the buy-out of the benefits of the two schemes and £20 million related to the costs of insuring and de-risking certain indemnities associated with businesses previously owned by the Group . In addition cash of £12 million to fund contingent liabilities in the businesses; which was held on deposit at the plc Head Office, was returned.

During 2017 £69 million (2016: £31 million) of seed capital was returned to the plc, primarily from Rogge and OMAM.

Plc wind-down and advisory costs of £26 million were paid in 2017 (2016: £9 million). The amounts included within the IFRS income statement also include accruals and provisions primarily related to the wind-down of the plc Head Office.

IFRS balance sheet review

The analysis below summarises how 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 sourced from segmental analysis of the Group's IFRS Balance Sheet in note B4 of the financial statements.

(£m)	2017	2016 Restated[1]
Equity attributable to equity holders of the parent	**8,128**	7,909
Plc perpetual preferred callable securities	**–**	(273)
Equity attributable to ordinary shareholders of the parent	**8,128**	7,636
OMEM	**2,768**	2,484
Nedbank	**2,679**	2,476
OMW	**1,818**	1,868
Total operating businesses	**7,265**	6,828
Residual plc NAV:		
OMAM	**–**	527
OM Bermuda	**124**	68
plc Head Office	**902**	358
Total Residual plc NAV	**1,026**	953
Consolidation adjustments[1]	**(163)**	(145)
Equity attributable to ordinary shareholders of the parent	**8,128**	7,636

1 Consolidation adjustments reflects Old Mutual plc shares held by consolidated investment funds, which are treated as treasury shares within IFRS. Comparative information in the consolidated statement of financial position has been restated for this treatment.

At 31 December 2017 equity attributable to ordinary shareholders of the parent was £8,128 million (2016: £7,636 million). The £492 million increase in equity attributable to ordinary shareholders of the parent is principally due to £894 million of IFRS profit after tax attributable to ordinary equity holders, offset by dividends paid of £330 million and the impact of translating the Group's non-UK operations to sterling of £87 million.

At 31 December 2017, of the total equity attributable to ordinary shareholders, the equity of Old Mutual plc as a stand-alone company was £6,509 million (2016: £5,369 million), of which distributable reserves were £2,943 million (2016: £2,059 million).

The Group is required to adopt two new accounting standards with effect from 1 January 2018, IFRS 9: Financial Instruments ('IFRS 9') and IFRS 15: Revenue from Contracts with Customers (IFRS 15). The estimated impact on the Groups' opening reserves (after tax) of adopting IFRS 9 is £203 million, principally due to impact of the adoption of the expected credit loss for impairments of £176 million and other items relating to classification and measurement. IFRS 15 principally impacts the timing of the recognition of revenue and the current estimated impact on opening reserves is expected to be immaterial. All of these estimates represents managements best estimate of the potential impact of adopting the standards and this could change when the standards are implemented by the Group. Further details are provided in Note A7 of the Old Mutual plc Financial Statements.

Equity invested in OMEM, Nedbank and OMW

Over 80% of the Group's equity is invested in OMEM, Nedbank and OMW. Under managed separation these businesses are expected to be largely distributed to shareholders. This IFRS equity is shown after deduction of intercompany funding of £782 million to OMW from the plc Head Office.

Within OMEM, as at 31 December 2017, there was R5.9 billion (2016: R9.7 billion) of outstanding intercompany indebtedness between OMLAC(SA), Old Mutual Group Holdings (OMGH) and its subsidiary Old Mutual Portfolio Holdings (OMPH). During the year, R3.8 billion of this intercompany indebtedness was repaid to OMLAC(SA), funded through greater cash retention.

We anticipate that the settlement of the remaining intercompany indebtedness will largely be repaid with the transfer of Nedbank shares to OMLAC(SA) up to the desired shareholding of 19.9%. Any residual indebtedness will be settled in cash.

Residual plc NAV

Residual plc NAV consists of OM Bermuda, plc Head Office and until its sale in November 2017, the value of its remaining shares in OMAM. The Residual plc NAV has increased to £1,026 million in 2017 (2016: £953 million).

As part of the process of managed separation we have converted Residual plc into certain cash, reduced contingent liabilities and unwound complex arrangements which existed within the Group structure.

Details of the component parts of the Residual plc NAV are discussed below.

OMAM

The process of reducing our stake in OMAM completed in November 2017, following a number of market sell-downs and the sale of a 24.95% stake to HNA Capital. The gross proceeds from these share sales totalled $879 million. Net of costs of £16 million and a £3 million loss on foreign currency hedging, the proceeds were £664 million.

OM Bermuda

OM Bermuda continues to execute its run-off strategy. Approximately 50% of its Guaranteed Minimum Accumulation Benefit (GMAB) reinsurance obligations matured in 2017 and the bulk of the remaining maturities take place during H1 2018.

Downside risk associated with guarantee top-up payments is managed using a put option programme. This was restructured to lock in market gains to the end of October 2017 and therefore further reduce downside market risks. Residual risks include basis risk and a small portion of market and currency risks that remain unhedged.

The reinsurance business remains well capitalised, with a statutory capital coverage ratio of 6.2 times (31 December 2016: 1.8 times).

IFRS NAV increased to £124 million ($168 million) at 31 December 2017 (31 December 2016: £68 million), benefiting from the £71 million ($92 million) reduction in GMAB reserves largely as a result of favourable global equity market and currency movements and the run-off of GMAB obligations over the period. This is partly offset by the establishment of a liquidation provision of £13 million ($18 million) to capitalise all anticipated future operational losses as the business is no longer considered a going concern.

Within the 31 December 2017 OM Bermuda IFRS NAV are £23 million ($31 million) of loan notes outstanding from the plc Head Office to OM Bermuda.

Old Mutual plc Head Office

We continue to make progress with the financial wind down and de-risking of the plc Head Office. The crystallisation of plc Head Office NAV into cash allows us to maintain appropriate buffers to manage risks and obligations during the period as a result of the execution of managed separation and the wind down of the plc Head Office. However, there are still actual and potential demands on our cash and liquidity during this period. Cash utilisation will continue not only as a result of the current plc structure, but also to manage and meet the remaining managed separation and business standalone costs across the plc Head Office and the underlying businesses.

The table below shows the composition of the plc Head Office NAV:

plc Head Office NAV (£m)	2017	2016
Cash	**540**	743
Seed investments	**6**	148
Net intercompany funding	**759**	816
Third party debt[1]	**(461)**	(1,290)
Net sundry debtors/(creditors)	**58**	(59)
plc Head Office NAV	**902**	358

1 Includes plc preferred perpetual callable securities of £273 million in 2016.

Cash

The plc Head Office had cash balances of £540 million at 31 December 2017 (31 December 2016: £743 million).

At our 2016 preliminary results in March 2017, we highlighted that we hold cash and liquidity buffers centrally to support the plc under both normal and stressed conditions. These liquidity buffers and cash will transition from plc Head Office where appropriate as part of the preparations for the independence of the relevant subsidiaries as part of managed separation. In an initial step in preparing OMW's capital structure and in light of regulatory changes, we contributed £200 million of capital into OMW with a consequential reduction in plc's liquidity support and centrally held liquidity buffers for OMW of £130 million to £70 million.

The plc early warning liquidity threshold ("EWT") is set dynamically, in line with our underlying obligations to ensure adequate liquidity resources are maintained and stood at circa £330 million at 31 December 2017 (31 December 2016: circa £520 million). The lower EWT reflects the reduction in plc's liquidity support for OMW and lower levels of plc Head Office debt.

Seed investments

At 31 December 2017 the plc Head Office held seed investments of £6 million (31 December 2016: £148 million).

The plc Head Office has substantially reduced its seed portfolio as part of the managed separation. During 2017 the plc redeemed its remaining funds in OMAM and Rogge. The remaining seed investments are held in OMEM funds.

Net intercompany funding

Other non-cash plc Head office assets includes net intercompany funding of £759 million (31 December 2016: £816 million). Intercompany funding to OMW is £782 million (31 December 2016: £785 million), most of which was provided to support the acquisitions of Quilter Cheviot and Intrinsic. Intragroup payables represent £23 million of loan notes outstanding at 31 December 2017 from Old Mutual plc to OM Bermuda (31 December 2016: £58 million).

Intercompany funding in 2016 also included £85 million due from OMAM, principally relating to the Deferred Tax Asset Deed. Following cash receipts in 2017 and the uncertainty arising from US tax reform the Deferred Tax Asset Deed is now a provision of £9 million. As a result of the sale of OMAM during 2017 this provision is included in net sundry debtors and creditors.

Plc debt

The total IFRS book value of debt (excluding banking related debt) of £903 million comprises plc holding company debt of £461 million and emerging markets non-banking debt of £442 million.

Plc debt summary [1]	2017	2016
Total gearing (gross of holding company cash) – IFRS basis[4]	**7.4%**	16.1%
plc holding company book value of debt – IFRS basis (£m)	**461**	1,290
Subsidiary book value of debt (non-banking)[2] – IFRS basis (£m)	**442**	801
Total book value of debt − IFRS basis (£m)	**903**	2,091
Total interest cover[3]	**15.0 times**	11.1 times
Hard interest cover[3]	**4.5 times**	3.4 times

1 Excludes all banking-related debt.
2 For the purposes of calculating gearing, subsidiary debt includes OMAM debt classified as non-current liabilities held for sale (31 December 2017: nil; 31 December 2016: £319 million) and non-banking inter-company borrowings (31 December 2017: £23 million; 31 December 2016: £25 million).
3 Interest cover is calculated based on the number of times AOP before finance costs and tax covers finance costs.
4 2016 gearing has been recalculated to include the restatement of Group equity

As at 31 December 2017, Old Mutual plc holding company debt comprised of £341 million of Tier 2 debt maturing in June 2021 and £61 million of Tier 2 debt maturing in November 2025. The IFRS book value of these was £400 million and £61 million respectively leading to an aggregate IFRS value of Old Mutual plc debt of £461 million. This excludes a derivative asset of £33 million, related to the remaining £341 million of Tier 2 debt issued in June 2011.

The aggregate IFRS value of Old Mutual plc debt at 31 December 2017 is £829 million lower than at 31 December 2016 due to the repurchase and redemption of the £273 million Preferred Callable Securities on 3 February 2017. In addition £389 million of the Tier 2 subordinated 2025 securities and £159 million nominal of the Tier 2 subordinated 2021 securities were repurchased and redeemed on 24 November 2017. Fair value movements account for the remaining difference.

Gearing as at 31 December 2017

Gross gearing is based on non-banking debt of £870 million (2016: £2,060 million), which is the IFRS book value of non-banking debt net of the derivative asset of £33 million (2016: £31 million) referred to above. Gross gearing of 7.4% is calculated as the percentage of non-banking debt (£870 million) over total Group equity plus non-banking debt (£11,817 million). This has reduced since 31 December 2016, due largely to a decrease in total debt arising principally from the sale of OMAM, the repurchase and redemption of the plc £273 million Preferred Perpetual Callable Securities, £389 million of Tier 2 subordinated 2025 securities and £159 million of nominal of Tier 2 subordinated 2021 securities. This has been partially offset by the issue of R500 million of Subordinated securities by Old Mutual Insure in November 2017. Net gearing reduces to 2.8% when taking into account cash at the holding company.

Net sundry debtors / (creditors)

Net sundry debtors and creditors include both third party and intercompany debtors and creditors that are not related to long term funding. At 31 December 2017 net sundry debtors were £58 million (31 December 2006: £59 million creditor). The movement is due mainly to the reduction in intercompany creditors in preparation for the finalisation of managed separation.

Costs to resolve plc Head Office pre-existing items

At the 2016 Preliminary results announcement we estimated £130 million would be incurred to accelerate the resolution of pre-existing Head Office items over the duration of the managed separation. This estimate is subject to addressing any remaining issues.

During the period, bulk annuity arrangements for two legacy defined benefit schemes, the Old Mutual Staff Pension Fund and the G&N Retirement Benefits Scheme, were agreed with Legal & General Assurance Society Limited. The agreements resulted in the full buy-out of the schemes into individual annuity policies in October and wind-up of both schemes completed on 30 November 2017. Old Mutual plc no longer has any liability in respect of these two schemes, including administration and funding. Old Mutual plc had previously been contributing £7 million of cash annually to fund the two schemes.

In order to effect the transaction, Old Mutual plc made a one-off contribution of £27 million into the two schemes. In addition the IAS 19 surplus for the schemes of £24 million was written off during the year and is recognised in the consolidated statement of changes in equity.

Expenses of £20 million were incurred for the costs of insuring and de-risking certain indemnities associated with businesses previously owned by the Group. In addition cash of £12 million to fund contingent liabilities in the businesses, which was held on deposit at the plc Head Office, was returned.

Costs of £7 million were incurred in disposing of the Group's captive insurance entity which covered plc Head Office and subsidiary companies.

Adjusted Net Asset Value

Adjusted Net Asset Value (ANAV) provides an alternative measure to indicate the value of Old Mutual plc. The ANAV of Old Mutual plc was £11,952 million at 31 December 2017 (31 December 2016: £11,271 million), equivalent to 242.3 pence per share (31 December 2016: 228.6 pence per share). The increase in ANAV per share largely reflects the OMEM covered business MCEV earnings (12.8 pence) and the impact of the constant currency change in the share price of Nedbank (5.6 pence), offset by the Old Mutual plc cash dividends paid in the year (6.9 pence).

The ANAV uses an MCEV valuation basis for OMEM covered business and the UK Heritage business in OMW as well as the market value of listed subsidiaries and plc Head Office debt. Other businesses and other assets are generally included at IFRS net asset value. A reconciliation of the IFRS NAV to ANAV is provided in the tables below:

				Residual plc NAV				
2017 (£m)	**OMEM**	**Nedbank**	**Old Mutual Wealth**	**IAM**	**plc Head Office**	**OM Bermuda**	**Other[2]**	**Total**
IFRS equity attributable to equity holders of the parent	**2,768**	**2,679**	**1,818[1]**	**–**	**902**	**124**	**(163)**	**8,128**
Life Fund investments in OM plc[3]	270	–	–	–	–	–	163	433
MV adjustments for listed businesses and quoted debt[4]	–	1,268	–	–	(15)	–	–	1,253
Uplift for excess shares held in Trust, ESOP and BEE schemes[5]	–	–	–	–	–	–	86	86
Life Insurance – MCEV uplift[6]	1,921	–	146	–	–	–	–	2,067
Other adjustments	(16)	–	–	–	–	1	–	(15)
Intercompany transfers[7]	–	–	566	–	(566)	–	–	–
Adjusted Group NAV attributable to ordinary shareholders	**4,943**	**3,947**	**2,530**	**–**	**321**	**125**	**86**	**11,952**
Adjusted Group NAV per share (pence)	**100.2**	**80.0**	**51.3**	**–**	**6.5**	**2.5**	**1.8**	**242.3**

				Residual plc NAV				
2016 (£m) Re-presented [2,8]	OMEM[8]	Nedbank	Old Mutual Wealth[8]	IAM	plc Head Office	OM Bermuda	Other[2]	Total
IFRS equity attributable to equity holders of the parent	2,484	2,476	1,868	527	631	68	(145)	7,909
Perpetual preferred callable securities[9]	–	–	–	–	(273)	–	-	(273)
Life Fund investments in OM plc[3]	258	–	–	–	–	–	145	403
Market value adjustments for listed businesses and quoted debt[4]	–	1,151		158	(60)	–	-	1,249
Uplift for excess shares held in Trust, ESOP and BEE schemes[5]	–	–	–	–	–	–	101	101
Life Insurance – MCEV uplift[6]	1,780	–	146	–	–	–	-	1,926
Other adjustments	(19)	–	–	–	–	(25)	-	(44)
Intercompany transfers[7]	–	–	566	–	(641)	75	-	–
Adjusted Group NAV attributable to ordinary shareholders	4,503	3,627	2,580	685	(343)	118	101	11,271
Adjusted Group NAV per share (pence)	91.3	73.6	52.3	13.9	(6.9)	2.4	2.0	228.6

1 The Old Mutual Wealth IFRS equity of £1,818 million includes goodwill of £663 million, held by Old Mutual plc and associated with the Old Mutual Wealth business. This will cease to be recognised on the de-merger of Old Mutual Wealth from the Old Mutual plc Group.
2 Reduction to IFRS NAV of £163 million at 31 December 2017 and a corresponding restatement of £145 million at 31 December 2016, on identification in 2017 of Old Mutual plc shares held by consolidated investment funds. These are treated as treasury shares and eliminated on consolidation in IFRS.
3 Inclusion of group equity and debt instruments held in the life funds (not included in IFRS equity).
4 Adjustment from IFRS to market value for listed subsidiaries and listed debt.
5 An uplift related to excess Old Mutual plc shares held in Trusts, ESOP and BEE schemes in OMEM which are eliminated on consolidation in IFRS.
6 Remaining adjustment from an IFRS to MCEV basis for the Life covered business.
7 Intercompany loan of £566 million provided to Old Mutual Wealth to acquire Quilter Cheviot.
8 £29 million of net assets previously reported in the Old Mutual Wealth segment have been re-presented within Emerging Markets to reflect the transfer of management of Old Mutual Life Assurance Company (South Africa) Limited offshore branches and OMI-Guernsey to Emerging Markets.
9 Deduct the book value of the perpetual preferred callable securities.

Capital management policy

In March 2016 we announced a new capital management policy for the period of the managed separation. This policy has provided the flexibility to balance the requirements of our multiple stakeholders and our businesses as they prepare for managed separation by enabling them to both continue to invest in order to drive enhanced performance and strengthen their balance sheets in preparation for being standalone businesses. In line with this policy we have today announced a second interim dividend for the second half of 2017 of 3.57p, the rand equivalent is 66.50 cents. This will be paid on 30 April 2018. The total full year dividend for 2017 is 7.10p (2016: 6.06p).

The 2017 second interim dividend will be the final dividend paid by plc if the Managed Separation is delivered in line with our expected timetable. The proposed future Capital Management Policy of the independent Old Mutual Limited and Quilter businesses are presented in their respective Business Reviews on pages 35 and 51.

The capital management policy is intended to remain in place until Old Mutual plc shares are no longer listed.

Capital

Regulatory capital in accordance with Solvency II rules

The Group Solvency II surplus is £1.45 billion at 31 December 2017 (31 December 2016: £1.25 billion as reported to the Prudential Regulation Authority (PRA)), representing a Solvency II ratio of 123% (31 December 2016: 122%) calculated under the standard formula.

The Group Solvency II ratio continues to be resilient as the Group surplus excludes £1.6 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 2017[1]**	31 December 2016[2]
Own funds	**7.67**	6.84
Solvency capital requirements (SCR)	**6.22**	5.59
Solvency II surplus	**1.45**	1.25
Group Solvency II ratio	**123%**	122%

1 Based on preliminary estimates. Formal filing due to the PRA by 29 March 2018.

2 As reported to the PRA as part of the Annual 2016 Solvency II submission.

During the year the Group Solvency II ratio increased due to the impact of corporate activity, in particular the sale of OM Wealth Italy (+2pps), OMAM (+14pps) and Kotak (+3pps), and reduced due to the redemption and repayment of qualifying debt during the year (-13pps). Increased capital requirements in the South African businesses and Old Mutual Wealth, including the impact of the rating agency downgrade of South African sovereign debt during the year reduced the Group Solvency II ratio. Other impacts were largely offsetting and included the receipt of South African remittances in lieu of the payments of the 2016 second interim dividend and 2017 first interim dividend payments to UK shareholders.

As we have previously guided, we will continue to manage the Group regulatory capital position in line with our solvency risk appetite, recognising that there is a trade-off to be considered where we could accept the possibility of going below our early warning threshold of 120% on a Solvency II basis as a result of cash and capital demands arising from the plc wind down.

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 (mainly relating to the South African businesses). The Group own funds include the Old Mutual plc issued subordinated debt instruments that 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 2017	31 December 2016[1]
Tier 1[2]	7.3	5.7
Tier 2[3]	0.4	1.1
Total Group Solvency II own funds	**7.7**	6.8

1 As reported to the PRA as part of the Annual 2016 Solvency II submission.

2 All Tier 1 capital is unrestricted for tiering purposes.

3 Comprises subordinated debt grandfathered under Solvency II and, at 31 December 2016, Solvency II compliant subordinated debt.

The Group SCR is covered by Tier 1 capital, which represents 117% of the Group SCR of £6.2 billion. Tier 1 capital represents 95% of Group Solvency II own funds. Tier 2 capital, comprising plc holding company debt, represents 5% of Group Solvency II own funds and 26% of Group surplus.

Solvency II capital in comparison to IFRS equity

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

IFRS compared to Solvency II own funds (£bn)	31 December 2017	31 December 2016
IFRS equity attributable to equity holders of the parent	**8.1**	7.9
Removal of goodwill and other intangibles (net of NCI)[1]	(2.2)	(2.9)
Restatement of technical provisions[2]	2.7	2.6
Inclusion of Old Mutual plc subordinated debt[3]	0.4	1.1
Other[4]	0.3	(0.1)
Fungibility restriction[5]	(1.6)	(1.8)
Total Group Solvency II own funds	**7.7**	6.8

1 Goodwill and other intangibles 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 which recognises future earnings within the liabilities and results in an increase in own funds. This is partially offset by the recognition of the risk margin which replaces prudential margins allowed for in IFRS insurance liabilities and deferred tax adjustments.
3 Old Mutual plc subordinated debt comprises Tier 2 debt instruments in Old Mutual plc that qualify towards the Group's Solvency II capital position.
4 Includes removal of IFRS deferred acquisition costs and deferred revenue, sectoral adjustments for non-insurance entities, out of scope entity adjustments and inclusion of OMEM subordinated debt and Old Mutual plc shares held on behalf of policyholder funds. At 31 December 2016 includes the de-recognition of the Perpetual Preferred Callable Securities.
5 Restriction of Nedbank and OMEM's surplus when applying Solvency II fungibility and transferability rules, restricting entirely the surplus available from these businesses as a result of the exchange controls and demutualisation agreement that apply to remitting capital from South Africa, plus small amounts relating to OMW and OMB. There has been a presentation change relating to the OMW asset management entities at 31 December 2017, with the previous fungibility restriction now incorporated in the SCR.

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 lapses immediately.

Group Solvency II capital ratio at 31 December 2017 (£bn)	Capital Requirements	Surplus	Group ratio	Restricted surplus
Base Solvency II position	**6.2**	**1.5**	**123%**	**1.6**
Equity markets fall by 25%	6.0	1.4	124%	1.4
Impact of 10% of business lapsing immediately[1]	6.0	1.4	123%	1.6
Interest rates rise by 100 basis points	6.2	1.4	123%	1.6
Credit spreads increase by 100 basis points	6.2	1.4	123%	1.5
ZAR:GBP exchange rate increases by 30% (R22:£1)	5.1	1.5	129%	1.3
ZAR:GBP exchange rate decreases by 10% (R15:£1)	6.8	1.5	121%	1.8

1 Insurance business lapse sensitivity for OMW and OMEM only.

Solvency of individual businesses

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. The balance sheets, including action undertaken after 31 December 2017, will deliver appropriately capitalised standalone businesses to the market. The individual entity balance sheets are described in their respective Business Reviews.

Post year end transactions and development of Residual plc

The narrative within this section includes forward looking estimates of the Residual plc and future potential developments of other Group companies. These estimates are based on assumptions regarding the steps employed for and timing of the managed separation strategy which may change in the future. By their nature, forward-looking estimates involve risk and uncertainty because they relate to future events and circumstances which may be beyond Old Mutual plc's control.

When we unveiled the managed separation strategy in March 2016, we said that we aimed for it to be materially complete by the end of 2018. We are on track to deliver the managed separation as planned. These processes are, by their nature, unpredictable and therefore the outcome and timing cannot be guaranteed.

On 13 March 2018, Old Mutual plc announced that The Travelers Companies Inc. and St Pauls Fire and Marine Insurance Company have lodged a claim in the United States District Court for the Southern District of New York in relation to pre-existing plc Head Office legacy items relating to previously disposed businesses.

The Group believes that this action is without merit and it will be resisted accordingly.

Details of events after the reporting date are provided in Note J8 of the Old Mutual plc Financial Statements.

Proforma 31 December 2017 Residual plc IFRS Net Asset Value

As part of the allocation of assets and liabilities of the current Old Mutual plc holding company a number of transactions have taken place since 31 December 2017.

On 31 January 2018 Old Mutual Wealth acquired the Skandia UK Ltd group of entities from Old Mutual plc. As part of this transaction £566 million of intercompany indebtedness between Old Mutual Wealth and Old Mutual plc has been equitised.

On 28 February 2018, £200 million of intercompany indebtedness between Old Mutual Wealth and Old Mutual plc was repaid from new financing arrangements from Old Mutual Wealth. On the same date, the existing £70 million revolving credit facility provided by Old Mutual plc to Old Mutual Wealth was cancelled.

Outstanding Old Mutual plc Discount Notes held by Old Mutual Bermuda at 31 December 2017 of £23 million ($31 million) were cancelled on the 28 February 2018. In addition, cash of £44 million ($60 million) was repatriated from the business on the 7 March 2018 following approval from the Bermuda Monetary Authority.

The table below illustrates the impact of these transactions on the 31 December 2017 IFRS net asset value:

(£m)	31 December 2017	Acquisition of Skandia UK Ltd by OMW and equitizing i/co loan	Repayment of £200m OMW intercompany loan	Distribution of OM Bermuda surplus	Proforma 31 December 2017
Cash	540	(11)	200	44	773
Seed investments	6				6
Net intercompany funding	759	(582)	(200)	23	-
Third party debt	(461)				(461)
Net sundry debtors	58	19			77
Plc Head Office NAV	902	(574)	–	67	395
OM Bermuda	124			(67)	57
Residual plc NAV	**1,026**	**(574)**	**-**	**-**	**452**

Impact of managed separation on Residual plc

As part of the managed separation it is proposed that certain remaining operating subsidiaries of Old Mutual plc are transferred to a new South African holding company of the group, Old Mutual Limited. The steps implementing this transfer are anticipated to include a court approved reduction in capital of Old Mutual plc which will augment distributable reserves for Old Mutual plc. After these steps Old Mutual plc will have no on-going businesses and none of the operating companies in the current Old Mutual group will be direct or indirect subsidiaries. Old Mutual plc will need to satisfy the court that it will continue to hold sufficient high quality liquid assets to meet its liabilities and deal with any contingencies, plus adequate headroom, taking into account relevant insurances. The assets within Old Mutual plc are expected to largely consist of sterling denominated high quality fixed income securities and cash or near cash instruments to match the maturity profile of the debt obligations. The speed of release of any surplus from Old Mutual plc is anticipated to be at the discretion of the UK court in the context of the reduction of capital.

The separation of Quilter is expected to involve the listing and the distribution of 86.6% of the total issued share capital of Quilter to Old Mutual plc Shareholders, as well as the expected divestment of up to 9.6% of its total issued share capital. The remaining 3.8% of the total issued share capital of Quilter is held by a JSOP Trustee and will continue to be held by a JSOP Trustee after such distribution. The proceeds from the expected divestment, or residual shares owned if any, would be retained within Residual plc.

Future Development of Residual plc NAV

As part of the managed separation the Residual plc, which had an IFRS net asset value of £452 million on a proforma basis at 31 December 2017, will become a subsidiary of Old Mutual Limited.

As at 31 December 2017 the Old Mutual plc holding company debt obligations comprised two fixed interest debt instruments. The first is a Tier 2 debt maturing in June 2021 paying a coupon of 8%, with an IFRS book value of £400 million and nominal value of £341 million. The coupon on the debt is circa £27 million per annum on the current outstanding amount. The second is Tier 2 debt maturing in November 2025 paying a coupon of 7.875%, with an IFRS book value and nominal value of £61 million. The coupon on the debt is circa £5 million per annum on the current outstanding amount. On the adoption of IFRS 9, effective from 1 January 2018, the Group has elected to designate this bond as Fair Value through Profit and Loss.

We will continue to evaluate the merits of repurchasing and redeeming outstanding Old Mutual plc debt, taking account of our risk appetite, regulatory constraints and other stakeholders.

Old Mutual plc will continue to incur corporate costs in 2018 until the existing plc Head Office closes. Corporate costs before recharges are estimated to be circa £50 million in 2018. Significantly reduced recurring plc Head Office corporate costs are anticipated beyond 2018, on the basis that the majority of plc Head Office operations are expected to have ceased by December 2018.

The total one-off costs associated with the wind-down of the plc Head Office are expected to be at the upper end of the £50 million to £65 million range that we originally estimated in the 2016 Preliminary Results announcement. At 31 December 2017 the plc Head Office had incurred £39 million of these wind down costs. We expect the majority of the remaining costs to be incurred in 2018.

Total one-off advisory costs are estimated to be at least £100 million, as communicated at the 2016 Preliminary Results. Total costs incurred as at 31 December 2017 were £52 million. Of the estimated £48 million still to be incurred, approximately £40 million will be incurred by the plc Head Office, largely during 2018.

In addition to the wind-down and advisory costs referred to above, one-off transaction costs will be incurred by the plc Head Office in relation to the managed separation. We estimate these costs to be in the range of £15 million to £20 million, excluding any additional costs associated with the intended secondary offering of Quilter. Transaction costs will be deducted from proceeds, where possible, in line with accounting policies and past practices.

At the 2016 Preliminary Results announcement we estimated £130 million would be incurred to accelerate the resolution of pre-existing Head Office items over the duration of the managed separation. This estimate is subject to addressing any remaining issues. As at 31 December 2017 £90 million had been incurred.

The obligations of OM Bermuda are running off, with the majority of the policies underlying the reinsurance obligations due to mature in the first half of 2018. The business will wind-up activities during 2018 with the remittance of surplus to Old Mutual plc, subject to the relevant regulatory approvals.

The second interim dividend of 3.57 pence per share will be paid on 30 April 2018. The cost of this dividend will be £175 million, of which circa £120 million will be funded from dividends received from OMEM and Nedbank during 2018, net of our hedging activities.

Performance measures

In line with statutory reporting requirements we report profits assessed on an 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 use them to provide greater insight to the financial performance, financial positions and cash flows of the Group and the way it is managed.

Old Mutual plc

Summary information about the key APMs used by the consolidated Group in our financial review is provided in the following table.

APM	Definition
Adjusted 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. The calculation of AOP adjusts the IFRS profit for a number of items as detailed in note C1 in the financial statements. Due to the nature of the Group's 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 Operating Earnings per Share (EPS)	Adjusted Operating EPS is calculated as post-tax adjusted operating profit divided by the adjusted weighted average number of shares (WANS) held by our investors. The calculation of Adjusted EPS is detailed in note C2 in the financial statements. Adjusted Operating EPS is an indicator of our profitability that measures how much we earn for each share held.
Adjusted Return on Equity (ROE)	Adjusted ROE is calculated as AOP (post-tax and NCI) divided by average ordinary shareholders' equity excluding the perpetual preferred callable securities, non-core operations and the decrease in value of equity due to treasury shares held within consolidated investment funds. It is a measure of the return generated for shareholders over the reporting period.
Adjusted Plc NAV per ordinary share (ANAV)	The ANAV uses a MCEV valuation basis for OMEM covered business and the UK Heritage business in OMW as well as the market value of listed subsidiaries and plc Head Office debt. Other businesses and other assets are generally included at IFRS net asset value. ANAV provides an alternative measure to indicate the value of Old Mutual plc.
Constant currency	Constant currency figures are calculated by translating local currency prior-period figures at the prevailing exchange rates for the period under review. The exchange rates used to translate the operating results, assets and liabilities of key foreign business segments to pounds sterling are provided in note A1 in the financial statement. This measure eliminates the effects of exchange rate fluctuations when calculating financial performance numbers for various periods.

Old Mutual Emerging Markets

The following APMs are used by OMEM to provide greater insight into the financial performance, financial position and cash flows of the Group and the way it is managed. Metrics to be used by Old Mutual Limited following the completion of the managed separation are detailed in the OMEM business review.

APM	Definition
Free surplus generation	OMEM's free surplus generation provides additional information on the cash generation of the business that is available for reinvestment or distribution to shareholders. It is calculated in respect of covered business using the free surplus component of MCEV earnings and for non-covered business as AOP post-tax and NCI adjusted for short-term fluctuations in investment return and movements in required capital for Property and Casualty business.
Gross flows	Gross cash flows received from customers during the period by Group businesses engaged in Life and Savings and Asset Management.
Life APE sales	The sum of new business recurring premiums (annualised) and 10% of the new single premiums written in an annual reporting period. It is a standardised measure of the volume of new life insurance business written.
Net client cash flows (NCCF)	The difference between gross flows and cash returned to customers (e.g. claims, surrenders, maturities) during the period.
Funds Under Management	The total market value of funds managed by OMEM at the point at which funds flow into OMEM.
VNB	The discounted value of expected future profits arising from new life insurance business sold in the reporting period.
VNB margin	VNB divided by present value of new business premiums ("PVNBP"), where PVNBP is the discounted value of expected future life insurance premiums from new recurring premium business, plus 100% of new single premiums. It reflects how much future profit is expected from each future life insurance premium and therefore measures the profitability of new business sold.
Gross written premiums (GWP)	The value of premiums that a property and casualty insurer is entitled to receive from its insurance business in a period before adjustments for reinsurance premiums. It is a measure of sales performance in Group businesses engaged in Property and Casualty
Underwriting margin	Underwriting result as a percentage of net premiums earned. It is calculated for the property and casualty insurance businesses across OMEM.
Loans and advances	The balance of gross loans and advances for Group businesses engaged in Banking and Lending. The amounts are gross of impairments on all performing, arrears and default loans.
Net lending margin	Net interest income plus non-interest revenue minus credit losses, as a percentage of average loans and advances over the period

Nedbank

The key APMs used by Nedbank within their business review are detailed below:

APM	Definition
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	Calculated as total expenses divided by the sum of net interest income and non-interest revenue. The Efficiency Ratio measures the expense efficiency of the business.
Liquidity Coverage Ratio	The Liquidity Coverage Ratio (LCR) aims to ensure that a bank holds adequate unencumbered High Quality Liquid Assets to cover total net cash outflows over a 30-day period under a prescribed stress scenario. It provides a view of the short-term resilience of the liquidity risk profile of banks.
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.

Detail on Nedbank's results and their APMs are available on the website: www.nedbankgroup.co.za

Old Mutual Wealth

The key APMs used by Old Mutual Wealth within the financial review are:

Normalised operating profit pre-tax	The difference between total income and total operating costs. Excludes non-operational items, such as one-off gains or losses from the sale of assets or acquisition costs as per Operating profit with additional normalisation adjustments. It 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.
Revenue Margin	Represents net management fee, including policyholder tax divided by average Assets under Management & Administration (AUMA).
Operating margin	Represents reported operating profit from continuing operations divided by total revenue, including policyholder tax and adviser fees. Operating margin excludes financing costs. An efficiency measure that allows users of our financial statements to assess what percentage of net revenues that become operating profit.
Net Client Cash Flows (NCCF)	The difference between money received from and returned to customers during the relevant period for the Group (excluding Quilter Life Assurance) or for the business indicated. This measure is a lead indicator of reported net revenue.
Integrated net inflows	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.
Assets under Management & Administration (AUMA)	Represents the total market value of all financial assets managed and administered on behalf of customers as at 31 December of the financial year.
Average AuMA	Represents the average total market value of all financial assets managed and administrated on behalf of customers during the financial year ended 31 December. Average AuMA is calculated using a 13-point average of monthly closing AuMA.
Net Management Fee	Consists of revenue generated from AuMA, fixed fee revenues and policyholder tax contributions, netted off by trail commissions payable.
Other Revenue	Represents revenue not directly linked to AuMA (e.g. encashment charges, risk result, adviser initial fees and adviser fees linked to AuMA in Quilter Financial Planning (recurring fees)).

Old Mutual Emerging Markets review

A resilient performance in a tough environment

I am very pleased with how well our business has performed despite the tough economic and political environment. Consumer spending in South Africa has been constrained by both modest increases in disposable income and consumer efforts to address their level of indebtedness. Further, business confidence was dampened by the foreign and local currency credit rating downgrade and political uncertainty.

Over the year, we focused on executing on our strategic priorities and on the eight battlegrounds underpinning them to drive sustainable profit growth and tight management of our expenses. We are also re-engineering our businesses to meet changing customer demands and develop new forms of distribution.

We delivered pre-tax AOP of R13.3 billion, up 5% on the prior year, following exceptional growth in Old Mutual Insure and our Rest of Africa segment. IFRS profits (post-tax and non-controlling interest) of R10.2 billion were up 46% due to profits arising from the disposal of our joint venture with Kotak Mahindra Bank in India of R1.4 billion and higher actual investment returns of R5.2 billion (2016: R2.4 billion) mainly in South Africa and Zimbabwe. Zimbabwean equity markets remain volatile, having fallen by more than 10% in the first two months of 2018.

The 2017 financial year was a tale of two halves for our business, with good growth in gross flows in the Mass and Foundation Cluster, Wealth and Investments and in Latin America during the second half of 2017. We delivered full year NCCF of R14.5 billion. Particularly pleasing was the Wealth and Investments NCCF of R14.1 billion, compared to R1.8 billion at the half year. This contributed to our funds under management closing at an impressive R1.2 trillion.

Our business remains highly cash generative, with a robust balance sheet and liquidity position, as well as a high quality capital base. The estimated OMLAC(SA) SAM solvency ratio for 2017 was strong at 243%, subject to regulatory approval. We are well-positioned in the right markets to drive added value from our franchises, deliver sustainable profit growth and returns for our shareholders as well as creating economic value for all our stakeholders.

It has been a busy period as we prepare for the listing of Old Mutual Limited (OML). As it relates to Nedbank, we have agreed the heads of terms in the new relationship agreement with Nedbank, which is expected to be finalised and executed in the coming weeks. OML will be retaining a shareholding of 19.9% in its shareholder funds, and it intends to distribute the remaining shareholding in Nedbank to its future OML shareholders within approximately six months of the listing. We also reached agreement with the Economic Development Department regarding three critical public interest issues: enterprise and supplier development, employment within our ecosystem and BEE ownership.

Our Pre-Listing Statement will provide more information about the OML Group, including its investment case, historic performance and associated risks.

OML will be targeting compounded annual growth (CAGR) in our Results from Operations of Nominal GDP + 2% over the three years to 2020 and a sustainable Return on Net Asset Value at our average cost of equity (CoE) + 4%. To support this, we have also launched a cost efficiency leadership programme designed to deliver R1.0 billion of pre-tax run-rate cost savings by the end of 2019, net of costs to achieve this.

Exciting opportunities lie ahead for us as an independently listed business and we look forward to contributing to the societies in which we operate.

Peter Moyo
OMEM CEO, and OML CEO-designate March 2018

Key financial indicators (Rm)	2017	2016 Restated	% change
IFRS profit (post-tax and NCI)[1]	**10,210**	6,999	46%
AOP (pre-tax and NCI)[1]	**13,326**	12,731	5%
Adjusted Return on Equity (%)[2]	**20.6%**	21.6%	(1.0%)
Free surplus conversion (%)[3]	**74%**	56%	18%
OMLAC(SA) SAM solvency ratio (%)[4]	**243%**	n/a	–

1 IFRS profit and AOP for 2016 were restated to include the actual and long-term investment return (LTIR) on shareholder assets above the capital requirement previously reflected in the Old Mutual plc. The impacts on AOP and IFRS profit were R398 million and R173 million respectively
2 Adjusted return on equity is AOP (post-tax and NCI) divided by average IFRS shareholder equity
3 Free surplus conversion is free surplus generated divided by AOP (post tax and NCI). Free surplus generated now reflects changes in the capital requirements of non-insurance businesses as well as fungibility considerations. Comparatives have therefore been restated
4 Pro-forma at 31 December 2017. The Standard Formula allows for, subject to regulatory approval, certain methodology elections to be made. The estimated SAM solvency positions are presented on the basis of the Group's preferred methodology which will, once the SAM framework is implemented, be formally presented for Regulatory approval. This is based on our current shareholding in Nedbank.

Strategic overview

Our vision is to become our customers' most trusted partner and to help them reach their financial goals. This is underpinned by our ambition to become a premium financial services group in sub-Saharan Africa.

To deliver value in the medium term, our priorities are focused on consolidating and growing our position in markets in which we operate; improving key underperforming businesses; and building long-term competitive advantage. These priorities are defined through our eight battlegrounds:

- Defend South African market share in mass market and corporate
- Defend and grow in the South African personal finance market
- Improve the competitiveness of Wealth and Investments
- Continued turnaround of Old Mutual Insure
- Turnaround East African business and improve returns across the Rest of Africa
- Win the war for talent
- Refresh the technology offering
- Cost efficiency leadership

OMEM operates through seven operational segments that collaborate to serve our customers. We also manage a number of central activities, assets and liabilities, collectively referred to as "Other Group Activities".

We are well-positioned in key sub-Saharan African geographies across multiple lines of business. Our business has an extensive product and service offering delivered through our multi-channel distribution network, with the largest reach compared to our traditional South African peers.

Key business developments

We have commenced our journey in fundamentally shifting from being a product-led business to becoming a customer-driven organisation. To support this change, we have restructured our leadership and reporting lines by ensuring that all customer-facing managing directors form part of the Executive Committee. This has sharpened our operational focus as we improve our customer service and experience to meet their evolving needs.

The new operating model and fundamental multi-year transformation of the finance function will commence with the introduction of new cost, customer and capital allocation methodologies from 2018. We believe that this will better reflect the economics of each of the operational segments going forward. However, year-on-year comparability of segmental performance in 2018 and 2019 will be affected, albeit with no impact on the overall Group results.

We also announced the appointment of Casper Troskie as the Finance Director of OMEM (and Finance Director-designate of OML) effective 1 April 2018. His broad financial services expertise and experience in the listed environment will be crucial to the business as we prepare for the listing of OML.

During the year, a new Wealth & Investments segment was established. This segment comprises Old Mutual Investment Group and Old Mutual Wealth (South Africa), which previously formed part of the Retail Affluent segment. Personal Finance, which was the other part of Retail Affluent, is now managed as a standalone segment.

We completed the sale of the 26% shareholding in Kotak Mahindra Old Mutual Life Insurance in India, for net proceeds to Old Mutual plc of circa.R2.4 billion (£138 million). We also completed the transfer of the international branches of OMLAC(SA) that were previously reported in Old Mutual Wealth (United Kingdom) to align the reporting with the ownership structure.

We successfully completed our collaboration work with Nedbank to unlock synergies in excess of R1.0 billion by the end of 2017. Of this, circa.R0.6 billion accrued to OMEM, and we are fully committed to working with Nedbank in delivering ongoing synergistic benefits on an arm's length basis. Future synergies will be underpinned by OML's 19.9% shareholding in Nedbank.

Performance highlights

OMEM delivered resilient earnings growth of 5% in pre-tax adjusted operating profit (AOP) of R13,326 million. This result reflects the momentum over the second half of the year as we continued to make progress on our battlegrounds, despite the tough macroeconomic environment.

Operating segments contributed R10,974 million to AOP, up 6% on the prior year. This was driven by the significant improvement in the underwriting result at Old Mutual Insure (up 290%) and growth in the Rest of Africa (up 33%). We continued to allocate central operating costs directly to the segments, such that only costs incurred for the holding company would be reported centrally. This resulted in R229 million being allocated directly to the segments. Consequently, year-on-year segmental performance is not comparable.

We delivered adjusted Return on Equity (RoE) of 20.6% compared to 21.6% in the prior year. The decline largely reflects a 10% increase in the IFRS shareholders' equity to R46.4 billion following higher actual investment gains in South Africa and Zimbabwe, and the profit on disposal of our 26% stake in Kotak. This was partially offset by the higher income tax expense in the current period. The OMEM AOP effective tax rate of 27.4% was marginally higher than 26.4% in the prior year, mainly due to an increase in non-deductible expenditure incurred. This contributed to AOP (post-tax and NCI) of R9,199 million, which was 2% above the prior year.

Cost efficiency leadership

We continue to focus our efforts on cost optimisation initiatives across the business. A cost base review was undertaken in the second half of 2017 in order to identify opportunities that enable the business to run more efficiently. We are therefore targeting pre-tax run-rate cost savings of R1.0 billion by the end of 2019, net of costs to achieve this. This will be based on the 2017 underlying IFRS run-rate cost base, and adjusted for inflation and foreign exchange movements over 2018 and 2019.

The 2017 underlying run-rate cost base of R18.4 billion, is adjusted for one-off project costs (e.g. regulatory and IFRS-related projects) and recurring standalone and listing costs. Below is the reconciliation from underlying IFRS operating and administrative expenses:

Rbn	2017
Underlying IFRS operating and administrative expenses[1]	**18.8**
One-off project costs (e.g. regulatory, IFRS-related, etc.)	**(0.3)**
Incremental recurring standalone and listing costs	**(0.1)**
Underlying IFRS operating and administrative expenses on a run-rate basis	**18.4**

1 Refer to Note D9 of the OM plc Group Financial Statements for further detail.

OMEM's underlying IFRS operating and administrative expenses of R18.8 billion were up 4% on the prior year, below South African inflation. The growth in expenses largely reflects higher operating costs associated with the expansion of MFCs branch footprint and higher remuneration costs in Old Mutual Insure off a low base in the prior year. This was partially offset by the tight cost management initiatives across the business.

As previously indicated, we expect to spend up to R100 million per annum in incremental recurring listing costs and between R100 million and R180 million per annum on other incremental recurring standalone costs. During the year, we incurred R142 million of recurring standalone and listing costs, including corporate insurance and costs associated with setting up capabilities for a listed company that previously did not exist, such as Investor Relations. The reported 2017 level of costs do not yet fully reflect the run-rate of these costs.

Win the war for talent

Our people strategy is focused on attracting, developing and retaining the best talent available in the market. Our commitment to ensuring diversity and inclusion across the workplace is partly evidenced through having the most transformed executive leadership team in South Africa's insurance industry in terms of gender and race.

Our efforts to establish OMEM as the employer of choice were recognised by the Top Employers Institute. OMEM was awarded the accolade of Number 1 Top Employer in South Africa and Ghana, and the industry leader in financial services and insurance for the seventh consecutive year in South Africa. Our businesses in all thirteen countries in which we operate throughout sub-Saharan Africa were also certified as a Top Employer.

Refresh the technology offering

We are continually investing in our technology platforms so as to maintain the relevance of our customer propositions and to continue to meet evolving customer's needs. The primary focus of recent initiatives has been on building protection solutions in the Mass and Foundation Cluster (MFC) and Personal Finance segments which are expected to be activated during 2019.

To date R1.9 billion has been spent on these initiatives; the incremental income statement expense has been in the region of R300 million per annum, and the remainder has been capitalised.

As this technology comes on line in 2019, the commencement of depreciation charges, together with continued IT investment in further enhancing customer value propositions and developing digital and analytics capability, is expected to lead to an increase in the incremental recurring income statement expense. This will however be tightly managed consistent with our targeted growth and RoNAV objectives.

Operating environment

Global markets continued on their recovery in 2017, with the US Federal Reserve signalling its intention to tighten monetary policy and a weakening of the US dollar. Emerging markets continued to grow faster than developed markets despite economic and political challenges.

In South Africa, political uncertainty throughout the year contributed to weaker business and consumer confidence. In November, Standard & Poor's downgraded South Africa's local government bonds to sub-investment grade following the Medium-Term Budget Policy Statement. However, the year ended on an optimistic note following the election of a new ANC president at the December elective conference.

Equity markets rallied in the second half of the year, having been relatively flat in the first half, with the JSE SWIX closing 17.7% ahead of 2016 at 13,292. Average JSE SWIX market levels were up 5.7% on the prior year. The rand closed the year 9.8% up against the dollar at 12.39, while bond yields eased back to below 9.2%, albeit above 8.5% before the medium-term budget review. In this context, our customers remain under significant financial strain, which has constrained our top-line growth.

In our other key markets, economic growth was also adversely impacted by political instability. In Zimbabwe, this culminated in a change in government with Robert Mugabe stepping down as president. Following an increase in cash shortages, the Zimbabwe Stock Exchange closed 130.4% ahead of the prior year as a result of investors moving funds into the equity market as an investment alternative. The current macroeconomic situation in Zimbabwe continued to be fluid, and the market reaction remains volatile. During the first two months of 2018, Zimbabwe's equity markets had declined by more than 10% since the 2017 year-end position.

On 9 March 2018, the Zimbabwean Government published its report on the inquiry into the loss in value for certain policyholders and beneficiaries upon the conversion of pension and insurance benefits after the dollarisation of the economy in 2009. This is subject to review by the president and cabinet.

We are reviewing the full report and its recommendations, and we remain committed to treating our customers fairly. We are preparing a preliminary evaluation of the potential impact on our operations. However we are not yet able to establish whether the commission's findings will have any impact on Old Mutual Zimbabwe.

In Kenya, economic growth was impacted by the protracted presidential elections and drought conditions. However, economic growth in 2017 remained strong at 5.0%.

IFRS profit (post-tax)

Reconciliation of AOP to IFRS (Rm)	2017	2016 Restated	% change
AOP (pre-tax and NCI)	**13,326**	12,731	5%
Total adjusting items	**892**	(2,855)	131%
Goodwill, intangible and associate charges	**(1,502)**	(1,504)	
Profit on business disposals	**1,390**	63	
Short-term fluctuations in investment return	**2,176**	(550)	
Returns on own debt and equity	**(935)**	(864)	
Managed separation and standalone costs	**(237)**	–	
Income tax attributable to policyholder returns	**1,391**	1,005	38%
IFRS profit (pre-tax and NCI)	**15,609**	10,881	43%
Income tax expense	**(5,377)**	(4,133)	(30%)
Non-controlling interests	**(22)**	251	(109%)
IFRS profit attributable to equity holders after tax[1]	**10,210**	6,999	46%

1 IFRS profit for 2016 was restated to include R173 million of the actual investment return on shareholder assets above the capital requirement previously reflected in the Old Mutual plc.

IFRS profit after tax of R10,210 million increased by 46% from R6,999 million in the prior year. Key adjusting items of AOP to IFRS profit include positive short-term fluctuations on LTIR of R2,176 million (2016: negative R550 million). These were largely driven by the significant growth in Zimbabwe's equity markets which resulted in positive short-term fluctuations of R1,815 million (2016: R312 million).

Profit on business disposals of R1,390 million relates to the disposal of our 26% stake in Kotak Mahindra Old Mutual Life Insurance Limited, which completed in October 2017.

In line with previous guidance, we expect to incur total one-off costs of up to R300 million in 2017 and 2018 to establish local standalone capabilities. During the year, we incurred R211 million of one-off standalone costs. Further, we incurred R26 million of one-off advisory and transaction costs.

'Goodwill, intangible and associate charges' includes goodwill impairments of R1.5 billion (2016: R1.3 billion) relating to East Africa and AIVA within LatAm & Asia. In the first half of 2017, a goodwill impairment of R1.2 billion was recognised relating to UAP-Old Mutual Group in East Africa. This followed the simplification of the operating structure of the Rest of Africa portfolio and the consequential change in operating segment. This resulted in a change in the cash generating units to which goodwill is allocated to and monitored for valuation purposes. Further, a goodwill impairment of R0.3 billion was recognised in the second half of the year relating to the AIVA business in Uruguay, as a result of the tough business environment and the exit by Old Mutual Wealth (UK) from the single strategy business.

Segmental performance

Adjusted operating profit (pre-tax, Rm)	2017	2016 Restated	% change
Mass and Foundation Cluster (MFC)	**3,165**	3,058	3%
Personal Finance	**3,151**	3,421	(8%)
Wealth and Investments[1]	**1,623**	1,592	2%
Old Mutual Corporate	**1,576**	1,403	12%
Old Mutual Insure	**312**	80	290%
Rest of Africa	**1,074**	806	33%
LatAm and Asia[2]	**609**	611	–
Central expenses and administration costs	**(536)**	(662)	19%
AOP (pre-LTIR and finance costs)	**10,974**	10,309	6%
LTIR[3]	**2,974**	2,951	1%
Finance costs	**(622)**	(529)	(18%)
Total AOP (pre-tax and NCI)	**13,326**	12,731	5%

1 From 2017, Wealth and Investments AOP includes Old Mutual International AOP of R60 million, previously reported in Old Mutual Wealth (UK). Comparatives have not been restated
2 LatAm & Asia AOP includes India profits of R181 million (2016: R177 million). India was sold during the 2017 financial year, and included in the results for nine months to 30 September 2017
3 LTIR on assets in excess of regulatory required capital is now reported in OMEM, previously reported in Old Mutual plc. Comparatives have been restated (2016: R398 million).

Mass and Foundation Cluster

MFC continues to retain its leading position in the South African mass market. We remain focused on evolving our customer value proposition by investing in growing the branch network, enhancing Money Account (our transactional offering), and rolling out ATMs, whilst we also improve the efficiency of the channels.

AOP of R3,165 million was 3% up on the prior year primarily driven by higher new business profits, better cost management and a more favourable product mix towards risk business. This was partly offset by lower net positive actuarial provision releases compared to the prior year.

Old Mutual Finance (OMF) AOP of R828 million was up 3% on the prior year. This was due to growth in loan sales supported by an increase in the number of branches, and better collections experience as a result of an improvement in the risk profile of the loan book.

Life APE sales grew by 3% to R4,091 million, which contributed to good NCCF of R6.1 billion, which was up 9%. This was driven by the growth in risk sales from higher adviser manpower and better productivity in the second half of the year. The branch network now contributes 29% to total MFC life APE sales (2016: 28%). VNB of R1,236 million was up 17% following pricing reviews on risk business, which led to a VNB margin of 10.6% (2016: 9.4%).

MFC grew its branch footprint by 31 to 323 branches and rolled out 22 pilot ATMs. Free Wi-Fi was rolled out to all branches allowing customers access to data connectivity, which has increased the level of activation for Money Account holders. The branch network, which remains key to providing seamless customer experience, continues to deliver better persistency experience and higher productivity than other channels.

Loans and advances of R12.1 billion declined by 20%, following the write-off of long outstanding loans deemed to have low recoverability (net of balance sheet impairment provisions), in line with management's decision to review the credit quality assessment used for calculating provisions within OMF. This now takes into account recent payment behaviour in preparation for IFRS 9 – Financial Instruments, effective for annual periods beginning on or after 1 January 2018.

This was partly offset by the reclassification of loans where payment behaviour had improved. This treatment is in line with the principles of the SARB directive 7/2015 and has resulted in a net positive AOP impact of R113 million. This further contributed to a lower net lending margin of 16.2% compared to 16.6% in the prior year.

We allocated R470 million in additional funeral cover to our existing MFC customers, at no extra cost to them. This was the remainder of the R624 million that we had set aside for customers from our 2014 mortality reserve release, to be allocated over a 5-year period. The release followed consistent positive mortality experience, mainly due to effective anti-retroviral roll-out by the South African government. Accelerating the remaining allocation had a R20 million cost impact on MFC's 2017 AOP, while improving the value to customers.

Personal Finance

Personal Finance remains focused on strengthening its position in the middle income market, and driving growth through digitally-enabled and innovative customer propositions. In particular, we are targeting the black middle income markets and refocusing our adviser footprint towards the Gauteng region. We also continued to invest in alternative distribution channels over the current period to meet evolving customer needs.

AOP of R3,151 million declined by 8% relative to the prior year, with the legacy book contributing circa.38% (2016: 20%). The decline in AOP was due primarily to significantly lower net positive provision releases compared to the prior year.

Life APE sales of R2,502 million were 4% behind the prior year largely due to lower Greenlight and conventional annuity sales. VNB grew significantly by 35% to R366 million. This was attributable to the change in methodology relating to the allocation of distribution costs to life products and the annual rate increases in Greenlight. As a result, the VNB margin improved to 2.4% (2016: 1.7%).

Personal Finance's open book recorded positive NCCF of R6.6 billion, offset by net outflows of R(9.4) billion from the legacy book. Total NCCF of R(2.8) billion was R0.3 billion better than the prior year due to lower maturities and disinvestments than experienced in the prior period.

We expanded our digital offering through the successful launch of iWYZE life, a direct channel providing underwritten life cover. We also increased the number of digital offerings that are available on the Old Mutual website, such as funeral cover, stockbroking and retirement annuities. This resulted in an increased contribution from these alternative channels to Personal Finance's life APE sales from 6% to 9% in 2017.

In response to the level of indebtedness of middle income customers, we continued to develop our online financial education tool, Moneyversity, which helps users make the most of their money. We also launched Find-an-Adviser, which helps customers in finding a nearby adviser that is best placed to meet their investment needs, using their geo-location. As at the year-end, over 700 advisers had registered on the platform.

In collaboration with OMF, there was a significant increase in the take up of Money Accounts and debt consolidations. We have also started working with Corporate to offer Home Solutions to Personal Finance customers, resulting in a wider range of the customers' needs being met.

Wealth and Investments

Wealth and Investments continues to capitalise on its focus in the asset management boutique model, in accelerating global capabilities and margin, leveraging the OMSFIN proprietary risk and investment capability, and building an African alternatives mega-manager in the unlisted space. It also seeks to maximise its market leading capabilities in future fit areas of passive, smart beta, alternatives and liability driven investments. Core to the strategy is to refocus on the retail Independent Financial Adviser market, growing in the wealth market, and further enhancing Old Mutual's presence in the high net worth market.

In the context of relatively flat markets in the first half of 2017, the segment recorded 2% growth in AOP to R1,623 million. The growth was largely attributable to base fee income on higher assets under management, positive investment returns in Alternatives, and the first time inclusion of profits from Old Mutual International of R60 million. This was partly offset by lower origination income and deal flow activity in both the specialised finance and the renewables businesses, as well as higher operating expenses in the asset management business.

The strong growth in gross flows in the second half of 2017 contributed to the NCCF of R14.1 billion for the year, which was significantly up from R1.8 billion in H1 2017. This was due to strong inflows into Wealth (SA), the Liability Driven Investment boutique and a large mandate into the Alternatives boutique in Q4 2017.

Assets under management (AuM) grew 17% to R736.6 billion, supported by better market performance in the second half of 2017 and the first time inclusion of R39 billion previously reported in OMAM, which was sold by Old Mutual plc during the year. Included in Wealth and Investment's AuM is R340.4 billion of funds that are managed on behalf of other OMEM group entities.

The asset management business recorded strong investment performance in 2017. In our core retail range, seven out of our ten funds were top quartile over one year, with the flagship retail Balanced Fund now top quartile over one, three, and five years, and all four of the core retail Multi-asset funds attained 4-star Morningstar ratings. The multi-manager multi asset funds are top quartile over one, three, five, seven and ten years. The asset management business remains focused on achieving long-term investment growth for its clients.

In January 2018, Khaya Gobodo was appointed as the Managing Director of the Asset Management business. Khaya brings a broad depth of investment experience in running an independent investment boutique as well as his global investment experience and perspectives on aligning asset management, platforms and distribution in South Africa.

During the year, a major Flexcube platform upgrade was completed on time and within budget, with no material disruptions to the Wealth business. The upgrade resulted in significant improvement in the administrative capability, which is necessary to enhance adviser and customer experience.

Old Mutual Corporate

Corporate remains well-positioned to retain its position as industry leader in South Africa as it improves customer and intermediary experience, continues to innovate its offering and delivers sustainable growth.

AOP of R1,576 million was 12% ahead of the prior year largely due to growth in asset-based fees and improved investment performance. Group risk underwriting experience deteriorated in the second half of 2017, despite the price remediation and process improvements that took place throughout the year. Management continues to drive actions to deliver improved group risk underwriting experience.

Life APE sales of R2,719 million were 10% down on prior year mainly due to lower group risk assurance, retail platform and annuity sales. VNB of R254 million was lower than the prior year as a result of expense allocation changes and lower sales volumes. As a result, the VNB margin declined by 80 bps to 1.0%.

Negative NCCF of R(7.1) billion, R10.8 billion lower than the prior year, was driven by higher outflows which included a significant non-life outflow during the fourth quarter, albeit at a low margin.

During the year, we launched the SuperFund annuity, underpinned by member education, advice and communication. We also launched the Nucleus Index Fund range on SuperFund, an enhancement to the passive investment offering to provide increased investment choice to customers. Further, we successfully completed the Compass upgrade, which will provide us with improved stability of our administration platform.

Corporate continued to drive its collaboration initiatives with the retail segments. We established adviser presence at 65 additional worksites during the year, whilst retail segments acquired circa.23,000 customers through the corporate worksites. This is a key lever in order to improve retention of benefits and funds under management as well as to provide cross-sell opportunities for the retail channels.

OM Insure (previously Mutual & Federal)

OM Insure’s turnaround strategy has been focused on the commercial business. The turnaround of the retail business has now been completed and we have made considerable progress in restoring the quality of the commercial lines book. This was achieved through the strengthening of skills to support disciplined underwriting and claims management. Significant progress has also been made to deliver on the growth strategy in iWYZE.

As a result, we recorded exceptional growth in the underwriting result of R312 million, a 290% improvement, in a year of unprecedented catastrophe events. The underwriting margin of 3.7% (2016: 0.9%), reflects favourable claims experience (net of reinsurance) in the Commercial and Personal Lines businesses and the growth in iWYZE, which delivered underwriting profit of R20 million (2016: loss of R39 million). We continue to target an underwriting margin of 4% − 6% in the near term.

P&C gross written premiums (GWP) of R12,481 million were 3% ahead of the prior year. The constrained growth was attributable to stricter underwriting criteria, lower policy volume growth following the continued remediation of loss making business, whilst generating strong premium growth of 15% in iWYZE. Net earned premiums of R8,409 million were down 2% against the prior year primarily due to changes in the reinsurance agreements at Credit Guarantee Insurance Corporation (CGIC) in 2017.

The business strengthened its senior management team following several key appointments during the year, including Nokuthula Manyoha as Finance Director, Franklin Sibanda as Rest of Africa General Insurance Executive, and Thabile Nyaba as Chief Risk Officer. Further, Old Mutual Insure completed the sale of a 25% equity interest in CGIC, the specialist corporate credit insurer, to Atradius.

Rest of Africa

Our Rest of Africa operations span 12 countries across three regions. The SADC region remains the largest contributor to Rest of Africa profits, where the business seeks to retain its leading market positions while capitalising on pockets of growth.

In East Africa, encouraging progress has been made in the P&C turnaround, whilst further work remains in respect of the property portfolio to alleviate the impact on adjusted RoE. In West Africa, we continue to pursue a capital light strategy leveraging our bancassurance partnerships. However, delays in bancassurance regulations in Nigeria have adversely impacted our growth ambitions.

The Rest of Africa segment delivered AOP (pre-LTIR) of R1,074 million which was 33% above the prior year (up 38% in constant currency). This excellent result was primarily driven by higher profits in Zimbabwe, East Africa, and Malawi.

SADC
AOP (pre-LTIR) of R1,520 million grew 6% against the prior period (up 14% in constant currency). This was driven by higher asset based fee income in Zimbabwe due to equity market performance, growth in Malawi's group life underwriting results, as well as good investment contract profits in Namibia.

Gross flows of R17.3 billion were up 11% driven by good non-life sales in Zimbabwe and Namibia, whilst Malawi recorded exceptional growth in the group life sales of its corporate business, albeit off a low base. NCCF of R1.0 billion, was adversely impacted by a R3.3 billion outflow from the government pension fund in Namibia due to regulatory rebalancing requirements.

The P&C underwriting margin of 7.2% (2016: 12.5%) declined primarily as a result of higher weather-related claims in the region and the impact of higher central cost allocations. P&C GWP increased by 1% in constant currency to R1,361 million driven by growth in new business in Zimbabwe, despite clients reducing the sums they have insured in the current macroeconomic environment.

Loans and advances of R9.2 billion, were up 23% in constant currency, reflecting growth in the mortgage and business loans books in CABS (Zimbabwe). OMF (Namibia) loans and advances of R0.6 billion were consolidated into the results the first time during the year. The lending margin of 11% declined by 55bps and was further impacted by the introduction of interest rate caps in Zimbabwe.

East Africa
Whilst we reported a loss (pre-LTIR) of R61 million, this was a significant improvement from a loss (pre-LTIR) of R167 million in the prior year. It followed good mortality experience on the Group Life Assurance book and an improvement in the underwriting experience in the P&C business.

Occupancy levels in our property portfolio continue to be low given the political environment in both Kenya and South Sudan. Consequently, property income remains under pressure in these markets. However, management is focused on initiatives to improve the occupancy levels.

The P&C underwriting margin (excluding the impact central cost allocations) improved 320 bps to 4.4% following the remediation on loss-making business and better claims experience. P&C GWP declined by 31% in constant currency to R2,145 million, as a result of our decision to exit loss making accounts in the health business and a loss of government schemes in Tanzania following regulatory changes.

Life APE sales of R100 million were 14% below the prior year in constant currency as a result of the non-renewal of a few corporate schemes, a slowdown of sales due to reduced manpower and lower new business during the election period in Kenya.

Faulu loans and advances of R2.1 billion declined by 6% in constant currency, largely reflecting stricter lending criteria following the introduction of interest rate caps in 2016. The net lending margin improved marginally to 12.8% (2016: 12.6%) due to a reduction in funding costs. During the year, a new Faulu core banking platform was implemented which is expected to improve business transactional capabilities.

West Africa
The reported AOP loss (pre-LTIR) of R182 million, was broadly in line with the prior year. In Ghana, growth was driven by increased sales volumes, better retention and new corporate business. This was offset by higher reinsurance costs in the P&C business and weaker life underwriting experience in Nigeria.

Life APE sales of R116 million were up 7% on the prior year driven by better corporate sales in Nigeria and good new business growth in Ghana.

LatAm and Asia
LatAm AOP of R469 million was 1% lower than the prior year. In constant currency, AOP was up 6% largely driven by higher investment returns in Colombia.

Despite the goodwill impairment in AIVA due to the overall underperformance, AIVA is making good progress in its transformation from regular premium business to private wealth management and is already delivering good sales.

Life APE sales of R570 million were 5% above the prior year in constant currency mainly due to higher Crea Patrimonio sales in Colombia. Funds under management grew 7% to R126.6 billion during the period.

NCCF of R24.9 billion was R15.3 billion higher than the prior year due to a few large Private Wealth flows towards the end of the year, and good Old Mutual Global Investors flows through AIVA. These are eliminated at an OMEM level as they are reported by Old Mutual Wealth (UK) at an Old Mutual plc Group level.

In China, our joint venture is focused on distributing higher margin risk products, which have lower regulatory capital requirements following regulatory changes. As a result, life APE sales of R300 million declined by 50%. Negative NCCF of R(1.3) billion, was R1.0 billion better than the prior year due to lower surrenders from the Universal Life products.

Central expenses and Other Group Activities
Central expenses and administration costs of R536 million were 19% better than the prior year. This was largely driven by the impact of the ongoing refinement of the expense allocation methodology to segments, mainly impacting the life operations in the retail and corporate segments.

LTIR of R2,974 million was up 1% on the prior year. Rest of Africa LTIR of R996 million, up 17%, was driven by a higher shareholder asset base following exceptional equity market performance in Zimbabwe. This was offset by a 7% decline in OMLAC(SA)'s LTIR to R1,573 million due to a reduced shareholder asset base. This followed the alignment of the Statutory Valuation Methodology for investment contracts to the IFRS basis.

Finance costs of R622 million were up 18% on the prior year. This follows the higher overall interest rates experienced in South Africa over the last twelve months, given OMLAC(SA) has both fixed rate and floating rate bonds in issue. The sovereign downgrade of South Africa's credit ratings by Standard & Poor's, which occurred late in 2017, did not have a material impact on finance costs.

Embedded Value

OMEM reported a slight improvement in the VNB margin to 3.3% (2016: 3.2%), despite a 3% decline in life APE sales. VNB increased by 4% to R2,256 million mainly as a result of a more profitable mix of business and the pricing reviews of the Personal Finance and MFC protection books.

Boosted by the strong VNB, the Return on Embedded Value remained strong at 13.8%. MCEV operating earnings (post-tax) declined by 3% on the prior year to R8,133 million, mainly due to the positive one-off impact of the elective transfer of the South African protection book to the new tax fund in South Africa in the prior year.

Experience variances remained positive at R146 million driven by expense and risk experience, albeit lower than R452 million in the prior year. Expense profits reflect tighter expense management across the business in response to the challenging economic environment. Lower experience profits on the prior year were due to adverse persistency experience driven by higher benefit payments in Corporate, which is indicative of the financial strain currently faced by these customers.

Investment returns were higher than expected, particularly in Zimbabwe, following the significant increase in the equity market levels. The steepening of the South African bond curve over the period had a further positive impact on earnings.

Cash and capital

OMEM adopts a disciplined approach to capital allocation decisions and manages risks within its financial management framework and related risk appetite. We continue to be a highly cash generative business, with high solvency and a strong, well-diversified and resilient balance sheet that is able to withstand a number of economic shocks.

Free surplus generation and utilisation

Free surplus generated represents the available cash, after allowing for capital invested into the business.

As we prepare for the implementation of SAM, we have undertaken a review of the methodology used in calculating the free surplus generation. Below is a reconciliation of the free surplus generated:

Free surplus generation (Rbn)	2017	2016	% change
OMEM free surplus − as previously calculated	**8.9**	6.3	41%
Capital requirements of non-insurance business and other[1]	**(0.1)**	(0.4)	(75)%
Fungibility constraints	**(2.0)**	(0.9)	(122)%
OMEM free surplus − restated	**6.8**	5.0	36%

1 Other adjustments include the removal of Kotak and adjustments relating to the shift from AOP to Adjusted Headline Earnings.

The OMEM free surplus generation calculation now reflects changes in the capital requirements of non-insurance businesses as well as fungibility considerations where there are constraints in remitting profits to the holding company. Local free surplus generated reflects the cash available prior to fungibility considerations

During the year, OMEM generated free surplus of R6.8 billion (2016: R5.0 billion), after any fungibility considerations. This represents a conversion rate of 74% of post-tax AOP (2016: 56%). This was largely attributable to higher investment returns particularly in South Africa and the significant improvement in Old Mutual Insure's underwriting result together with the lower capital requirements from a reduction in net earned premiums.

Currently, fungibility constraints primarily impact our Zimbabwean operations, where profits are retained and reinvested to grow the local businesses. The increase reflects abnormally high investment returns particularly in Zimbabwe during the year. Equity market performance in Zimbabwe remains volatile and as such we do not expect to sustain the current level of returns.

The mature life business in South Africa, which has traditionally generated strong returns, is the main contributor to the strong free surplus generation. OMEM currently reinvests circa.25% of the free surplus generation into new business initiatives, the majority of which relate to the life business in South Africa. We see this as sound investment in a market where we have continued to demonstrate good returns and robust VNB margins.

During the 2017 financial year, OMEM remitted R2.7 billion of the free surplus generated to its shareholder (2016: R4.7 billion). The lower dividend compared to the prior year enabled the business to further strengthen its liquidity and solvency position in preparation for Solvency Assessment and Management (SAM) and standalone capital requirements as well as the repayment of intercompany debt.

As at 31 December 2017, there was R5.9 billion (2016: R9.7 billion) of outstanding intercompany indebtedness between OMLAC(SA), Old Mutual Group Holdings (OMGH) and its subsidiary Old Mutual Portfolio Holdings (OMPH). During the year, R3.8 billion of this intercompany indebtedness was repaid to OMLAC(SA), funded through greater cash retention as mentioned above.

We anticipate that the remaining intercompany indebtedness will largely be repaid with the transfer of Nedbank shares to OMLAC(SA) up to the desired shareholding of 19.9%. Any residual indebtedness will be settled in cash.

OMLAC(SA) solvency position

OMEM discloses solvency capital under the current regulatory capital rules (South African statutory valuation method). As at 31 December 2017, OMLAC(SA)'s capital coverage was 3.0 times (2016: 3.2 times). The decline in the OMLAC(SA) solvency position was largely driven by the increase in statutory capital requirement as a result of new business book growth and year-end assumption changes relating to expenses and morbidity.

We have adopted the provisional SAM basis for how we manage capital, which is expected to become effective in mid-2018, upon the implementation of the Insurance Act. It will impose more stringent regulatory requirements on both long-term and short-term insurers, requiring them to maintain adequate solvency capital based on risks faced on a day-to-day basis. Based on our preferred methodology which will be formally presented for regulatory approval once the SAM framework is implemented, the OMLAC(SA) SAM solvency ratio for 2017 was estimated at 243%.

Debt as part of the capital structure

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. The Revolving Credit Facility of R5,250 million was undrawn at the year-end. The facility term runs until mid-2020, and we intend to negotiate a roll-over of the facility leading up to the maturity date.

In November 2017, Old Mutual Insure issued a R500 million in floating rate Tier 2 bonds, with a coupon rate of 9.157% (JIBAR + 2.09%). The first call date is 2022. The issuance will provide the segment with an enhanced regulatory solvency position while also producing economic benefits that will help the continued turnaround of the segment.

Following Standard and Poor's rating action on the South Africa local currency credit rating, effective 30 November 2017, OMLAC(SA)'s Global Scale Rating was lowered to 'BB+ Stable' from 'BBB- Negative' and its long-term South African National Scale Rating was lowered to 'zaAA+' from 'zaAAA'. Its short-term rating was affirmed at 'zaA-1+' whilst its Issuer Credit Rating on the Subordinated Deferrable Debt was lowered to 'zaA' from 'zaAA'.

Managed Separation update

We have made good progress to date on the managed separation process and we remain on track for independence in 2018.

Since the appointment of Trevor Manuel as the Chairman of OMGH (and Chairman-designate of OML), the governance structures above senior management have been strengthened. The non-executive membership of the reconstituted OMGH Board comprises nine directors from the board of directors of OMEM and seven new non-executive directors. This repositioning of the board has brought together strong operational skills and listed financial services company experience.

As a key step in the preparation for the listing of OML, we will be publishing a Pre-Listing Statement. The Pre-Listing Statement will include more detailed information in relation to the OML Group, including its strengths, strategy and outlook. It will also contain detailed risk factors and other key information relevant to the business.

In line with our vision, and in accordance with our Responsible Business principles, BEE ownership remains a priority as part of our broader commitment to transformation. Under the Amended Financial Services Charter (FSC), OMEM reported a Level 3 B-BBEE contributor status and a reduced B-BBEE shareholding of 21.5% as at 31 December 2017, due to a change in the methodology used to determine the value of the South African businesses. Subsequent to the implementation of the Managed Separation, we anticipate an increase in the effective B-BBEE shareholding (which will be measured for the first time as at 31 December 2018), but may be marginally below the current Amended FSC target of 25%. We will have greater clarity on this once the OML Group's share register has settled.

On 9 January 2018, we entered into a Framework Agreement with the South African Economic Development Department in relation to the South African aspects of the Managed Separation. Under this agreement, we have committed to restore the B-BBEE shareholding, if required, to at least 25% in 3 years from the listing date and to be best in class when measured against comparable competitors within 5 years (measured on the listing date). OML will consider the form and extent of any appropriate B-BBEE transactions, should they be required, to achieve these targets.

We have also undertaken to allocate an incremental amount of R500 million to a ring-fenced Enterprise Supplier Development Fund. It is envisaged that the fund will provide loan funding to small enterprises on behalf of OML to promote enterprise and supplier development, with the principal aim of creating additional jobs in the OML ecosystem.

In January 2018, the Competition Tribunal in South Africa approved the acquisition of Old Mutual plc by the newly incorporated OML, subject to the commitments that OMGH has made in the Framework Agreement.

Post the anticipated unbundling of Nedbank (within approximately 6 months of listing), the OML Group will principally consist of OMEM and a 19.9% shareholding in Nedbank. The 19.9% shareholding was determined through negotiations with Nedbank and discussions with the South African Reserve Bank in order to provide stability to the broader financial system and the Nedbank and OML investor base during managed separation, whilst also supporting our ongoing commercial arrangements.

OML is committed to being a significant holder of Nedbank while retaining a right to review its precise holding as appropriate from time to time, in accordance with the heads of terms outlined in the new Nedbank Relationship Agreement, which is expected to be finalised and executed in the coming weeks.

Other group activities of the OML Group will include the positive net asset value Residual of Old Mutual plc, which largely comprise the wind down of the plc Head Office and the remaining operations in Bermuda that are expected to run off by mid-2018.

OML as a standalone business

This section summarises certain information on OML's operations, including certain forward looking statements in relation to operating performance expectations and targets. These should be read in conjunction with all the information in the Pre-Listing Statement when it is published.

Key financial indicators (Rm)	2017	2016 Restated	% change
Adjusted Headline Earnings	**13,409**	10,765	25%
Return on Net Asset Value (%)	**22.3%**	18.9%	3.4%
Free surplus conversion (%)	**60%**	57%	3%
SAM solvency ratio (%)[1]	**167%**	n/a	–

1 Pro-forma at 31 December 2017. The Standard Formula allows for, subject to regulatory approval, certain methodology elections to be made. The estimated SAM solvency positions are presented on the basis of the Group's preferred methodology which will, once the SAM framework is implemented, be formally presented for regulatory approval.

Pro-forma Adjusted Headline Earnings

Going forward, the OML Group's primary profit measure will be Adjusted Headline Earnings. Results from Operations will be the primary performance measure of the OML Group's operating segments, which represents the segments' contribution to the OML Group's results. Adjusted Headline Earnings excludes Residual plc and discontinued operations.

Adjusted Headline Earnings is calculated as Headline Earnings as defined by the SAICA Circular 2/2015 adjusted for items that are not reflective of the economic performance of the OML Group. "Results from Operations" is calculated as Adjusted Headline Earnings before shareholder tax and minority interest, excluding net investment return on shareholder assets.

Below is a reconciliation of AOP, Old Mutual plc's primary profit measure, to Adjusted Headline Earnings, the future profit measure:

Adjusted Headline Earnings (Rm)	**2017**	2016	% change
AOP (pre-LTIR and finance costs)	**10,974**	10,309	6%
Investment return on insurance funds	**200**	170	18%
Amortisation of acquired intangible assets and acquisition costs	**(221)**	(351)	37%
Impairment of intangible and fixed assets	**23**	67	(66%)
Results from Operations	**10,976**	10,195	8%
Shareholder investment return	**4,920**	2,205	123%
Finance costs	**(622)**	(529)	(18%)
Income from associates (19.9% of Nedbank)	**2,346**	2,282	3%
Adjusted Headline Earnings (pre-tax and NCI)	**17,620**	14,153	24%
Shareholder tax	**(3,723)**	(3,148)	(18%)
Non-controlling interest	**(488)**	(240)	(103%)
Adjusted Headline Earnings	**13,409**	10,765	25%

Investment return on insurance funds of R200 million (2016: R180 million), previously reported as part of LTIR, is now reported in Old Mutual Insure's Results from Operations.

Amortisation of acquired intangible assets and acquisition costs of R221 million (2016: R351 million) relates primarily to intangibles following the acquisition of a controlling stake in OMF in 2014 and African Infrastructure Investment Managers in 2016.

Shareholder investment returns are no longer smoothed. The increase in actual investment returns was driven by both South Africa and Zimbabwe's equity market performance as mentioned earlier.

Detail on Nedbank's results is available on the website: www.nedbankgroup.co.za

Below is a reconciliation of Adjusted Headline Earnings to post-tax IFRS profit:

IFRS profit (post tax and NCI) (Rm)	**2017**	2016	% change
Adjusted Headline Earnings	**13,409**	10,765	25%
Investment return for Group equity and debt instruments in life funds	**(1,355)**	(864)	(57%)
Impact of restructuring	**(54)**	124	(144%)
Discontinued operations	**8,002**	8,333	(4%)
Income from associates	**(2,346)**	(2,282)	(3%)
Residual plc	**(4,512)**	(3,062)	(47%)
Headline earnings	**13,144**	13,014	1%
Impairment of goodwill and other intangibles	**(1,106)**	(1,783)	38%
Impairment of investments in associates	**2,081**	(557)	474%
Profit/(loss) on disposal of subsidiaries, associated undertakings and strategic investments	**–**	399	–
Profit after tax for the financial year attributable to ordinary equity holders of the parent	**14,119**	11,073	28%
Dividends on preferred securities	**253**	278	(9%)
Profit after tax for the financial year attributable to equity holders of the parent	**14,372**	11,351	27%

Investment return for Group equity and debt instruments in life funds relates to investment returns on policyholder investments in group equity and debt instruments held by the OML Group's life funds.

Restructuring costs represents the elimination of material non-recurring expenses, specifically related to business restructuring costs such as Managed Separation costs, the costs or income associated with completed acquisitions and the release of acquisition date provisions. The 2016 financial year includes the release of an acquisition reserve in MFC.

Consistent with our proposed 19.9% shareholding in Nedbank following the anticipated unbundling of Nedbank, income from associates reflects the proportionate headline earnings that would have been earned from the investment in Nedbank. In accordance with IFRS, the Nedbank shareholding of approximately 55% will be classified as held for distribution.

Return on Net Asset Value (RoNAV)

The OML Group RoNAV is defined as Adjusted Headline Earnings divided by average Adjusted IFRS equity. Adjusted IFRS Equity is calculated as total Group equity attributable to ordinary equity shareholders before adjustments related to consolidation of funds. It excludes Residual plc and discontinued operations, and is further adjusted to recognise the equity attributable to the retained 19.9% shareholding in Nedbank. From the time of the anticipated unbundling of Nedbank the equity attributable to Nedbank will be adjusted to remove the one-off fair value adjustment required under IFRS at the time of unbundling and the same adjustment will be applied when calculating RoNAV on an ongoing basis.

As a result, the pro-forma OML RoNAV was 22.3% (2016: 18.9%). This was due primarily to higher actual investment returns in South Africa with abnormally high growth in Zimbabwe, which contributed to a 25% increase in Adjusted Headline Earnings and a corresponding increase of 5% in average Adjusted IFRS equity over the period.

Capital management

The OML Group seeks to maintain a strong solvency and liquidity position through disciplined management of capital resources and risks. The backing of a financially sound group is important given the security and peace of mind that it affords customers, advisors and regulators.

Scenario analysis is undertaken regularly to ensure the regulatory balance sheet could withstand severe and prolonged periods of stress. Our solvency position remains resilient under these stresses.

Solvency Assessment and Management (SAM)

The OML Group solvency position is calculated by aggregating the results of the solvency calculations under SAM across the entities that make up the Group. The estimated SAM solvency positions are presented on the basis of the Group's preferred methodology which will, once the SAM framework is implemented, be formally presented for regulatory approval. This is based on our current Nedbank shareholding.

The material South African insurance entities are aggregated using the accounting consolidation approach which applies the SAM Standard Formula, where capital requirements are calculated assuming a 1-in-200 year event over a one year timeline, to the consolidated balance sheet of these entities.

The remainder of the entities are aggregated using the deduction and aggregation approach which sums the solvency position for each entity after elimination of intercompany positions, with the basis of inclusion depending on the nature of the entity:

- Other insurance businesses are included using the SAM Standard Formula.
- Banks and other financial entities are included on a Basel III basis.
- Other unregulated entities are included at their IFRS NAV.

In the OML Group calculation, the own funds in certain entities, such as Zimbabwe, are restricted to the solvency capital requirement of that entity (calculated on a SAM basis) due to fungibility and transferability restrictions.

Currently, any benefit from Residual plc positive NAV is assumed not to be fungible and therefore the surplus is excluded from the SAM solvency ratio. Further detail on Old Mutual plc NAV is provided in the Old Mutual plc Group Finance Director's report.

Based on the latest draft SAM prudential standards, it is expected that the regulatory solvency will remain strong, with appropriate capitalisation. As at 31 December 2017, the pro-forma OML Group SAM solvency ratio is estimated to be 167%.

The lower 2017 solvency cover ratio at an OML Group level compared to OMLAC(SA)'s regulatory SAM solvency ratio is mostly a function of the elimination from OMLAC(SA)'s regulatory SAM solvency ratio of the contribution made by Nedbank to OMLAC(SA)s capital on a solo basis as it is included on a Basel III basis at the OML Group level. In addition, banking and short term insurance entities, in common with the industry tend to operate at lower regulatory solvency levels compared to life insurers.

We expect the capital ratios to remain within their target ranges under normal economic conditions for both OML and OMLAC(SA).

OMLAC(SA) Insurance Business Solvency

In addition to the OMLAC(SA) SAM solvency ratio, the Group manages the OMLAC(SA) Insurance Business solvency ratio to a target range of 180% to 210%. This ratio excludes OMLAC(SA)'s holding in strategic assets as the Group would not expect to rely on these to support OMLAC(SA)'s solvency in stress conditions. Strategic assets include the holding in Nedbank that will be retained after the anticipated unbundling of Nedbank.

Free surplus generation

Below is a reconciliation of the free surplus generated for OML:

Free surplus generation (Rbn)	2017	2016	% change
OMEM free surplus – restated	**6.8**	5.0	36%
Nedbank at 19.9%	**1.2**	1.2	–
OML free surplus generated	**8.0**	6.2	29%

Nedbank's contribution to the free surplus generated is based on the dividends received by the OML Group on its minority shareholding. Nedbank's dividends represent approximately 50% of its Headline Earnings. This also acts to reduce the reported conversion rate of Adjusted Headline Earnings to free surplus generation.

Based on the above, the pro-forma OML Group free surplus generated was R8.0 billion (2016: R6.2 billion). This represents a conversion rate of 60% of Adjusted Headline Earnings (2016: 57%).

Debt leverage/gearing

Based on pro-forma 2017 financial statements, the leverage of the OML Group was 11.5% with interest cover of 29.3 times. These ratios include only our subordinated debt. The subordinated debt is expected to qualify, based on draft SAM provision, in contributing towards the OML Group's solvency capital and is issued from OMLAC(SA) at R6.0 billion, with a smaller quantum of R500 million from Old Mutual Insure.

Senior debt held in our operating entities, debt raised by Nedbank, and Residual plc debt are not included in the OML Group leverage metrics.

We expect no more than £402 million of debt to be retained in Residual plc. Further detail on Old Mutual plc debt is provided in the Old Mutual plc Group Finance Director's report.

The OML Group also has a Revolving Credit Facility in place of R5.25 billion which was undrawn as at 31 December 2017.

Overall, the current level of gearing on the OML balance sheet is appropriate and we remain within our appetite under stress testing.

Outlook for OML as a standalone business

The International Monetary Fund (IMF) expects global economic growth to improve to 3.9% in 2018, with emerging markets and developing economies growing by 4.9%. Sub-Saharan Africa is expected to accelerate from 2.7% in 2017 to 3.3% in 2018.

In South Africa, economic growth estimates for 2018 have been revised upwards to 1.4%, by the South African Reserve Bank. Following the swearing in of Cyril Ramaphosa, the new President has set out his intentions to restore confidence in the economy, improving the fiscal situation, addressing corruption and reducing the size of the cabinet. This was further reinforced by the messages contained in the recent Budget Speech.

We therefore anticipate a boost in both business and consumer confidence over the medium-term as the rand strengthens, unemployment rates improve and the inflation rate remains within the South African Reserve Bank target range of 3-6%.

In light of this, our targets for the OML Group are as follows:

Returns

RoNAV of average cost of equity + 4%: OML will develop a 12 month weighted average CoE and referenced to where the capital is allocated on a weighted basis. The COE will be published as part of OML's public reporting cycle.

Growth

Results from Operations to grow at a CAGR of Nominal GDP + 2% over the three years to 2020. Nominal GDP growth is defined with reference to South Africa.

Cost efficiencies

R1.0 billion of pre-tax run-rate cost savings by end 2019, net of costs to achieve this. This will be based on the 2017 IFRS administrative cost base (as defined), and adjusted for inflation and foreign exchange movements over 2018 and 2019.

Capital strength

- SAM solvency for OML: 155% − 175% post the anticipated unbundling of Nedbank
- SAM solvency for OMLAC(SA): greater than 200%
- OMLAC(SA) Insurance Business solvency ratio: 180% − 210%

Dividend policy

We target full year ordinary dividends that are covered by Adjusted Headline Earnings between 1.75 and 2.25 times. We target an interim dividend at 40% of the current year interim Adjusted Headline Earnings.

Any dividends will take into account OML's underlying local cash generation, fungibility of earnings, targeted liquidity and solvency levels, business strategy needs and market conditions at the time. Dividends will be set using the full flexibility of the range.

OML may, from time to time, distribute additional returns to shareholders outside of the ordinary dividend cover, where it is determined that there is excess permanent capital in the business.

Current year trading

The OML Group's continuing operations have started the year on a positive note. Results from operations have traded in line with expectations since the 2017 year end.

Further, the recurring and one-off cost estimates in preparation for listing remain unchanged from our previous guidance, with incremental recurring standalone and listing costs reaching their run-rate by the end of 2018, up to R280 million.

It is anticipated that the next trading update will be for the first quarter of 2018, which is expected to be published in April 2018.

Nedbank review

A solid performance in a volatile and challenging domestic environment

"Nedbank continued to create value for all our stakeholders in a challenging political and economic environment. Our headline earnings of R11.8 billion, up 2.8%, reflect a good performance from our managed operations, with headline earnings growth of 7.8% and a ROE (excluding goodwill) of 18.1%. Slower revenue growth was offset by reduced impairments and good cost management, while our share of the loss from our associate ETI following its Q4 2016 results decreased in the second half of the year as the ETI business returned to profitability.

"The achievements of the last few years have provided us with a solid base and we continue delivering on our strategies and building the capabilities that will enable us to meet the 2020 targets we have now set of an ROE (excluding goodwill) of greater than or equal to 18% and an efficiency ratio of less than or equal to 53%. We released exciting digital innovations such as the new Nedbank Money app, the Nedbank Private Wealth app and Karri app, chatbots and UNLOCKED.ME (an exclusive e-commerce marketplace for millennials) and continued to gain share of transactional banking clients in both our retail and wholesale businesses. We are actively optimising our cost base, as reflected in cost growth at 5.1%, and maintained a strong balance sheet as evident in a CET1 ratio of 12.6%, above the top end of our internal target range. Our strategic enablers are making a difference for our operations and for our clients as we create a more agile, competitive and digital Nedbank.

"Looking forward, 2018 started with positive changes to SA's political and socioeconomic landscape and brought renewed prospects for higher levels of inclusive growth. Nedbank is acutely aware of the increased responsibility that we, and indeed all businesses, have to work alongside government, labour and civil society to play our part in improving the lives of all South Africans.

"Reflecting on the impact on the group of the greater levels of business and consumer confidence evident in the early part of 2018, an improving economic outlook, ongoing delivery on our strategy and ETI's returning to sustained levels of profitability, our guidance for growth in diluted headline earnings per share for 2018 is to be in line with our medium-to-long-term target of greater than or equal to GDP plus CPI plus 5%."

Nedbank highlights on a reported basis[1]	2017	2016	% change
IFRS profit after tax attributable to equity holders of the parent (Rm)[2]	**6,411**	5,617	14%
Reported AOP (pre-tax, Rm)[3]	**16,522**	15,925	4%
Headline earnings (Rm)	**11,787**	11,465	3%
Net interest income (Rm)	**27,624**	26,426	5%
Non-interest revenue (Rm)	**24,063**	23,503	2%
Net interest margin	**3.62%**	3.41%	
Credit loss ratio	**0.49%**	0.68%	
Efficiency ratio	**58.6%**	56.9%	
Return on equity	**15.3%**	15.3%	
Return on equity (excluding goodwill)	**16.4%**	16.5%	
Common equity tier 1 ratio	**12.6%**	12.1%	

1 As reported by Nedbank
2 IFRS profit after tax attributable to equity holders of Old Mutual plc
3 As reported by Old Mutual Group.

Banking and economic environment

Economic growth in developed markets improved, despite ongoing geopolitical tensions, supported by accommodative monetary policies and stronger manufacturing production, and reinforced by increased global trade. Emerging and developing economies also improved as a consequence of better-than-expected growth in China and higher global commodity prices. Emerging-market equity and bond markets benefited from increased capital inflows as global investors search for higher yields.

SA's slow economic recovery continued into the second half of the year, with 2017 GDP growth estimated at 0.9%, driven mainly by a recovery in agricultural production following good summer rainfall and some improvement in mining production in response to stronger global demand and firmer international commodity prices. A revival in consumer spending added further momentum in the second half of 2017 as households benefited from lower inflation and the marginal reduction in interest rates in July. Despite this recovery and reflective of weak business and consumer confidence, business volumes in 2017 were generally lower than in the prior year, as evident in client loan applications across multiple products and in slower client trading activity.

The pace of economic activity picked up moderately in sub-Saharan Africa, with agricultural and mining output recovering on the upturn in global demand and international commodity prices, and the prolonged El Niño-induced drought finally broke in many countries. According to the International Monetary Fund (IMF), sub-Saharan Africa is expected to record GDP growth of 2.6% in 2017.

Domestic inflation averaged 5.3% in 2017, significantly lower than the 6.4% recorded in 2016, brought about mainly by sharply lower food inflation given the strong summer harvest. Relatively moderate and selective consumer demand coupled with a resilient rand also helped contain price pressures during the course of the year. After a year of volatile trade the rand ended 2017 2.5% stronger against the trade-weighted basket of currencies. The largest gains occurred near year-end as sentiment surged following the election of Mr Cyril Ramaphosa as the new leader of the ruling ANC in mid-December on expectations of a change in the country's leadership, improved governance and structural reforms that are likely to support investment and higher levels of inclusive growth.

After cutting the repo rate by 25 bps to 6.75% in July, SARB's Monetary Policy Committee left interest rates unchanged at both the September and November 2017 policy meetings. The central bank's more cautious approach was driven by concerns over the upside risk that the rand posed to the inflation outlook at that time. Fears mounted that SA's rand-denominated sovereign debt ratings could be downgraded to sub-investment grade by all three major rating agencies, given the escalation in political uncertainty and the sharp deterioration in the country's fiscal position, as set out in the Medium Term Budget Policy Statement.

In November 2017 Fitch affirmed the country's BB+ rating with a stable outlook (one notch below investment grade). Moody's placed SA's Baa3 foreign and local currency ratings on review for downgrade, with the decision to follow the 2018 National Budget in February. However, S&P

Global downgraded SA's local currency rating to BB+ (one notch below investment grade) and our foreign currency rating to BB (two notches below investment grade), while changing the rating outlook to stable. All three rating agencies highlighted similar concerns, including weaker-than-expected public finances, weak economic growth, ineffective government spending and policies as well as the paralysing impact of political infighting and poor governance.

Review of results

Nedbank produced a solid performance in a domestic macro and political environment that has proved volatile and challenging. Headline earnings, including losses in associate income from ETI of R744 million, increased 2.8% to R11,787 million. This translated into an increase in DHEPS of 2.4% to 2,406 cents and an increase in HEPS of 2.2% to 2,452 cents. As in prior periods, we highlight our results both including and excluding ETI (referred to as managed operations) to provide a better understanding of the operational performance of the business given the volatility in ETI's results in 2016 and 2017. However, we will revert to group-level reporting in 2019. Our managed operations produced headline earnings growth of 7.8% to R12,762 million, with slower-than-expected revenue growth more than offset by reduced impairments and good cost management.

ROE (excluding goodwill) and ROE remained flat at 16.4% and 15.3% respectively. ROE (excluding goodwill) in managed operations also remained stable at 18.1%. ROA decreased 0.01% to 1.22% and, excluding ETI, ROA in managed operations improved from 1.29% to 1.33%. Return on RWA increased from 2.23% to 2.30%.

Our CET1 and tier 1 capital ratios of 12.6% and 13.4% respectively, average LCR for the fourth quarter of 116.2% and an NSFR of above 100%, are all Basel III-compliant and are a reflection of a strong balance sheet. On the back of solid earnings growth in managed operations and a strong capital position, a final dividend of 675 cents was declared, an increase of 7.1%. The total dividend per share increased 7.1% to 1,285 cents.

Cluster financial performance

Nedbank's managed operations generated headline earnings growth of 7.8% to R12,762 million and delivered an ROE (excluding goodwill) of 18.1%. CIB and Wealth were impacted the most by the challenging operating environment, RBB made a strong earnings contribution and RoA subsidiaries delivered an improved performance off a low base.

CIB maintained an attractive ROE of above 20% and produced solid results, driven by lower credit losses and good expense management. Revenue lines were affected by slowing economic activity as clients postponed projects and borrowed and transacted less. Early repayments and managed settlements, together with slower drawdowns resulted in weaker advances growth, although the pipelines remained stable. Credit quality remained strong through proactive risk management as we continued to monitor stressed sectors of the economy, such as certain areas in retail and certain state-owned enterprises, closely.

RBB delivered an improved ROE and good headline earnings growth, underpinned by solid transactional NIR growth, lower impairments and expense growth, and achieved PPOP growth of 4.0%. NII was underpinned by solid growth in advances and strong growth in deposits, offset by a lower NIM due in part to the impact of prime–JIBAR squeeze. Lower expense growth reflects the initial impact of optimising processes and operations, including headcount reductions.

Nedbank Wealth maintained an attractive ROE, although headline earnings were impacted by subdued markets and negative investor sentiment, further compounded by entropic weather conditions and the strengthening rand, as well the once-off profit from the sale of our Visa share in the 2016 base.

RoA headline earnings were negatively impacted by the fourth-quarter 2016 ETI associate loss accounted for quarterly in arrear. The loss was reported on in our interim results and was followed by subsequent quarterly profits from ETI up to 30 September 2017. Our subsidiaries grew headline earnings off a low base, supported by the consolidation of Banco Único (included for three months in 2016), notwithstanding continued investment in infrastructure, systems and skills.

The improvement in the Centre was largely due to the R350 million release from the central provision, of which R150 million was in the first half of the year, and fair-value gains on certain hedging portfolios.

Financial performance

Net interest income

NII increased 4.5% to R27,624 million, ahead of average interest-earning banking asset growth of 2.2% (adjusted for the removal of the liquid-asset portfolio).

NIM expansion of 8 bps to 3.62% (2016: 3.54% rebased) was largely driven by an endowment benefit of 5 bps and improved asset mix changes of 8 bps. Asset pricing pressure, in part due to the NCA interest rate caps, the narrowing of the prime–JIBAR spread and the increased cost associated with enhancing the funding profile each reduced NIM by 2 bps.

Impairments charge on loans and advances

Impairments decreased by 27.5% to R3,304 million. The CLR declined by 0.19% to 0.49%, driven by lower specific impairments mostly from resolutions and settlements in CIB. The decrease in impairments reflects the quality of the portfolio across all our businesses and we have specific coverage ratios levels of 36.2%.

Impairments in CIB declined by 82.4% to R193 million, driven by lower specific impairments relating largely to resolutions of historic client matters. Impairments are individually determined in CIB and 84% of impairments are concentrated in approximately 10 counters. RBB impairments declined by 1.2% to R3.2 billion as a result of ongoing lower risk origination strategies and an improvement in collections. The decrease in unsecured lending and home loan CLRs reflects the benefits of historic selective origination improving the quality of the book over time and the release of additional impairment overlays previously raised for risks and events that did not materialise. Continued proactive collection and resolution strategies within CIB and RBB contributed to group write-offs decreasing 6.0% to R4,675 million and post write-off recoveries increasing 5.8% to R1,224 million.

The group's central provision decreased to R150 million (from R500 million at 31 December 2016 and R350 million in June 2017) as a result of risks that had previously been identified but had not materialised. The balance is retained for prudency in a volatile macroeconomic environment. Excluding the central provision release, the group CLR would have been 0.54%.

All business units successfully applied selective origination strategies that enabled an overall de-risking of the advances portfolio, leading to defaulted advances remaining flat at R19.6 billion. Lower defaulted advances in CIB resulting from positive client resolutions were offset by increased defaulted advances in RBB.

The decrease in specific coverage from 37.4% to 36.2% was primarily due to lower specific coverage in RBB as well as increased resolutions of various client issues in CIB resulting in lower specific impairments. The lower coverage reflects increased performing defaults in RBB and the recovery success in CIB. Nedbank considers the coverage ratios appropriate given the higher proportion of wholesale lending, compared with the mix of its peers, high recovery rates and the collateralised nature of the commercial-mortgages portfolio, with low loan-to-value ratios.

Portfolio coverage increased marginally from 0.69% to 0.70%, reflecting the offsetting effects of higher portfolio impairments due to stronger advances growth in RBB and the reduction of the central provision and RBB overlays.

Non-interest revenue

NIR growth of 2.4% to R24,063 million reflects the impact of weak business and consumer confidence levels.

Commission and fee income grew 4.0% to R17,355 million. RBB reported good transactional NIR growth of 6.0%, notwithstanding an increasing number of clients who are transacting within fixed-rate bundles and spending less. CIB experienced lower corporate activity off a high base the previous year.

Insurance income decreased 9.3% to R1,566 million as a result of an abnormal number of significant weather-related claims, lower homeowner's cover and credit life volumes, and an increase in lapses.

Trading income increased 3.7% to R3,900 million, given muted activity levels among wholesale clients, particularly in the second half of the year, and avoidance of the potential negative impacts in markets around event risks such as political changes and credit rating downgrades.

Private-equity income, including positive realisations in the Commercial Property Finance portfolio, decreased 23.7% to R708 million, given the high base in the comparative period.

Expenses

Expense growth of 5.1% to R29,812 million was below inflation and in line with the guidance we provided for the full 2017 year (being growth of mid-single digits), demonstrating disciplined and careful management of discretionary expenses in an environment of slower revenue growth. The underlying movements included:

- Staff-related costs increasing at a slower rate of 6.5%, following:
  - an average annual salary increase of 6.5% and a 859 reduction in staff numbers since December 2016; and
  - a 0.1% decrease in short-term incentives.
- Computer-processing costs increasing 3.8% to R4,201 million off a higher base the previous year.
- Fees and insurance costs being 7.8% higher at R3,277 million, due mostly to additional regulatory-related costs.

The group's growth in expenses exceeded total revenue growth (including associate loss) of 2.1% (3.2% in managed operations), resulting in a negative JAWS ratio of 3.0% and an efficiency ratio of 58.6%, compared with 56.9% in 2016. Excluding associate income, our efficiency ratio was 57.8%. Expense growth, excluding RoA where we continued to invest in distribution, technology and new-product rollouts, was 4.3%.

Earnings from associates

The loss of R838 million in earnings from associates was attributed largely to ETI's loss of R1,203 million in the fourth quarter of 2016 (announced on 18 April 2017), partly offset by the profit of R459 million reported by ETI for the nine months to 30 September 2017, in line with our policy of accounting for ETI earnings a quarter in arrear. The total effect of ETI on the group's headline earnings was a loss of R975 million, including the R321 million impact of funding costs.

Accounting for this associate loss, together with Nedbank's share of ETI's other comprehensive income and movements in Nedbank's foreign currency translation reserves, resulted in the carrying value of the group's strategic investment in ETI declining from R4.0 billion at 31 December 2016 to R3.3 billion at 31 December 2017. Since the introduction of the new foreign exchange regime by the Central Bank of Nigeria on 21 April 2017, confidence has improved and the Nigerian banking index has increased by 73%. In line with this ETI's quoted share price – albeit illiquid – increased by 65% during 2017 which resulted in the market value of the group's investment in ETI increasing during the year to R3.6 billion at 31 December 2017 and R4.1 billion at 28 February 2018. While risks remain, the actions taken to improve ETI's financial position and governance, along with an improving macroeconomic environment, is expected to drive an improved financial performance from ETI in 2018.

As required by IFRS, the R1 billion impairment provision recognised at 31 December 2016 was reviewed at 31 December 2017 and it was determined that currently no change to the provision was required.

A R96 million associate loss was incurred due to operational losses in an associate, which is the cash-processing supplier to the four large banks.

Statement of financial position

Capital

The group continued to strengthen its capital position, with our CET1 ratio of 12.6% now above the top end of our internal target range of 10.5–12.5%, following organic capital generation through earnings growth, lower asset growth and some RWA optimisation.

In the current environment of slower advances growth, capital generation has been stronger following lower credit RWA growth and continued refinement of Basel models. This was partially offset by the impact of the rand strengthening at the back end of 2017, which adversely impacted foreign currency translation reserves and led to higher credit valuation adjustment RWA. Higher levels of equity exposure resulted in increased equity RWA. As a result overall RWA increased 3.7% to R528.2 billion.

The group's tier 1 ratio improved to 13.4% and includes the issuance of R600 million of new-style additional tier 1 capital instruments during the year, offsetting the progressive grandfathering of old-style perpetual preference shares as we transition towards end-state Basel III requirements.

The group's total capital ratio has improved to 15.5% and includes the issuance of R2.5 billion of new-style tier 2 capital instruments during the year, partially offsetting the redemption of R3.0 billion in old-style tier 2 capital instruments.

Funding and liquidity

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

The group's three-month average long-term funding ratio was 27.0% for the fourth quarter of 2017, supported by growth in Nedbank Retail Savings Bonds of R5.7 billion to R24.9 billion and the successful capital market issuances of R3.5 billion senior unsecured debt, R2.5 billion new-style tier 2 debt and R1.0 billion in securitisation notes.

The group's quarterly average LCR of 116.2% exceeded the minimum regulatory requirement of 80% in 2017 and 90% effective from 1 January 2018. The group maintains appropriate operational buffers designed to absorb seasonal and cyclical volatility in the LCR.

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

Nedbank's portfolio of LCR-compliant HQLA increased by 0.6% to a quarterly average of R138.2 billion. Notwithstanding the low growth in HQLA, the LCR still increased year-on-year as a result of a decrease in LCR net cash outflows attributable to a positive tilt in our deposit mix towards proportionally more Basel III-friendly deposits in the form of RBB and Wealth deposits together with market share gains in commercial deposits. The HQLA portfolio, taken together with our portfolio of other sources of quick-liquidity, resulted in total available sources of quick liquidity of R195.4 billion, representing 19.9% of total assets.

Nedbank has maintained the NSFR at above 100% on a pro forma basis and is compliant with the minimum regulatory requirements that are effective from 1 January 2018.

Loans and advances

Loans and advances increased by 0.5% to R710.3 billion, driven by solid growth in RBB offset by a decline in term and other loans in CIB.

RBB loans and advances grew 5.3% to R305.2 billion, with MFC (vehicle finance) increasing by 8.6% as new-business volumes improved despite the contracting vehicle sales market. RBB's growth was achieved across all asset classes by increasing the contribution from lower-risk clients in line with risk appetite and prudent origination strategies. We take comfort in the quality and overall performance of the unsecured-lending portfolio based on the conservative rules we apply to consolidation, restructuring and term strategies. Home loans grew at below-inflation levels, but market share was maintained.

CIB loans and advances decreased 3.8% to R356.0 billion due to a combination of unexpected early repayments and managed sell-downs, which allowed for the diversification of risk. Demand for new loans was weak as a result of muted client capital expenditure in a competitive market in the subdued economic climate. Commercial-mortgage loans and advances grew by 6.5% to R161.6 billion, maintaining our leading share of the SA market. The portfolio contains good-quality collateralised assets with low LTVs, underpinned by a large secure asset pool and a strong client base, and is managed by a highly experienced property finance team.

Deposits

Deposits grew 1.3% to R771.6 billion, with total funding-related liabilities increasing 1.2% to R823.2 billion, while the loan-to-deposit ratio improved to 92.1%.

Through the active management of the RBB franchise, deposits grew 8.5% to R295.3 billion, resulting in household deposits market share gains increasing year-on-year to 18.9% from 18.7%, supported by Nedbank's strong market share in household current account deposits of 19.1%. Through the growth in current accounts, savings and fixed deposits and other structured deposits Nedbank has successfully reduced the proportion of funding from negotiable certificates of deposit as well as more expensive foreign currency funding used in the general rand funding pool.

This positive tilt towards more Basel III-friendly deposits achieved across RBB, Nedbank Wealth and RoA and through market share gains in commercial deposits has resulted in lower HQLA and long-term funding requirements as well as a stronger LCR in terms of ensuring cost-effective regulatory compliance and a strong balance sheet position.

Group strategic focus

During 2017 we continued to focus on delivering on our five strategic focus areas designed to make Nedbank a more agile, competitive and digital bank, and underpin sustainable earnings growth and improving returns.

Delivering innovative market-leading client experiences

We launched various market-leading innovations such as the new Nedbank Private Wealth mobile app. This was one of the first products delivered through our Digital Fast Lane capability. It ranked joint sixth in the global Mobile Apps for Wealth Management 2017 survey and was placed third among 600 apps in the Best Enterprise Solution category at the MTN Business App of the Year Awards. The new Nedbank Money app, which makes banking more convenient for our retail clients, was downloaded more than 300,000 times since November 2017. We launched UNLOCKED.ME, an exclusive e-commerce marketplace for millennials.

Karri, our mobile payment app that enables users to make cash-free payments for school activities quickly, securely and hassle-free, has been rolled out to more than 100 schools across the country. In Nedbank Wealth we piloted geyser telemetry, an innovative smart home solution that reduces electricity consumption. As far as our integrated channels are concerned, we have converted 55% of our outlets to new-image branches to date, and our investment in distribution channels over the next three years (until 2020) will result in 73% of our retail clients being exposed to the new-image branch format and self-service offerings.

The introduction of chatbots and robo-advisors will continue to enhance client experiences through our contact centre and web-servicing capabilities. We launched NZone, our digital self-service branch at the Sandton Gautrain station, as well as Africa's first solar-powered branch to enable banking in deep-rural communities. The foundations put in place through Managed Evolution (our core systems and technology platform transformation), digital enhancements and New Ways of Work will lead to ongoing incremental digital benefits and enhanced client service.

In 2018 Nedbank will bring further exciting digital innovations to market to enhance client experiences and drive efficiencies. Some of these include a refreshed internet banking experience in line with our mobile banking apps, the ability to sell an unsecured loan bundled with a transactional account, simplified client on-boarding with convenient, FICA-compliant account opening from your couch, a new and exciting loyalty and rewards solution, and further rollout of chatbots, robo-advisors and software robots (robotic process automation).

Growing our transactional banking franchise faster than the market

Nedbank's RBB franchise grew its total client base 1.6% to 7.5 million, with 6.0 million clients having a transactional account and 2.8 million main-banked clients supporting retail transactional NIR growth of 6.0%. Our main-banked client numbers remained flat as slower transactional activity caused some of our existing clients to fall outside our main-banked definition, particularly in the youth segment, while the middle-market, professional and small business client segments continued to increase. The newly launched Consulta survey estimates Nedbank's share of main-banked clients at 12.7%, up from the 10.1% recorded through the 2015 AMPS survey (using a similar methodology) as we aim to reach a share of more than 15% by 2020. Our integrated model in CIB enabled deeper client penetration and increased cross-sell, resulting in 26 primary-bank client wins in 2017.

Being operationally excellent in all we do

Cost discipline is an imperative in an environment of slower revenue growth. We have ongoing initiatives to ensure this, such as having reduced our core systems from 251 to 129 since inception of the Managed Evolution programme, with us being well on our way to reaching a target end state of less than 60 core systems by 2020; and the reduction of floor space in RBB by more than 30,000 m² by 2020; of which 24,485 m² has been achieved to date. We worked with our sister companies in the Old Mutual Group to deliver synergies of just in excess of R1 billion, R393 million of which accrued to Nedbank. Good progress was also made with our target operating model (TOM) initiatives, which aim at generating R1.0 billion pre-tax benefits for Nedbank by 2019 (and R1.2 billion by 2020) and are linked to our long-term incentive scheme. Most cost initiatives have been identified in RBB and we delivered savings of R621 million in 2017, which includes TOM savings.

During the year we reduced headcount by 859 (mostly through natural attrition), optimised our staffed points of presence by closing 32 in-retailer and 53 personal-loan outlets (while maintaining our coverage of the bankable population at 84%). We achieved efficiencies through the recycling of cash through our increased footprint of Intelligent Depositor devices. Four client-servicing functions, previously only accessible through branches, as well as the new Nedbank Money app were launched during the fourth quarter of 2017, while another 33 are planned for deployment across our digital channels by March 2018. We implemented 50 software robots (robotic process automation) to enhance efficiencies and reduce processing errors in administrative-intense processes, with more than 200 planned for rollout in 2018.

Managing scarce resources to optimise economic outcomes

We maintained our focus on growing activities that generate higher levels of EP, such as growing transactional deposits and increasing transactional banking revenues, with commission and fees in RBB up 5.3%, and achieved earnings growth of 6.9% in RBB and 5.0% in CIB. Our selective origination of personal loans, home loans and commercial-property finance has proactively limited downside risk in this challenging operating climate, enabling a CLR of 0.49%, below the bottom end of our TTC target range. At the same time our balance sheet metrics remain strong and we continue to deliver dividend growth above the rate of HEPS growth.

Providing our clients with access to the best financial services network in Africa

In Central and West Africa ETI remains an important strategic investment for Nedbank, providing our clients with access to a pan-African transactional banking network across 39 countries and Nedbank with access to dealflow in Central and West Africa. We have made good progress in working with ETI's board and other institutional shareholders to strengthen its board and management. We have increased our board representation and our involvement in the group as Brian Kennedy joined Mfundo Nkuhlu on ETI's board. Mfundo was appointed Chair of the ETI Risk Committee and Brian was appointed to the Remuneration and Audit Committees. Risk management practices are being enhanced and the audit of ETI's 2017 interim results provides comfort that the risk of another fourth-quarter loss as in 2015 and 2016 has decreased. We are pleased that ETI reported a profit for the nine months to 30 September 2017. We remain supportive of ETI's endeavours to deliver an ROE in excess of its COE over time. While risk remains, economic conditions in Nigeria and other economies in West Africa are improving and ETI should provide a strong underpin to Nedbank Group's earnings growth in 2018.

In SADC we continue to build scale and optimise costs. Our core banking system, Flexcube, which was successfully rolled out in Namibia in 2016, was also implemented in Lesotho, Malawi and Swaziland in 2017 and we plan to roll it out in Zimbabwe during 2018. We also launched a number of new digital products and we continue to grow our distribution footprint. As a result, clients increased 14% and online digital activations were up 22%. The acquisition of a majority stake in Banco Único in 2016 continued to deliver value and positioned Nedbank well to leverage off higher levels of economic growth in Mozambique. In 2018 we will rebrand MBCA in Zimbabwe to Nedbank while completing the last of our core banking system implementations in our subsidiaries.

Old Mutual plc managed separation

On 1 November 2017 Old Mutual plc announced that the strategic minority shareholding to be retained in Nedbank Group by Old Mutual Limited (OML) to underpin the ongoing commercial relationship between the companies has been agreed at 19.9% of the total Nedbank Group ordinary shares in issue, as held by shareholder funds. This followed the 11 March 2016 announcement by Old Mutual plc about the Old Mutual managed separation, and the subsequent communication on 25 May 2017 in which Old Mutual plc stated that the new SA holding company, to be named OML, would retain a strategic minority shareholding in Nedbank Group after the implementation of the managed separation. The 19.9% shareholding will be held by OML, which will have a primary listing on JSE Limited and a secondary listing on the London Stock Exchange. OML will be listed at the earliest opportunity in 2018, following the publication of Old Mutual plc's 2017 full-year results.

The decrease in OML's shareholding in Nedbank Group will be achieved through the unbundling of Nedbank Group ordinary shares to OML's shareholders. This will result in OML, immediately after the implementation of unbundling, holding a 19.9% strategic minority shareholding in Nedbank Group. The unbundling will occur at an appropriate time and in an orderly manner, after the listing of OML and allowing suitable time for the transition of the OML shareholder register to an investor base with an SA and emerging-market focus and mandate. After the unbundling, Nedbank Group is likely to see an increase in the number of its shares held by emerging-market-mandated index funds, which will adjust according to the improved free float (from about 45% before unbundling to about 80% after unbundling) and a normalisation of SA institutional shareholding (some of which are currently underweight on a straight-market-capitalisation basis given some Nedbank Group holding through the Old Mutual plc shareholding). As part of this process Nedbank Group will continue to market itself as an attractive investment for local and international investors.

Nedbank Group will continue business as usual and the managed separation will have no impact on our strategy, our day-to-day management or operations, our staff and our clients. Our engagements have been at arm's length and overseen by independent board structures. Old Mutual operates predominantly in the investment, savings and insurance industry, which has little overlap with banking, even though we compete in the areas of wealth and asset management and personal loans. Our technology systems, brands and businesses have not been integrated.

As noted before, our collaboration with Old Mutual to unlock synergies by the end of 2017 was successful. Future synergies will continue to be underpinned by OML's strategic shareholding in Nedbank Group. We are fully committed to working with OML to deliver ongoing synergistic benefits at arm's length.

Economic and regulatory outlook

While structural challenges remain, 2018 has started with renewed optimism that these will be addressed and that improving business and consumer confidence should lead to a cyclical upturn off a low base. The SA economy is forecast to grow about 1.6% in 2018 as a resilient world economy and relatively firm international commodity prices are expected to provide further support to domestic production and exports. Business and consumer confidence should also improve from very weak levels in 2017, boosted by newly elected SA President Ramaphosa's promises to restore good governance, take immediate action against corruption and state capture, and make changes to many cabinet portfolios. Moderate growth in consumer spending and credit are forecast for 2018, while fixed investment, as well as government consumption and capital expenditure, is forecast to remain subdued.

The recovery in sub-Saharan Africa is expected to gather pace in 2018, underpinned by the ongoing global commodity price upswing as well as improved government finances and structural reforms in some African countries. The International Monetary Fund expects sub-Saharan Africa to grow faster at 3.4% this year.

Domestic inflation is forecast to recede moderately in the early part of 2018, before edging higher towards the end of the year, averaging about 5.1% over the year as a whole. Early in the year a stronger rand, coupled with easing food and fuel prices, should help contain inflation off the higher base that prevailed at the start of 2017. The rand remains the key risk to the inflation outlook. High expectations of political, policy and fiscal reforms have been built into the rand's recent rally. If the new ANC leadership fails to deliver, especially on the fiscal concerns, SA still runs the risk of being downgraded to universal sub-investment grade status, which could place the rand under pressure and alter the inflation outlook for the year. Given these uncertainties, the anticipated rise in US interest rates, the gradual tapering of quantitative easing programmes by other major central banks and the expected upturn in the domestic inflation cycle towards year-end, the SARB's Monetary Policy Committee is forecast to keep interest rates unchanged at current levels throughout 2018 and into 2019.

Fitch indicated that a failure to implement credible fiscal consolidation and any further economic deterioration could trigger another rating downgrade. S&P will act if both the economy and standards of public governance weaken further, while Moody's will downgrade the country if the measures to address the fiscal funding gap lack credibility or the chosen structural reforms fail to encourage investment and growth.

Overall economic conditions should improve off a low base and, despite the many challenges faced by the SA economy, the SA banking system remains sound, liquid and well capitalised.

Prospects

Our guidance on financial performance for the full year 2018 is currently as follows:

- Average interest-earning banking assets to grow in line with nominal GDP.
- NIM to be slightly above the 2017 level of 3.62%.
- CLR to increase into the bottom half of our target range of 60 to 100 bps (under IFRS 9).
- NIR to grow above mid-single digits.
- Associate income to be positive (ETI associate income reported quarterly in arrear).
- Expenses to increase by mid-single digits.

Given the loss in associate income from ETI in the 2017 base and continued delivery on the Nedbank strategy, our financial guidance is for growth in DHEPS for the full 2018 year to be in line with our medium-to-long-term target of greater than or equal to GDP + the consumer price index + 5%.

The outlook for our medium-to-long-term targets in 2018 is as follows, and we have now set ourselves specific 2020 targets of ROE (excluding goodwill) of greater than or equal to 18% and cost to income of lower than or equal to 53% as a pathway to ongoing and sustainable improvements in the key metrics that support shareholder value creation.

Cluster performance	Change	Headline earnings (Rm)		ROE (excluding goodwill)	
		2017	2016	**2017**	2016
CIB	5%	**6,315**	6,014	**20.7%**	21.1%
RBB	7%	**5,302**	4,960	**19.1%**	18.9%
Wealth	(10%)	**1,068**	1,192	**27.5%**	35.2%
RoA subsidiaries	90%	**165**	87	**3.3%**	2.1%
Centre	79%	**(88)**	(414)		
Nedbank managed operations	8%	**12,762**	11,839	**18.1%**	18.0%
ETI	(> 100%)	**(975)**	(374)		
Group	3%	**11,787**	11,465	**16.4%**	16.5%

Credit loss ratio by cluster (%)	% banking advances	2017	2016	Through-the-cycle target ranges
CIB	47%	**0.06%**	0.34%	0.15%–0.45%
RBB	46%	**1.06%**	1.12%	1.30%–1.80%
Wealth	4%	**0.09%**	0.08%	0.20%–0.40%
RoA	3%	**1.02%**	0.98%	0.65%–1.00%
Group	100%	**0.49%**	0.68%	0.60%–1.00%

Basel III (%)	2017	2016	Internal target range	Regulatory minimum[1]
CET1 ratio	**12.6%**	12.1%	10.5%–12.5%	7.25%
Tier 1 ratio	**13.4%**	13.0%	> 12.0%	8.75%
Total capital ratio	**15.5%**	15.3%	> 14.0%	10.75%

(Ratios calculated include unappropriated profits.)

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

Nedbank Group LCR	2017	2016
HQLA (Rm)	**138,180**	137,350
Net cash outflows (Rm)	**118,956**	125,692
Liquidity coverage ratio (%)[2]	**116.2%**	109.3%
Regulatory minimum (%)	**80.0%**	70.0%

2 Average for the quarter.

Loans and Advances (Rm)	Change (%)	2017	2016
CIB	(4%)	**356,029**	370,199
Banking activities	(3%)	**324,673**	335,113
Trading activities	(11%)	**31,356**	35,086
RBB	5%	**305,198**	289,882
Wealth	3%	**29,413**	28,577
RoA	5%	**20,541**	19,582
Centre[3]	27%	**(852)**	(1,163)
Group	0%	**710,329**	707,077

3 Intercompany eliminations.

Metric	2017 performance	Full-year 2018 outlook	Medium-to-long-term target
ROE (excluding goodwill)	**16.4%**	Improves, but remains below target	5% above COE[4] (≥ 18% by 2020)
Growth in DHEPS	**2.4%**	≥ consumer price index + GDP growth + 5%, supported by ETI recovery	> consumer price index + GDP growth + 5%
CLR	**0.49%**	Increases into the bottom half of our target range (under IFRS 9)	Between 0.6% and 1.0% of average banking advances
NIR-to-expenses ratio	**80.7%**	Improves, but remains below target	> 85%
Efficiency ratio (including associate income)	**58.6%**	Improves, but remains above target	50–53% (≤ 53% by 2020)
CET1 capital adequacy ratio (Basel III)	**12.6%**	Within or above target	10.5–12.5%
Economic capital	Internal Capital Adequacy Assessment Process (ICAAP):		
	A debt rating, including 10% capital buffer		
Dividend cover	**1.91 times**	Within target range	1.75–2.25 times

4 The COE is forecast at 13.2% in 2018.

Reconciliation of AOP (pre-tax) to Nedbank's headline earnings

	2017	2016	Change %
Headline earnings[5]	**11,787**	11,465	3%
Exceptional items	**(73)**	2	(3,750%)
Amortisation of Wealth Joint Ventures	**86**	74	16%
Credit spread (profits) / loss	**–**	–	–
Non-capital trading items	**(166)**	(128)	(30%)
Tax as reported by Nedbank	**4,209**	3,986	6%
Non-controlling interests as reported by Nedbank	**679**	526	29%
Adjusted operating profit per Old Mutual (Rm)	**16,522**	15,925	4%
Analysis by cluster			
Corporate & Investment Banking	**7,963**	7,763	3%
Retail & Business Banking	**7,330**	6,903	6%
Wealth	**1,417**	1,614	(12%)
Rest of Africa	**(683)**	(281)	(143%)
Centre	**495**	(74)	769%
Adjusted operating profit (Rm)	**16,522**	15,925	4%
Analysis by line of business			
Banking	**15,361**	14,587	5%
Asset management	**425**	395	8%
Life & Savings	**485**	567	(14%)
Property & Casualty	**251**	376	(33%)
Adjusted operating profit (Rm)	**16,522**	15,925	4%
Adjusted operating profit (£m)	**963**	799	21%

5 As reported by Nedbank.

Old Mutual Wealth review

Strong results, good progress and ready to list

"I am delighted with our business performance in 2017. The continuation of sustained strong investment performance and buoyant market conditions is delivering good customer outcomes. We have attracted very high levels of net flows, and our business model is proving a huge success in providing what customers want. I'm particularly pleased that we have been able to maintain profitability and achieve a 29% operating margin for 2017 for the go-forward business, while still investing significantly in the business. All of this makes me confident of our future prospects and growth, with further opportunities to come from the optimisation initiatives which we intend to pursue post-listing.

"During the year, we have implemented a number of important strategic developments towards achieving our goal of becoming the UK's leading wealth manager. We agreed terms for the sale of the Single Strategy business, which simplifies our business and allows us to focus more on our integrated wealth management offering which is serving customers so well. We have further grown our distribution capabilities through the acquisition of Caerus. A key project for us, and one which will significantly enhance our offering to advisers and their customers, is our UK Platform Transformation Programme and I am very pleased that this remains on track and on budget.

"Following comprehensive product reviews of our legacy business, we are starting voluntary remediation to customers in certain legacy products within the Heritage book. Our core business philosophy is to do the right thing by our customers, and this product review is part of putting this into action.

"We have a strong balance sheet, a strong capital and liquidity position and we are financially independent from Old Mutual plc. We have completed our separation activities and we are ready to list as Quilter plc. We expect to publish a Quilter Prospectus in connection with that listing. This will provide shareholders, who will become Quilter shareholders at the time separation completes, with a more detailed overview of the Quilter business and its performance over the last three years. It will also set out what we believe is an attractive investment case for Quilter as a standalone business, and, of course, explain the key risks associated with our business. I would urge you to read that document when it is published.

"2017 was a proving year for our business. 2018 will be a defining one and we are excited about the opportunities ahead."

Old Mutual Wealth highlights on a reported basis	2017	2016	% change
IFRS profit/(loss) after tax attributable to equity holders of the parent (£m)	**99**	(4)	
Reported AOP (pre-tax, £m)[1,2]	**363**	260	40%
NCCF (£bn)	**10.9**	5.2	110%
NCCF, excl. Heritage (£bn)	**12.2**	5.7	114%
NCCF/Opening AuMA (excl. Heritage)[5]	**12%**	6%	
AuMA (£bn)	**138.5**	123.5	12%
Pre-tax operating margin[3]	**36%**	32%	
Revenue margin (bps)[4]	**60**	64	
RoE	**19%**	13%	

1 Reported AOP includes Single Strategy of £152m in 2017 (2016: £60m), of which performance fees were £101m (2016: £26m). From 2017, the SA branches are reported within Old Mutual Emerging Markets and the 2016 profit of the SA branches was £8m
2 In 2016, Head Office costs were allocated to the business. In 2017, these are shown separately and exclude the one-off costs incurred to prepare the business for separation from Old Mutual plc
3 Includes performance fees, all of which arise in Single Strategy
4 This includes the results of Single Strategy but excludes performance fees
5 NCCF as a % of opening AuMA excludes Italy and SA branches for 2016 and 2017.

For the purposes of this report, references to Old Mutual Wealth refer to the reported results above, which include Single Strategy. References to Quilter, including those in the table below, refer to the future standalone business, excluding Single Strategy.

`Quilter highlights on a standalone basis	2017	2016	% change
Operating profit as a standalone business (pre-tax, £m)[1]	**209**	177	18%
Normalised operating profit (pre-tax, £m)[1]	**209**	208	–
NCCF (£bn)	**6.3**	3.3	91%
NCCF, excl. Heritage (£bn)	**7.6**	4.2	81%
NCCF/Opening AuMA (excl. Heritage)[2]	**9%**	6%	
AuMA (£bn)	**114.4**	98.2	16%
Pre-tax operating margin	**29%**	32%	
Revenue margin (bps)	**56**	59	
Integrated flows (£bn)	**4.8**	1.8	167%

1 A detailed reconciliation of Reported AOP to operating profit as a standalone business to normalised profit can be found within the Performance highlights section
2 NCCF as a % of opening AuMA excludes Italy and SA branches for 2016 and 2017.

Strategy

Our vision is to be the UK's leading wealth manager. We are a purpose-built, full service wealth manager delivering good customer outcomes. We have leading positions in one of the world's largest wealth markets, and our multi-channel proposition and investment performance are driving integrated flows and long term customer relationships. Together this has delivered attractive top-line growth and there is the opportunity for improved operating leverage following our intended listing as Quilter plc.

In 2017, alongside sustained strong investment performance, we have attracted very high levels of net flows, and our business model is proving a huge success in providing what customers want. This has enabled us to maintain our profitability while still investing in the business ahead of listing, and we achieved a 29% operating margin for 2017 for the go-forward business. We have further grown our distribution capabilities through the acquisition of Caerus, and we remain on track and on budget with our UK Platform Transformation Programme. We have a strong balance sheet, strong capital and liquidity positions and we are financially independent from Old Mutual plc. We have also now completed our separation activities and we believe that we are ready to list.

Business developments

On 2 September 2017, Old Mutual Wealth announced that it would develop the Multi-Asset and Single Strategy businesses within Old Mutual Global Investors as separate, distinct businesses. On 19 December 2017, we announced that we had agreed to sell our Single Strategy asset management business ('Single Strategy') to the Single Strategy management team and funds managed by TA Associates (together 'the Acquirer') for an expected total consideration of c.£600 million. This value is subject to a number of potential price adjustments depending on the net asset value of the business and a number of other factors at the disposal date. Once the transaction completes, economic ownership of Single Strategy will pass to the Acquirer effective from 1 January 2018 with all profits and performance fees generated up until 31 December 2017 for the account of Old Mutual Wealth.

For the purposes of this report, references to Old Mutual Wealth refer to the reported results, which include Single Strategy. References to Quilter refer to the future standalone business, excluding Single Strategy.

Completion of the transaction is subject to various regulatory approvals (UK FCA, Hong Kong and Switzerland) and it is anticipated that completion will take place in the second half of 2018. In addition to regulatory approvals, there are additional conditions precedent to the completion of the transaction. The conditions to completion of the transaction include certain steps to separate the retained Multi-Asset business. These steps include the reorganisation of the management of certain funds and the transfer of certain assets that form part of the Multi-Asset business into new funds separate from Single Strategy. The completion of these steps depends, in part, upon regulatory approvals and on the speed with which certain third party suppliers are able to take actions required to establish these funds and implement these transfers. Upon completion, Transitional Service Agreements between the Single Strategy and Multi-Asset businesses will be in place. This will allow for the respective provision of services between the two businesses for a period of up to three years on a cost basis.

As previously announced, on listing, we intend to have two operating segments: Advice and Wealth Management, and Wealth Platforms. The Advice and Wealth Management segment will include Intrinsic, which we intend to rebrand to Quilter Financial Planning; the multi-asset solutions business ('Multi-Asset'), which will become Quilter Investors; and, Quilter Cheviot. The Wealth Platforms segment will include the UK Platform business, which will become Quilter Wealth Solutions; our International business, which will become Quilter International; and, our Heritage life assurance business, which will become Quilter Life Assurance.

On 9 January 2017, we completed the sale of Old Mutual Wealth Italy to Phlavia Investimenti. The results for Old Mutual Wealth Italy have been excluded from the 2017 results.

Caerus Capital Group was acquired on 1 June 2017. Throughout 2017, we have continued to acquire advice businesses within Old Mutual Wealth Private Client Advisers, creating 'hubs' around the UK, by careful targeting and acquiring advice businesses that match our target customer profiles and Quilter Cheviot's geographical footprint, where appropriate.

On 15 November 2017, we announced that we were closing our Institutional life business within Heritage to new business. This had AuMA of £4.9 billion at 31 December 2017. It is not core to our strategy and it is very low margin business.

Performance highlights

Net client cash flow (NCCF)

NCCF performance for Old Mutual Wealth was strong at £10.9 billion, up 110% on prior year (2016: £5.2 billion) driven by buoyant market conditions and robust investor confidence. This was 12% of opening AuMA, excluding the Heritage assets (which includes the Institutional life business), demonstrating very strong growth, and well ahead of our annualised target growth of 5% over the medium term.

Within this, Quilter NCCF was also strong, increasing 91% to £6.3 billion (2016: £3.3 billion). Excluding the Heritage assets, Quilter NCCF was £7.6 billion and, on this basis, was 9% of opening AuMA.

The Advice and Wealth Management segment contributed total NCCF before intra-group eliminations of £4.4 billion (2016: £1.6 billion). Our Multi-Asset business, which is a core part of our ongoing proposition and wealth management strategy, received £3.3 billion (2016: £0.8 billion) of these net flows in 2017 driven by robust flows into the Cirilium and WealthSelect fund ranges.

NCCF for the Wealth Platforms segment of £4.3 billion was up 95% from 2016 (£2.2 billion). UK Platform net flows were £4.5 billion, up 61% on 2016 due to strong flows into pension propositions as customers continue to consolidate existing pensions. As a result, sales into the pension propositions accounted for 61% of total UK Platform sales. Transfers by customers from their defined benefit pensions into defined contribution schemes accounted for gross sales of £1.8 billion in 2017, representing 20% of gross platform sales and 6% of total gross sales. Net Heritage outflows were primarily due to expected Institutional business outflows. International flows more than doubled to £1.4 billion with strong net flows from Latin America, the Middle East, UK and Europe. In the International business, we benefited from certain large single premium inflows which, due to their size, have been made at a discount to our usual charging structures.

In total, Quilter integrated flows grew 167% from £1.8 billion in 2016 to £4.8 billion in 2017 (£5.2 billion excluding Heritage outflows). The restricted channel of Intrinsic accounted for £1.2 billion (27%) of UK Platform net inflows in 2017 (2016: £0.9 billion; 32%) and £2.5 billion of net flows into OMGI's Multi-Asset solutions business in 2017, principally into the Cirilium fund ranges. Integrated net inflows from Intrinsic into Quilter Cheviot amounted to £0.2 billion, over half of which was through OMWPCA.

Assets under management/administration (AuMA)

Old Mutual Wealth AuMA was £138.5 billion, up 20% from the end of 2016 (31 December 2016: £115.3 billion excluding our divested Italian business (£6.2 billion) and South African branches (£2.0 billion) which have been transferred to OMEM). Of the 20% increase in AuMA, 10% (£11.0 billion) is due to positive market performance, 9% (£10.9 billion) resulted from positive NCCF, and 1% (£1.3 billion) came from the acquisition of Caerus and Attivo.

Quilter AuMA, excluding Single Strategy, was £114.4 billion, up 16% from £98.2 billion as at 31 December 2016, also driven by positive market performance and strong NCCF.

IFRS post-tax profit

£m	2017	2016
Adjusted operating profit before tax	**363**	260
Goodwill and intangible charges	**(103)**	(140)
Profit on disposals	**24**	–
Short-term fluctuations in investment return	**(2)**	1
Managed Separation and business standalone costs	**(32)**	–
Platform transformation costs	**(74)**	(102)
Voluntary customer remediation	**(69)**	–
Total adjusting items	**(256)**	(241)
Income tax attributable to policyholder returns	**66**	94
IFRS profit before tax	**173**	113
Tax on adjusted operating profit	**(44)**	(47)
Tax on adjusting items	**36**	24
Income tax attributable to policyholder returns	**(66)**	(94)
IFRS profit/(loss) attributable to equity holders after tax	**99**	(4)

Old Mutual Wealth's IFRS post-tax profit was £99 million for 2017, compared to a loss of £4 million in 2016. This improvement was driven by the higher adjusted operating profit, principally resulting from the exceptional net performance fees in Single Strategy. Key reconciling items between the IFRS profit and pre-tax Adjusted Operating Profit (AOP) were UK Platform transformation costs of £74 million (2016: £102 million), one-off costs in 2017 relating to Managed Separation of £32 million (in 2016, these one-off costs of £7 million were included within AOP), costs associated with voluntary customer remediation in certain legacy products described below, the combined effects of intangibles amortisation and the impact of acquisition accounting totalling £103 million (2016: £140 million), and year-on-year movements in policyholder tax.

On 3 March 2016, the UK Financial Conduct Authority ('FCA') issued a report detailing the findings of its industry-wide thematic review on the fair treatment of long-standing customers invested in closed-book products sold by the life insurance sector (TR 16/2) ('Thematic Review'). As part of our ongoing work to promote fair customer outcomes, product reviews consistent with the recommendations from the FCA's thematic feedback and the FCA's guidance 'FG16/8 Fair Treatment of long-standing customers in the life insurance sector' have been conducted. Following these reviews, it has been decided to commence voluntary remediation to customers in certain legacy products within the Heritage book. As part of this, we have decided to cap early encashment charges at 5% for pension customers under 55 going forward, to refund all early encashment charges over 5% on pensions products applied since 1 January 2009 and to refund certain paid-up charges incurred since 1 January 2009.

A provision of £69 million has been made within our 2017 results for the aggregate of these remediation costs, and this has been reported outside of Adjusted Operating Profit, firstly because of the significant and historical nature of the cost, and secondly, because it does not reflect the underlying performance of Old Mutual Wealth during 2017.

Also on 3 March 2016, the FCA 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 reported within Heritage, in relation to potential breaches of the FCA's standards relevant to the matters covered by the Thematic Review. We continue to cooperate and work openly with the FCA in connection with their investigation following the Thematic Review. No provision has been made for any potential fine that may be levied by the FCA.

Adjusted Operating Profit ('AOP') – Reconciliation to result on a standalone basis

AOP (£m)	2017	2016	% change
Reported AOP	**363**	260	40%
Corporate activity[1]	**–**	(35)	
Reversal of smoothing shareholder investment returns	**(2)**	4	
Managed Separation and standalone costs (one-off)	**–**	7	
Deduction to exclude Single Strategy business	**(152)**	(60)	
Other	**–**	1	
Operating profit pre-tax on a standalone basis	**209**	177	18%
Heritage fee restructure	**–**	27	
Other	**–**	4	
Normalised operating profit pre-tax (on a standalone basis)	**209**	208	

1 Corporate activity includes Old Mutual Wealth Italy (sold in January 2017) and South Africa branches (transferred to Old Mutual Emerging Markets), consistent with the presentation shown in the Capital Markets Showcase in November 2017.

Reported adjusted operating profit

Reported Old Mutual Wealth AOP of £363 million for 2017 was 40% higher than prior year (2016: £260 million), and includes net performance fees of £101 million in 2017 (2016: £26 million).

Pre-tax AOP for the Single Strategy business increased to £152 million, up 153% from prior year of £60 million, driven by the unprecedented level of net performance fees of £101 million (2016: £26 million), of which £84 million was generated in the six months to December 2017. The net performance fees for 2017 are substantially ahead of the previous year and are considered to be at an unusually high level reflecting exceptional performance from a narrow range of funds in favourable market conditions. As announced on 19 December 2017, under the terms of the transaction agreement, Old Mutual Wealth will not benefit from performance fees which may be earned by Single Strategy in 2018.

Operating profit pre-tax on a standalone basis

Operating profit pre-tax on a standalone basis is intended to reflect the perimeter of the business as it will be after listing, and after the completion of the sale of Single Strategy, and therefore the results of Single Strategy have been removed from both 2017 and 2016. In addition, the results of Old Mutual Wealth Italy and the South African business have been removed from the comparative period. On this basis, the operating profit pre-tax for 2017 was up 18% to £209 million (2016: £177 million).

£m	2017	2016 restated[1]	2016[2]
Advice and Wealth Management	**82**	59	55
Wealth Platforms	**158**	166	139
Head Office	**(31)**	(17)	(17)
Operating profit on a standalone basis	**209**	208	177
Heritage fee restructure	**–**		27
Other	**–**		4
Normalised operating profit	**209**	208	208

1 Based on normalisation adjustments being allocated to segments

2 As presented at Capital Markets Showcase in November 2017.

Normalised operating profit

Normalised profit adjusts the comparative period 'operating profit on a standalone basis' to eliminate the impact of the changes to Heritage fees in 2016, and other normalisation adjustments as presented at the Capital Markets Showcase. No adjustments have been made in 2017. This form of presentation is consistent with the analysis presented during the Company's Capital Markets Showcase held in November 2017.

The 2017 normalised operating profit of £209 million compared to prior year (2016: £208 million) is particularly pleasing given that, in recent periods, profits have been invested to grow distribution and to prepare the business to operate on a standalone basis. The consistent profit pattern is evidence that the business model is proven and that the business has reached scale ahead of its planned listing.

Pre-tax normalised operating profit for the Advice and Wealth Management segment increased to £82 million, up 39% from prior year of £59 million. This was driven by significantly increased contribution from the Multi-Asset business as a result of increasing revenues, driven by strong flows generated by other business areas and good investment performance.

Pre-tax normalised operating profit for the Wealth Platforms segment decreased to £158 million, down 5% from prior year of £166 million. In 2016, the restated profit of £166 million included the adjustment to exclude the Heritage fee restructure charge of £27 million which impacted the segment.

Revenue and revenue margin

Old Mutual Wealth's reported revenues increased by 21% to £1.0 billion due to higher average AuMA, driven by positive market performance, strong NCCF and net performance fees. On the same basis, the revenue margin decreased by 4bps during the year from 64bps to 60bps.

On a standalone basis, Quilter revenues increased by 13% to £728 million comprised of net management fee revenue of £591 million and other revenues of £137 million.

£m	2017	2016	Variance
Net management fee	**591**	524	13%
Other revenue	**137**	122	12%
Revenue on a standalone basis	**728**	646	13%

The net management fee revenue principally comprises fund-based revenues including fixed fees. Other revenues include advice fees generated in Intrinsic and income generated within the protection business in Heritage. The revenue margin for the standalone Quilter business reduced from 59bps in 2016 to 56bps in 2017.

Expenses

Old Mutual Wealth's reported expenses increased by 13% to £638 million. Single Strategy expenses are £119m in 2017, up from £95 million in 2016 driven by an increase in variable incentives in line with performance, increased headcount and regulatory compliance costs. Old Mutual Wealth Italy and South Africa branches together accounted for £23 million of costs in 2016 (2017: nil). Consistent with the treatment in prior periods, bonuses on gross performance fees are deducted from those performance fees which are reported, on a net basis, within revenue.

Quilter expenses on a standalone basis increased by 18% to £519 million.

£m	2017	2016	Variance
Underlying administration expenses	**402**	**363**	39
Variable incentives	**78**	64	14
Investment in business initiatives	**23**	11	12
Standalone costs (recurring)	**16**	–	16
Expenses on a standalone basis	**519**	438	81

The main components of the increase in Quilter expenses on a standalone basis are:

- The increase in underlying administration expenses of £39 million reflects a focussed increase in technology spend (£13 million) linked to improving the resiliency of our IT infrastructure; changes in regulation including compliance with GDPR, MIFID II requirements and FSCS costs (£10 million); adverse year-on-year movements in provisions (£6 million); and other organic and inflationary costs (£10 million).
- Variable incentives in 2017 amounted to £78 million, an increase of £14 million on 2016 in line with performance. This reflects higher levels of funds under management in the multi-asset business and Quilter Cheviot and higher senior headcount due to the strengthening of senior management ahead of listing.
- Investment in new business initiatives principally reflects the costs of expanding Old Mutual Wealth Private Client Advisers and the inclusion of Caerus Capital Group, the acquisition of which completed on 1 June 2017.
- Managed Separation and standalone costs of £16 million include £9 million to reflect the strengthening of the business and other recurring standalone costs. 2017 was a transitional year for the business, and the incremental recurring costs of £16 million for 2017 do not yet reflect a full-year run-rate of such costs.

- Consistent with previous disclosures, separation is estimated to increase the standalone cost base by £25-30 million per annum compared to 2016, and therefore additional recurring costs beyond the £16 million incurred in 2017, are expected to be incurred in 2018. In line with information provided previously, this increase excludes the impact of the costs for the proposed new long-term incentive plan, and future debt financing costs. Details of future debt financing costs are set out within our cash and capital disclosures.

We currently expect one-off costs in 2018 of c.£36 million in respect of the completion of the Managed Separation from Old Mutual plc. These comprise a mixture of standalone, advisor and other transaction costs, and will be charged outside of operating profit to reflect their one-off nature. Of these, c.£12 million are expected to be in respect of the rebrand of the business from Old Mutual Wealth to Quilter.

Operating margin

The Old Mutual Wealth operating margin was higher than prior year at 36%, driven by higher net performance fees more than offsetting the impact of increased expenses. Including Single Strategy, but excluding net performance fees, the operating margin is unchanged at 29%.

On a standalone basis, the Quilter operating margin declined to 29% compared to 32% in 2016 principally as a result of the increase in operational costs and investment in business initiatives ahead of listing.

The increasing proportion of revenues from advice fees, which are largely matched by costs of advisers and investment in the advice model itself, has contributed to the reduction in operating margin.

UK Platform Transformation

The contracts with IFDS related to the UK Platform Transformation came to an end by mutual agreement effective as of 2 May 2017. At the same time, we announced that we had contracted with FNZ to deliver our UK Platform Transformation Programme.

We continue to plan for a soft launch of the enhanced customer and adviser proposition supplied by FNZ by late 2018 or early 2019 with migration of existing advisers and customers to follow swiftly thereafter.

Of the estimated UK Platform Transformation Programme costs of £120-160 million announced in May 2017, £21 million had been incurred by 31 December 2017. We currently anticipate spend of c.£75 million in 2018 with the balance arising in 2019. The project remains on time and within budget and excellent progress has been made with all key deliverables to date being within our planned timelines.

Delivering good customer outcomes

During 2017, we established a dedicated Retail Customer Solutions function to focus specifically on those 'end-to-end' customers whom we serve through our model of financial advice, investment solutions and platform services. The objective of this team is to further improve customer orientation in our proposition. In addition, the team will actively analyse industry trends to enable us to create stronger integrated propositions.

Regulatory developments

There are a number of studies and thematic reviews currently underway by the UK regulators. These include the FCA's Asset Management Review, the findings of which were published on 28 June 2017, and the Investment Platforms Market Study, the terms of reference for which were announced on 17 July 2017 and more recently, in February 2018, the Discussion Paper considering "Effective competition in non-workplace pensions". The FCA also published its "Approach to Customers" in November 2017, informed by the Financial Lives Survey, the results of which were published last October. We are very supportive of the FCA's work in these important areas, and believe the outcomes of these will serve to increase the confidence and credibility of the wealth management industry in this country, ensuring that it provides fair outcomes for all customers, whatever stage in life they are at.

Managing conflicts of interests

We combine our knowledge and capabilities across the businesses to gain an understanding of our clients and their needs. It is this knowledge that allows us to deliver products and solutions that meet those needs. Suitable investment solutions are central to providing good customer outcomes. We aim to blend peer-leading capabilities across our business, but the decision about which investment solutions are right for each client remains with the financial adviser, where client suitability decisions will always remain sacrosanct.

As part of managing potential conflicts of interest, each part of the business has strong governance in place, with each business being a separate regulated entity that seeks to deliver fair outcomes and good value for its customers.

Return on equity ('ROE')

Strong operating performance across our business in 2017 has increased reported ROE to 19% (31 December 2016: 13%). Excluding Single Strategy, the ROE was 13%.

At the time of the acquisition of Quilter Cheviot, it was announced that the transaction was expected to generate annual synergies of £15 million by 2017. As at 31 December 2017, the total achieved synergies were £14 million. Beyond these synergies, the return on our investment is reflected in Quilter Cheviot's contribution to our overall wealth management proposition and in the growth of assets under management from £17.4 billion at 28 February 2015 to £23.6 billion at 31 December 2017. As a result, the overall return is considered to be in excess of the cost of capital.

Cash and capital

In 2017, Old Mutual Wealth generated free surplus of £293 million (2016: £179 million), representing a conversion rate of 92% of AOP post-tax (2016: 84%). The free surplus generated was used to fund the Platform Transformation Programme, the costs associated with the Managed Separation, and the investment in new business initiatives including the expansion of Old Mutual Wealth Private Client Advisers and the acquisition of Caerus Capital Group.

At 31 December 2017, Old Mutual Wealth had an unaudited 155% Solvency II ratio after a 14% adjustment for the impact of the European Insurance and Occupations Pensions Authority ('EIOPA') update described below and adopted with effect from 31 December 2017. The impact of the EIOPA update is economically neutral and has no impact on the absolute Solvency II surplus but reduces the Solvency II ratio.

The EIOPA has recently published updated guidance regarding the treatment of the Individual Capital Guidance ('ICG') requirements in investment firms subject to the internal capital adequacy assessment process ('ICAAP') regime. This guidance, which is non-mandatory, applies when calculating the Solvency II capital ratio on a consolidated basis for groups comprising both ICAAP and Solvency II regulated entities. According to the EIOPA guidance, the solvency capital requirement ('SCR') under Solvency II for ICAAP regulated entities should include both the capital requirement from the ICAAP and any requirement imposed by the regulator. The previous methodology used by Old Mutual Wealth included the Pillar 1 capital requirement for the ICAAP regulated entities within the Solvency II capital requirement, with the balance between this and the total capital requirement being excluded from both the Solvency II Own Funds and the SCR. On a pro forma basis, the change in treatment would have increased both Own Funds and the SCR by £0.2 billion as at 30 June 2017, which would have reduced the reported 177% ratio to 163% on a pro forma consolidated basis.

Old Mutual Wealth Management Limited has been given an issuer's default rating from Fitch of A-. The financial strength of Old Mutual Wealth Life Assurance Limited (our Heritage life assurance business) is rated A by Fitch.

Managed Separation and Board developments

We made good progress with our programme of activity as we work towards independence as part of the Managed Separation from Old Mutual plc. By the end of 2017, all functions had materially delivered all changes necessary to be standalone.

To ensure our organisation is fit for purpose as a listed, standalone entity, we have continued to reshape and strengthen our executive management team and our Board. During 2017, Tim Tookey was appointed as Chief Financial Officer and Mark Satchel assumed the role of Corporate Finance Director. Paul Hucknall was appointed as HR Director and joined the executive committee on 1 January 2018.

Rosie Harris, George Reid and Jon Little joined the Old Mutual Wealth Board as Independent Non-Executive Directors during H1 2017. On joining, Rosie was appointed Chair of the Board Risk Committee. George Reid has been appointed Chair of the Board Audit Committee, and Moira Kilcoyne, who was appointed to the Board at the end of 2016, has been appointed Chair of the Board IT Committee. Old Mutual Wealth intends to comply with the UK Corporate Governance Code and the arrangements to achieve compliance are well advanced.

We have also strengthened the boards of our principal regulated subsidiaries by increasing the level of independence on those boards, including through additional representation from the Non-Executive directors on the Old Mutual Wealth Board.

Funding and future capital structure

Quilter plans to maintain a strong solvency and liquidity position through disciplined management of capital resources and risks. The backing of a financially strong group is important given the security and peace of mind that it affords customers and advisers.

Quilter will maintain a disciplined approach to capital, in order to balance its current and anticipated liquidity, regulatory capital and investment needs, with a view to returning excess capital to shareholders as appropriate. As part of its disciplined approach to capital, the Group has a prudent capital management and liquidity policy.

On 28 February 2018, we entered into, and fully drew down, a senior unsecured term loan of £300 million with a number of relationship banks. This term loan will be repaid in full using proceeds from the sale of Single Strategy following the completion of that transaction. In addition, we have entered into a £125 million revolving credit facility, which is currently undrawn and is expected to remain undrawn during 2018.

Also on 28 February 2018, we issued a £200 million subordinated debt security in the form of a 10-year Tier 2 bond with a one-time issuer call option after five years to J.P. Morgan Securities plc, paying a semi-annual coupon of 4.478%. Including the impact of amortisation of bond set-up costs, the issuance of this security will increase operating expenses in the Corporate Head Office segment by approximately £11 million on an annual basis. The debt security is currently undocumented and unlisted and has a Fitch instrument rating of BBB-. We intend to finalise a prospectus and obtain a listing for the bond on the regulated market of the London Stock Exchange, with a view to a potential remarketing and secondary placement of the security in due course.

The subordinated debt security, the new term loan and the revolving credit facility have been issued to ensure that Quilter has sufficient capital and liquidity to maintain strong capital ratios and free cash balances to withstand severe but plausible stress scenarios. These include, despite it being considered to be a remote event, the sale of Single Strategy failing to complete.

Adjusting the 31 December 2017 Solvency II ratio of 155% for the £200m subordinated debt security and the new term loan would result in a pro forma Solvency II ratio of 171% at 31 December 2017 (before any impact of the sale of Single Strategy).

Whilst this pro forma ratio does not include the expected Solvency II benefit arising on completion of the sale of Single Strategy, we believe it includes sufficient free cash to complete all committed strategic investments (including the UK Platform Transformation Programme) and to allow for any further potential costs associated with the FCA's Thematic Review, including for any potential fine which may be levied by the FCA, in respect of which no provision has yet been made. The impact of this prudent policy is that Quilter expects to maintain a solvency position in excess of its policy in the near-term.

The Solvency II impact of the completion of the sale of Single Strategy would have increased the pro forma 31 December 2017 solvency ratio by c. 40 percentage points before any potential distribution of surplus proceeds to shareholders.

Subsequent to the year end, and as part of a series of internal transactions, £566 million of intercompany indebtedness to other companies within the Old Mutual plc group has been equitised, with the effect of the intercompany indebtedness being cancelled and replaced with equity in the form of share capital and a merger reserve. The remaining £200 million intercompany indebtedness was repaid in full from the new facilities referred to above and from existing cash resources on 28 February 2018. On the same date, the £70 million revolving credit facility with Old Mutual plc was cancelled.

Outlook for the Quilter business as a standalone business

Quilter has continued to trade in line with expectations since the year end. Overall, we continue to remain confident in Quilter's prospects and it is anticipated that the next trading update will be for the first quarter of 2018, which is expected to be published in April 2018.

As a key step in the preparation of Quilter to be a separately listed business, we will be publishing a Prospectus (the "Prospectus") in relation to our business. The Prospectus will include more detailed information in relation to Quilter's business, including its strategy and outlook. It will also contain detailed risk factors and other key information relevant to our business.

This section summarises certain information on Quilter's business, including certain forward looking information in relation to operating performance expectations and targets which will be set out in detail in the Prospectus, and these statements should be read in conjunction with all the information in the Prospectus when it is published.

NCCF

We believe that the positive structural growth dynamics in the UK wealth market and our leading market positions and full service, multi-channel model position Quilter for continued success. As a result, we will target NCCF (excluding Heritage) of 5 per cent. of opening AuMA per annum over the medium term. Should market conditions remain supportive, we expect Quilter to exceed this target in 2018.

Revenue margin

Subject to delivering currently expected AuMA volumes and business mix, we believe Quilter's overall annual rate of revenue margin decline should slow in the near-term, and that the revenue margin should become increasingly stable.

Operating margin

In the second half of 2018, management will review the Quilter standalone cost base and operating model to identify long term optimisation initiatives to improve overall business efficiency. However, at this stage, the initiatives, potential efficiency savings and restructuring costs to achieve this optimisation have not yet been scoped.

Our operating model is designed to capture operating leverage from the growth in assets. We currently intend to continue to invest in growing our business over the coming years, and in 2018 and 2019 we will bear the full impact of a standalone cost base as a listed company. In the near term, this is likely to lead to a small decrease in our operating margin, before interest costs, below that reported in 2017. We expect the operating leverage benefits will develop thereafter, and we are targeting a Quilter operating margin, before interest costs, of 30 per cent for the year ending 31 December 2020 before we implement any future optimisation initiatives from management's review.

Aside from normal operating expense movements as the business grows, this operating margin target incorporates the following considerations:

- the operating profit impact of potential selective investments in advice distribution;
- additional staff costs in 2018 and later years arising from long term incentive plan ("LTIP") awards under the new Quilter share plans**;** and
- in line with previous statements, Quilter expects up to £30 million per annum of additional fixed costs above 2016 operating expense levels as a consequence of the Managed Separation and its need to operate on a fully standalone basis. Of the additional expenses, approximately £16 million on an annual basis were reflected in 2017 year-end reported results, and therefore up to an incremental approximately £14 million of annual expenses will be incurred during 2018.

Solvency II impact of sale of Single Strategy

Following the completion of the sale of the Single Strategy business, we expect to report that Quilter's net asset value will increase by c.£360 million based on current consideration expectations and before allowing for the costs of disposal. In addition, we expect to record a restructuring charge of c.£ 20 million in respect of the establishment of the standalone multi-asset business.

Dividend policy

Our dividend policy will be to target a dividend pay-out range of 40 to 60 per cent of post-tax operating profit, with the split of interim and final dividends to be approximately one-third and two-thirds respectively. Any dividends will take into account Quilter's underlying cash generation, cash resources, capital position, distributable reserves and market conditions at the time.

The first dividend payment which Quilter will make as a separately listed company is expected to be the final dividend in respect of the year ending 31 December 2018. Quilter currently expects this dividend to be determined by a pay-out ratio at the lower end of the target range and to reflect the expected interim / final dividend split.

Following the completion of the sale of Single Strategy, and outside the above dividend policy, Quilter will also consider a distribution from the surplus proceeds to its shareholders. In determining the size of any potential return, a number of factors will be taken into account, including: (i) the repayment in full of the senior unsecured term loan, (ii) the costs associated with the sale of Single Strategy, and (iii) the costs associated with the establishment of the standalone Quilter Investors multi-asset business.