

**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS**

**31 December 2017**



**Old Mutual Wealth Life Assurance Limited**

**Registered in England No. 1363932**

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**COMPANY INFORMATION**

<b>Executive directors</b>	S D Levin (Chief Executive Officer) S I M Braudo S K Goodsir S V Wood
<b>Non-executive director</b>	G M Reid
<b>Secretary</b>	OMW CoSec Services limited
<b>Bankers</b>	National Westminster Bank Plc 68 Above Bar Street Southampton SO14 7DS
<b>Auditors</b>	KPMG LLP 15 Canada Square London E14 5GL
<b>Registered office</b>	Old Mutual House Portland Terrace Southampton SO14 7EJ  Telephone: 080 8171 2626 Website: <a href="http://www.oldmutualwealth.co.uk">www.oldmutualwealth.co.uk</a>  Registered in England No. 1363932

## **STRATEGIC REPORT**

The directors present their strategic report for the year ended 31 December 2017.

### **REVIEW OF THE BUSINESS AND PRINCIPAL ACTIVITY**

The principal activity of Old Mutual Wealth Life Assurance Limited (the company) is the provision of long term assurance business in its targeted core UK markets.

The company is part of Old Mutual plc, a FTSE 100 group, and is authorised and regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA). The company forms part of the Old Mutual Wealth division of Old Mutual plc (the group), for which Old Mutual Wealth Management Limited acts as holding company and delivers strategic and governance oversight.

### **Future Outlook**

Good progress has been made with the programme of activity as Old Mutual Wealth works 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 the organisation is fit for purpose as a listed, standalone entity, Old Mutual Wealth has continued to reshape and strengthen its executive management team and board. It has also strengthened the boards of its principal regulated subsidiaries by increasing the level of independence on those boards, including through additional representation from the non-executive directors.

### **Old Mutual Wealth Strategy**

Old Mutual Wealth Life Assurance Limited is a key component of the Old Mutual Wealth (OMW) division, whose vision is to be the UK's leading wealth manager. OMW is a purpose-built, full service wealth manager delivering good customer outcomes. It has leading positions in one of the world's largest wealth markets, and its 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 operating leverage following the intended listing as Quilter plc.

### **Old Mutual Wealth Life Assurance Limited Strategy**

The strategic priorities of the company are to continue to provide quality service to existing customers and so preserve high levels of persistency, improve the protection proposition and leverage benefits from being part of a full service wealth management business. As of 1 January 2013 the Financial Services Authority's Retail Distribution Review (RDR) came into effect. Due to the prohibitive cost in complying with the new regulations, the company closed most product lines to new business at the end of 2012. The company has seen eight consecutive years of negative net client cash flows (NCCF) as the long term savings market continues to move towards platform providers for pension and bond products. This segment of the market is strongly represented by its sister company Old Mutual Wealth Life & Pensions Limited.

Following the government pensions reforms announced in 2015, customers have greater options and flexibility in deciding how to manage their wealth in retirement. The company provides clients with an option to transfer their pension to the Collective Retirement Account (CRA) product offered by Old Mutual Wealth Life & Pensions Limited. The CRA product provides flexibility in the way pension savings can be accessed enabling customers to take advantage of the pension freedoms.

The company continues to actively sell its protection product range and targets significant growth in this area by continuing to implement improved product features, focus on customers' needs, develop online capabilities and leverage Old Mutual Wealth's distribution channels, including Intrinsic.

The decision was taken to close the Institutional product to new business during the year, since this product is not core to the business strategy.

**STRATEGIC REPORT (continued)**

On 3 March 2016, the UK Financial Conduct Authority (FCA) issued a report detailing its findings of their industry-wide thematic review on the fair treatment of long-standing customers invested in closed-book products sold by the life insurance sector (TR 16/2) (Thematic Review). As part of its ongoing work to promote fair customer outcomes, Old Mutual Wealth Life Assurance Limited has conducted 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'.

Following these reviews, the company has decided to commence voluntary remediation to customers in certain legacy products within its book. As part of this, the company has 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 £68.6m has been made within the company's 2017 results for the aggregate of these remediation costs, and this has been adjusted to derive the 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 the company during 2017.

Also on 3 March 2016, the FCA announced that it was initiating an investigation into a number of firms, including the company, in relation to potential breaches of the FCA's standards relevant to the matters covered by the Thematic Review. The company continues to cooperate and work openly with the FCA in connection with their investigation following the Thematic Review. No provision has been made for any enforced action or potential fine that may be levied by the FCA, this continues to be disclosed as a contingent liability.

## STRATEGIC REPORT (continued)

### KEY PERFORMANCE INDICATORS (KPIs)

Table A below shows the key performance indicators the company uses to manage business performance. The internal measure of profit is IFRS adjusted operating profit (IFRS AOP). IFRS AOP reflects the directors' view of the underlying performance of the company and is a measure of profitability which adjusts the standard IFRS profit measure to remove specific non-operating items; the quantum of these are shown in table B below.

The company has seen its eighth consecutive year of negative net client cash flow of £1.6bn in 2017 (2016: £1.1bn) as the long term savings market continues to move towards platform providers for pension and bond products. Net client cash flow (NCCF) is a key performance metric, since it represents gross premiums during the year less outflows in the form of surrenders, claims and maturities. NCCF has a direct impact on the value of Asset under Administration, which drives the company's revenues. The assets under administration have decreased to £15.1bn in 2017 from £15.3bn at the previous year end, as positive market growth is offset by negative net client cash flow.

The company's post-tax IFRS AOP has increased by 35% to £58.6m (2016: £43.4m). This is a result of the product charging structure changes made during 2016 combined with positive fund performance in 2017.

Table A: Key performance indicators.

	2017 £m	2016 £m
Net client cash flow	(1,642)	(1,144)
Assets under administration	15,129	15,348
IFRS adjusted operating profit (AOP) before tax	64.9	51.1
IFRS adjusted operating profit (AOP) after tax	58.6	43.4
IFRS (loss)/profit after tax	(19.0)	19.1

Table B: Reconciliation between IFRS adjusted operating profit before tax and IFRS profit after tax.

	2017 £m	2016 £m
IFRS adjusted operating profit before tax	64.9	51.1
Adjusting items	(69.5)	(27.4)
IFRS (loss)/profit before tax (net of policyholder tax)	(4.6)	23.7
Income tax attributable to policyholder return	15.4	57.8
IFRS profit before tax	10.8	81.5
Total tax expenses	(29.8)	(62.4)
IFRS (loss)/profit after tax for the financial year	(19.0)	19.1

Adjusting items represent the company's share of the platform transformation spend of £20.3m (2016: £25.7m), the cost to cover voluntary remediation to customers of £68.6m, profit on smoothing of investment return on non-linked and shareholder assets of £0.2m (2016: £1.3m), and corporation tax receivable on capital gains and losses not matched by a corresponding policyholder deduction of £19.2m (2016: payable £3.0m).

### FINANCIAL POSITION AT THE END OF THE YEAR

Total net assets of the company increased to £297.0m (2016: £278.0m) with cash and cash equivalents at £489.9m (2016: £377.4m). During the year the company issued £38m of share capital to fund the regulatory solvency impact of the voluntary redress actions. There were no dividends paid in 2017.

### STATEMENT OF GOING CONCERN

The use of the going concern basis of accounting is considered appropriate, reflecting both the future expected profitability and the continued support from Old Mutual plc and Old Mutual Wealth in the development of the business. There are no material uncertainties, related events or conditions, including any impact after the managed separation announcement, that may cast significant doubt over the ability of the company to continue as a going concern. During 2017 the company depended on support from its immediate parent undertaking, Old Mutual Wealth UK Holding Limited.

## STRATEGIC REPORT (continued)

### PRINCIPAL RISKS AND UNCERTAINTIES

The company is exposed to a number of risks as a result of its business model including certain strategic, business, operational, financial and regulatory risks. The nature of the company's business risks are largely consistent with those faced over recent years and the company only seeks risks consistent with the company's risk appetite with the aim of ensuring delivery of the long term commitments to customers and shareholders.

The company is affected by macroeconomic conditions and geopolitical risks that arise given the impact that these conditions have on financial markets and customer behaviours. Similarly, retail investor sentiment is influenced by general economic market conditions and their confidence in the future outlook of economies, which has a strong correlation on the flow of assets available to be attracted to the company's wealth solution offering. Fund-based management fees, which comprise the majority of revenues, are directly linked to investment markets.

The company expects regulatory risk to continue to be high, with increasing regulatory focus in preparation for managed separation, General Data Protection Regulation (GDPR) implementation and the FCA's opinion on 'monetary incentives and remuneration between providers of asset management services and insurance undertakings' and the conclusions of the FCA investigation in relation to potential breaches of the FCA's standards relevant to the matters covered by the industry-wide thematic review on the fair treatment of long-standing customers invested in closed-book products sold by the life insurance sector (Thematic Review).

The company continues to be transparent and responsive with the regulators to help manage and build these relationships.

The company manages these risks by establishing a risk framework, including a consistent set of risk definitions and policies, and a risk strategy. The company sets a risk appetite and manages risk within that appetite which is integrally linked to the business strategy. Risk appetite is reassessed annually or more regularly, as defined by the board, in light of current volatile and uncertain conditions to ensure they remain relevant in implementing the business strategy. Stress and scenario testing is performed regularly to test the resilience of the business. The company has mature risk governance processes which are continuously developed in preparation for the managed separation from Old Mutual plc.

The key risks, summarised in the table below, are closely monitored by management and regularly reported to the board.

Current impact and risk outlook	Risk mitigation and management actions
<p><b>Macroeconomic conditions</b></p> <p>The company has a material exposure to macroeconomic and political conditions in the UK and globally. There is a risk that the UK's withdrawal from the EU, other political developments or developments otherwise affecting market confidence may result in outflows of assets from investment portfolios with exposure to the UK, which could include funds administered by the company. Fund-based management fees, which comprise the majority of revenues, are directly linked to the value of assets under administration.</p> <p>Due to the size and importance of the UK economy in the global economy, particularly with respect to the UK financial services market, as well as the uncertainty and unpredictability concerning the UK's legal, political, financial and economic relationship with the EU after withdrawal, there may continue to be instability in the national and international financial markets, significant currency fluctuations and otherwise adverse effects on consumer confidence for the foreseeable future, including beyond the date of the UK's withdrawal from the EU.</p> <p>The statement of financial position remains resilient to financial and economic market shock; however a severe fall in equity markets due to ongoing uncertainty could potentially reduce profitability in Old Mutual Wealth Life Assurance.</p>	<p>The company carries out regular stress and scenario testing, which include scenarios and stresses based on severe economic conditions and political events. These allow the company to understand the impact of potential events on earnings, liquidity and capital resilience.</p> <p>The company aims to ensure the cost base can flex to mitigate volatility in revenues. Potential management actions to mitigate these impacts are subject to approval by the Old Mutual Wealth Life Assurance board.</p> <p>Work has commenced, within the managed separation work stream, to define the required level of capital and liquidity within Old Mutual Wealth Life Assurance to ensure resilience against market risks immediately after separation from OM plc.</p>

**STRATEGIC REPORT (continued)**

<p><b><u>Customer and conduct risk</u></b></p> <p>Risks to customers are inherent within the business model and can occur at any point in the customer journey or product lifecycle.</p> <p>Customer and conduct risk is an area of increasing focus by regulators across the business.</p> <p>The FCA's ongoing investigation in relation to potential breaches by Old Mutual Wealth Life Assurance of the FCA's standards relevant to the matters covered by the Thematic Review.</p>	<p>The company defines good customer outcomes and puts processes in place to achieve those for customers. Product development starts from an understanding of customer needs and preferences and engaging with customers in areas such as the ongoing development of customer communications.</p> <p>Customer Outcomes Forum reviews any areas where customer outcomes may be affected significantly and ensures appropriate action is taken where that risk arises.</p> <p>The Regulatory and Conduct Risk teams provide strong oversight, challenge and advice to the business. The Code of Conduct, reinforced by mandatory training, sets out expectations of all staff.</p> <p>The company continues to work with the FCA on their investigation.</p>
<p><b><u>Delivery of strategic change initiatives</u></b></p> <p>The company faces execution risk from the implementation of the business strategy.</p> <p>In delivering strategic change initiatives, the company actively seeks to identify, manage and control risk.</p> <p>The delivery of strategic objectives necessitates increased likelihood of operational risk exposure and the company has appropriate governance and control processes managed through the three lines of defence model to mitigate and manage this risk exposure.</p> <p>Change initiatives are delivered by first-line management with second-line oversight and challenge and third-line assurance. External business support, subject matter experts and assurance partners for significant change initiatives are also used.</p>	<p>Supplier risk management processes are continually improved to ensure the company has strong outsourced supplier controls and governance in support of major change programmes.</p> <p>The company is fully engaged with regulators on significant change programmes to ensure that their requirements are met, to demonstrate that customers are being put at the forefront of the business.</p> <p>Where the identified risk is, or may become, outside of the risk appetite, prompt and appropriate actions are taken to ensure the company continues to maintain effective controls to deliver appropriate business and customer outcomes.</p>
<p><b><u>People risk</u></b></p> <p>Risk that the company fails to deliver core parts of its strategy or fails to complete business-as-usual activities to the required standards due to resource pressures and management distraction during this heightened period of change and project work in the run-up to managed separation; which can limit the ability to recruit, develop and retain high quality people.</p> <p>There is a risk that the company becomes too internally focused and loses sight of the market and the overall proposition and how it compares with its competitors.</p> <p>In addition, resource stretch can increase key person dependency which adds further potential operational risk.</p>	<p>As part of Old Mutual Wealth, operating models have been reviewed for key functions to build the resources and skills required under managed separation.</p> <p>Talent management processes are continuously being developed and enhanced, including succession planning and leadership development programmes and are monitored regularly at executive level.</p> <p>The company continues to be focused on the diversity of employees, which requires improvement, as typical across financial services.</p>



**STRATEGIC REPORT (continued)**

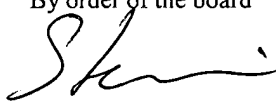
<p><b><u>Regulatory risk</u></b> As part of an end-to-end investment and wealth management business, the company is exposed to a high degree of regulatory change, including European regulation. While such change can present opportunities, it can increase costs and impact products and services.</p> <p>In 2018 the company continues to see significant impact from regulatory change through, for example, GDPR implementation, and follow on from FCA reviews such as the asset management market study and platform market study, the Markets in Financial Investments Directive II and packaged retail and insurance based investment products.</p> <p>The company is exposed to the risk of not building and maintaining strong relationships and trust with regulators. This is critical to the business, particularly given increased regulatory focus in the lead up to managed separation.</p>	<p>Forthcoming regulatory change is reviewed to ensure the company is well placed to make any changes required to comply fully when such changes are implemented.</p> <p>The review of operating models (above) includes focus on regulatory expectations of the company following managed separation.</p> <p>The company focuses on being transparent, responsive and proactive in dealings with regulators to help to manage and build these relationships.</p>
<p><b><u>Cyber/Information security risk</u></b> Risk that IT infrastructure and architecture, or those of third parties on whom the company relies and with whom it shares sensitive data, are vulnerable to malicious software attacks and subsequent ransom demands resulting in business downtime and impact on customer experience; additional costs of getting systems operational and reputational damage.</p>	<p>The company continues to review and enhance its security risk framework by ensuring it has controls to manage and mitigate this key risk.</p> <p>Monitoring of market experience, awareness campaigns and penetration testing exercises are performed to identify security vulnerabilities within the Security Risk Framework and ensure appropriate plans are in place to mitigate any weaknesses that are identified.</p>
<p><b><u>Managed Separation - Change in Cost Basis</u></b> There is the risk that the cost basis of a stand-alone business has not been fully understood and embedded. The cost risk within the business is the loss of economies of scale as the business runs off, resulting in higher per policy maintenance expenses.</p> <p>Ongoing cost control and efficiency of processes is essential, whilst ensuring the company continues to operate effectively and maintain high standards of service for its clients.</p>	<p>This risk is being mitigated through expense allocation and developing a strategy for the management of the Heritage Business.</p> <p>Review of expense allocations is being performed as the business cost basis is changing due to managed separation.</p> <p>Secondly, a long term strategy is being developed for the management of the Heritage Business, moving forward given the continued business run-off.</p>

**SOLVENCY II**

Solvency II is a European Union (EU) directive which defines a set of requirements for European insurance entities in respect of the measurement of assets and liabilities, the assessment of risk-based capital requirements, risk management and governance practices and external reporting to the public and to the PRA.

Under Solvency II, the company has continued to review the capital strength and solvency of the business relative to the underlying business risks. The company has applied the standard formula approach for the purposes of Solvency II in line with management's view that this is the most appropriate basis. The company conducts annual reviews to ensure this remains appropriate.

By order of the board



S D Levin  
Director  
9 March 2018

## **DIRECTORS' REPORT**

The directors present their report and financial statements for the year ended 31 December 2017.

The review of the business and principal risks and uncertainties are disclosed within the strategic report.

### **DIRECTORS**

The name of the current directors are listed on page 1. The directors who have held office during the year are listed below:

S D Levin	(Chief Executive Officer)
S I M Braudo	(appointed 18 July 2017)
R D Freeman	(resigned 08 November 2017)
S K Goodsir	
J P Hine	(resigned 14 April 2017)
G M Reid	(appointed 08 November 2017)
D W J Sharkey	(resigned 12 September 2017)
S V Wood	(appointed 12 September 2017)

Directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

D L Clarke resigned as company secretary on 29 September 2017. OMW CoSec Services Limited was appointed as company secretary on 29 September 2017.

### **DIVIDENDS**

During the year no dividends were remitted to Old Mutual Wealth UK Holding Limited (2016: £nil).

### **EMPLOYEES**

The company has no employees (2016: nil). As stated in note 30, management services are provided by Old Mutual Wealth Business Services Limited, a fellow subsidiary undertaking.

### **POLITICAL DONATIONS**

No political donations were made during the year (2016: £nil).

### **FINANCIAL INSTRUMENTS**

The financial risk management objectives and policies of the company are disclosed in note 3.

### **DISCLOSURE OF INFORMATION TO AUDITOR**

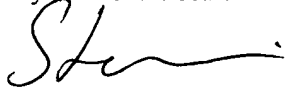
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the directors are each aware, there is no relevant audit information of which the company's auditor is unaware; and
  - each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.
- This confirmation is given in accordance with the provisions of the Companies Act 2006.

### **AUDITOR**

KPMG LLP have expressed their willingness to continue in office as auditor in accordance with section 487 of the Companies Act 2006 and the company's Articles of Association.

By order of the board



S D Levin  
Director  
9 March 2018

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE STRATEGIC REPORT,  
DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the strategic report, the directors' report and the financial statements in accordance with applicable law and regulations.

Company Law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF OLD MUTUAL WEALTH LIFE ASSURANCE LIMITED**

**1. Our opinion is unmodified**

We have audited the financial statements of Old Mutual Wealth Life Assurance Limited ("the Company") for the year ended 31 December 2017 which comprise the income statement, the statement of comprehensive income, the statement of changes in equity, the statement of financial position, the statement of cash flows and the related notes, including the accounting policies in note 2.

In our opinion the financial statements:

- give a true and fair view of the state of Company's affairs as at 31 December 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the EU; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the Board of Directors.

We were appointed as auditor by the shareholders on 9 November 2006. The period of total uninterrupted engagement is for the twelve financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Company in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

**2. Key audit matters: our assessment of risks of material misstatement**

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters (changed from last year to include other provisions), in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF OLD MUTUAL WEALTH LIFE ASSURANCE LIMITED (Continued)**

Insurance provisions (2017: £479.7m; 2016: £401.4m) Risk vs 2016: ◀▶ Refer to the page 23 (accounting policy) and page 42 - 44 (financial disclosures)	
The risk	Our response
<p><b>Subjective Valuation</b> Valuation of life insurance contract liabilities is a key audit matter because significant judgement is required in determining the ultimate total settlement value of long term policyholder liabilities and in the choice of assumptions. Economic assumptions, such as discount rates, and operating assumptions, such as mortality and morbidity, persistency and expenses are the key inputs used in the valuation of these long term liabilities.</p> <p>Specific audit and actuarial expertise is required to evaluate these complex and judgemental methods and assumptions.</p>	<p>Our procedures included:</p> <ul style="list-style-type: none"> <li>– <b>Control design:</b> We evaluated the controls over the measurement and management of the calculation of insurance liabilities including their operating effectiveness.</li> <li>– <b>Our sector experience:</b> We assessed the appropriateness of methodologies and assumptions used against our own knowledge of the regulations and industry standards.</li> <li>– <b>Our actuarial expertise:</b> We used our own actuarial specialists to assist us in challenging certain assumptions used and the process followed for setting and updating these assumptions, particularly around investment return, discount rates, tax, mortality and persistency assumptions. This included assessing the data used in the Company's analysis prepared to set the assumptions, in the context of our own industry knowledge, external data and our views of experience to date.</li> <li>– <b>Assessing transparency:</b> We assessed whether the disclosures in relation to the long-term policyholder liabilities are compliant with IFRS and with the methodologies applied by the directors.</li> </ul> <p><b>Our results</b> We found the valuation of life insurance contract liabilities made to be acceptable (2016: acceptable).</p>

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF OLD MUTUAL WEALTH LIFE ASSURANCE LIMITED (Continued)**

<b>Other provisions (2017: £68.6m; 2016: £nil)</b> <b>Risk vs 2016: ▲ (new key audit matter)</b> <b>Refer to the page 25 (accounting policy) and page 53 (financial disclosures)</b>	
<b>The risk</b>	<b>Our response</b>
<b>Subjective estimate</b> The amount relating to the voluntary client redress provision is significant. The risk relates to the reliability of the estimates and assumptions used, and the methodology employed in determining the amount of voluntary client redress provisions recognised under IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i> .	Our procedures included: <ul style="list-style-type: none"> <li>– <b>Our sector experience:</b> We assessed the application of accounting policies adopted by management for the recognition of the provision. Additionally, we assessed and challenged the directors' assumptions used in arriving at the provision.</li> <li>– <b>Our compliance expertise:</b> We inspected the Company's correspondence with regulators, and external sources of information. We used our own regulatory specialists and challenged the Directors' findings based on our knowledge of the entity and experience of the industry in which it operates.</li> <li>– <b>Assessing transparency:</b> Assessed the adequacy of the disclosures made in relation to the recognition, estimation uncertainty and presentation of the voluntary client redress.</li> <li>– <b>Test of detail:</b> We assessed the data used in the estimation of provision by agreeing these to the underlying tested data sources and the amount recognised by re-performing the underlying calculations. Where relevant, we compared the actuarial assumptions of growth and mortality for consistency of their application with those used in the valuation of the policyholder liabilities insurance provisions. We challenged the key assumptions, tested underlying calculations and performed sensitivity analyses.</li> </ul> <b>Our results</b> We found the estimation of the voluntary client redress provision to be acceptable (2016: not applicable).

<b>Investments and securities (2017: £12,138m; 2016: £12,462m)</b> <b>Risk vs 2016: ◀▶</b> <b>Refer to the page 24 (accounting policy) and page 46 - 47 (financial disclosures)</b>	
<b>The risk</b>	<b>Our response</b>
<b>Subjective valuation</b> We do not consider investment and securities to include a high risk of significant misstatement, or to be subject to a significant level of judgement because they comprise liquid, easy to price investments. However, due to their materiality in the context of the financial statements as a whole, they are considered to be one of the areas which had the greatest effect on our overall audit strategy and allocation of resources in planning and completing our audit.	Our procedures included: <ul style="list-style-type: none"> <li>– <b>Control design:</b> We evaluated the controls over recording and valuation of the investments including their operating effectiveness.</li> <li>– <b>Our valuation specialist:</b> We used our own valuation specialists to assist us in performing independent price checks using various sources of external quotes. We compared our independent market reference prices to those market prices recorded by management, and sought to understand significant differences, if any, that are greater than the range of acceptable prices derived by our valuation specialists.</li> <li>– <b>Assessing transparency:</b> We assessed the adequacy of the disclosures in relation to the valuation of investments.</li> </ul> <b>Our results</b> We found the valuation of investments and securities to be acceptable (2016: acceptable).

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF OLD MUTUAL WEALTH LIFE ASSURANCE LIMITED (Continued)**

**3. Our application of materiality and an overview of the scope of audit**

Old Mutual Wealth Life Assurance Limited is part of a group headed by Old Mutual plc. Materiality of £9.0m (2016: £18.7m), as communicated by the group audit team, has been applied to the audit of the Company. This is lower than the materiality we would otherwise have determined by reference to net assets, and represents 3.0% of the Company's net assets (2016: 6.0%).

We agreed to report to the Board of Directors any corrected or uncorrected identified misstatements exceeding £0.45m (2016: £0.9m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the Company was undertaken to the materiality level specified above and was all performed at the Company's offices in London and Southampton.

**4. We have nothing to report on going concern**

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

**5. We have nothing to report on the strategic report and the directors' report**

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

**6. We have nothing to report on the other matters on which we are required to report by exception**

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF OLD MUTUAL WEALTH LIFE ASSURANCE LIMITED (Continued)**

**7. Respective responsibilities**

***Directors' responsibilities***

As explained more fully in their statement set out on page 9, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

***Auditor's responsibilities***

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

A fuller description of our responsibilities is provided on the FRC's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities).

***Irregularities - ability to detect***

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the company's regulatory and legal correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related financial statements items.

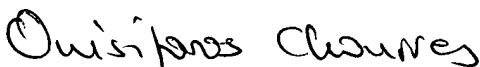
In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and regulatory conduct. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and other management and inspection of regulatory and legal correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related financial statements items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of non-compliance with relevant laws and regulations, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

**8. The purpose of our audit work and to whom we owe our responsibilities**

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.



**Onisiforos Chourres (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
15 Canada Square  
London  
E14 5GL

9 March 2018



**INCOME STATEMENT**

for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
<b>REVENUE</b>			
<b>Investment contracts</b>			
Fee income	4	157.6	158.2
Change in deferred fee income	25	12.8	19.6
		<u>170.4</u>	<u>177.8</u>
<b>Insurance contract premiums</b>			
Gross premiums written	5	146.7	140.2
Outward reinsurance premiums		<u>(86.0)</u>	<u>(83.1)</u>
Earned premiums, net of reinsurance		60.7	57.1
<b>Other revenue</b>			
Investment return	6	4.4	25.4
		<u>235.5</u>	<u>260.3</u>
<b>TOTAL REVENUE</b>			
<b>EXPENSES</b>			
<b>Insurance contract claims</b>			
Claims incurred - gross amount		(75.8)	(71.3)
Claims incurred - reinsurers' share		<u>54.1</u>	<u>49.7</u>
Claims incurred - net of reinsurance	7	(21.7)	(21.6)
Change in insurance provisions - gross amount		(78.3)	(125.3)
Change in insurance provisions - reinsurers' share		<u>84.9</u>	<u>118.7</u>
Change in insurance provisions - net of reinsurance	14	6.6	(6.6)
<b>Other charges</b>			
Commission expenses	8	(40.6)	(41.7)
Change in deferred acquisition costs	13	(23.4)	(29.6)
Administrative expenses	9	(145.3)	(72.7)
Finance costs	11	(0.3)	(1.0)
Other expenses		-	(5.6)
		<u>(224.7)</u>	<u>(178.8)</u>
<b>TOTAL EXPENSES</b>			
		<u>10.8</u>	<u>81.5</u>
<b>PROFIT BEFORE TAX</b>			
Policyholder tax	12	(15.4)	(57.8)
(Loss)/Profit after policyholder tax before shareholder tax		(4.6)	23.7
Taxation	12	(29.8)	(62.4)
Less: policyholder tax		<u>15.4</u>	<u>57.8</u>
Shareholder tax	12	(14.4)	(4.6)
		<u>(19.0)</u>	<u>19.1</u>
<b>(LOSS)/PROFIT FOR THE YEAR</b>			
Attributable to equity holders		<u>(19.0)</u>	<u>19.1</u>

All the above amounts in the current and prior year derive from continuing activities.

The notes on pages 20 to 57 are an integral part of these financial statements.

**STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 December 2017

	2017 £m	2016 £m
<b>(LOSS)/PROFIT FOR THE YEAR</b>	<u>(19.0)</u>	<u>19.1</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		
All attributable to equity holders	<u>(19.0)</u>	<u>19.1</u>

The notes on pages 20 to 57 are an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2017

Notes	Share capital £m	Retained earnings £m	Non- distributable reserves £m	Total equity- holder's funds £m
<b>Balance at 1 January 2016</b>	26.5	228.3	4.1	258.9
Profit for the year	-	19.1	-	19.1
Transfer to retained earnings		4.1	(4.1)	-
<b>Balance at 1 January 2017</b>	26.5	251.5	-	278.0
Loss for the year	-	(19.0)	-	(19.0)
Issue of Share Capital	38.0	-	-	38.0
<b>Balance at 31 December 2017</b>	64.5	232.5	-	297.0

Non-distributable reserves represent surplus retained in the long term assurance fund for UK regulatory purposes. From 1 January 2016 the regulatory capital regime changed to reflect the implementation of the European Solvency II directive. Under the Solvency II regime, the company has own funds which exceed its internal solvency target. On this basis all IFRS reserves are deemed to be distributable and therefore have been re-allocated to retained earnings

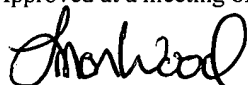
The notes on pages 20 to 57 are an integral part of these financial statements.

**STATEMENT OF FINANCIAL POSITION**  
at 31 December 2017

	Notes	2017 £m	2016 £m
<b>ASSETS</b>			
Deferred acquisition costs	13	84.0	107.4
Reinsurers' share of insurance provisions	14	382.5	302.6
Reinsurers' share of investment contract liabilities	15	2,525.3	2,560.2
Other investments	18	135.7	99.1
Investments held for the benefit of policyholders	17	12,002.6	12,362.5
Other receivables	19	38.9	50.8
Other prepayments and accrued income	20	1.0	1.2
Cash and cash equivalents	21	489.9	377.4
<b>Total assets</b>		<b>15,659.9</b>	<b>15,861.2</b>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	22	64.5	26.5
Retained earnings		232.5	251.5
<b>Total equity attributable to equity holder</b>		<b>297.0</b>	<b>278.0</b>
<b>LIABILITIES</b>			
Insurance provisions	14	488.8	416.4
Liabilities for linked investment contracts	15	14,498.5	14,866.8
Deferred tax liabilities	24	105.2	95.9
Deferred fee income	25	41.9	54.7
Other provisions	26	71.7	1.3
Current tax liabilities		38.2	14.1
Other payables	27	118.6	134.0
<b>Total liabilities</b>		<b>15,362.9</b>	<b>15,583.2</b>
<b>Total equity and liabilities</b>		<b>15,659.9</b>	<b>15,861.2</b>

The notes on pages 20 to 57 are an integral part of these financial statements.

Approved at a meeting of the board of directors on 9 March 2018 and signed on its behalf by:



S V Wood  
Director

Company registered number: 1363932

**STATEMENT OF CASH FLOWS**

for the year ended 31 December 2017

	2017	2016
	£m	£m
<b>OPERATING ACTIVITIES</b>		
Cash received from policyholders - insurance contracts	67.2	60.2
Cash received from policyholders - investment contracts	989.5	882.8
Risk reinsurance - net payments to reinsurers	(31.5)	(38.2)
Cash paid to policyholders - insurance contracts	(33.0)	(23.6)
Cash paid to policyholders - investment contracts	(2,666.0)	(2,035.1)
Commissions paid	(41.0)	(41.0)
Net cash paid to service providers, suppliers and employees	(33.9)	(74.6)
	<u>(1,748.7)</u>	<u>(1,269.5)</u>
<b>Investments for the benefit of policyholders</b>		
Interest received	0.1	0.1
Investment income on equities and collective investments	210.1	232.8
Investment administration expenses	(2.7)	(2.0)
Net sales of investments	1,619.7	1,123.2
	<u>1,827.2</u>	<u>1,354.1</u>
Cash generated from operations	78.5	84.6
Taxes and group relief received/(paid)	3.6	(16.8)
<b>Net cash from operating activities</b>	<u>82.1</u>	<u>67.8</u>
<b>INVESTING ACTIVITIES</b>		
Interest received	1.1	1.8
Investment income on fixed interest securities	3.1	4.3
Investment income on equities and unit trusts	0.1	-
Net (purchases)/sales of investments	(8.0)	30.0
<b>Net cash (used in)/ from investing activities</b>	<u>(3.7)</u>	<u>36.1</u>
<b>FINANCING ACTIVITIES</b>		
Other interest paid	(0.3)	(1.0)
Issue of Share Capital	38.0	-
(Decrease)/increase in bank overdraft	(3.6)	3.6
<b>Net cash from financing activities</b>	<u>34.1</u>	<u>2.6</u>
<b>Net increase in cash and cash equivalents</b>	<u>112.5</u>	<u>106.5</u>
Cash and cash equivalents at beginning of the year	<u>377.4</u>	<u>270.9</u>
<b>Cash and cash equivalents at end of the year</b>	<u>489.9</u>	<u>377.4</u>

The notes on pages 20 to 57 are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS for the year ended 31 December 2017

### 1 GENERAL INFORMATION

Old Mutual Wealth Life Assurance Limited ('the company') is a limited company incorporated in England & Wales. The address of its registered office is disclosed in the company information section on page 1. The principal activities of the company are disclosed in the strategic report.

### 2 SIGNIFICANT ACCOUNTING POLICIES

#### **Basis of preparation**

The financial statements have been prepared and approved by the directors in accordance with Part 15 of the Companies Act 2006, Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments, have been prepared in sterling and are rounded to the nearest hundred thousand. These are separate financial statements as the company has elected under IAS 27 paragraph 10 not to prepare consolidated financial statements.

The financial statements have been prepared on a going concern basis. It is the company's policy to maintain a strong regulatory solvency position and the board has reviewed the company's projections for the next 12 months and beyond including cash flow forecasts and the level of regulatory capital surplus. As a result, the board has a reasonable expectation that the company has adequate resources to continue in operational existence for at least 12 months from the date of approving these financial statements. During 2017 the company depended on support from its immediate parent undertaking, Old Mutual Wealth UK Holding Limited. Old Mutual Wealth UK Holding Limited has confirmed through a signed letter of support that for at least twelve months from the date of approval, financial support will be available if required.

#### **Standards, amendments to standards, and interpretations adopted in these annual financial statements**

During the year, there were no new standards implemented that had a material effect on the financial statements of the company.

#### **Future standards, amendments to standards, and interpretations not early-adopted in these financial statements**

At the date of authorisation of these financial statements the following standards, amendments to standards, and interpretations, which are relevant to the company, have been issued by the International Accounting Standards Board.

#### ***IFRS 9 'Financial Instruments'***

IFRS 9: Financial Instruments (IFRS 9) was issued in July 2014 and will replace IAS 39: Financial Instruments: Recognition and Measurement. The standard is effective for financial years commencing on or after 1 January 2018. The final version of this standard incorporates amendments to the classification and measurement, hedge accounting guidance, as well as the accounting requirements for the impairment of financial assets measured at amortised cost and fair value through other comprehensive income (FVOCI). These elements of the final standard, and a description of the expected impact on the company's statement of financial position and performance, are discussed in detail below:

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

#### ***Classification and measurement***

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

Financial assets are to be classified based on (i) the business model within which the financial assets are managed and (ii) the contractual cash flow characteristics of the financial assets (whether the cash flows represent 'solely payment of principal and interest'). Financial assets are measured at amortised cost if they are held within a business model whose objective is to hold those assets for the purpose of collecting contractual cash flows and those cash flows comprise solely payments of principal and interest ('hold to collect'). Financial assets are measured at FVOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and those contractual cash flows comprise solely payments of principal and interest ('hold to collect and sell'). Movements in the carrying amount of these financial assets should be taken through other comprehensive income (OCI), except for impairment gains or losses, interest revenue and foreign exchange gains or losses, which are recognised in profit or loss. Where the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*IFRS 9 'Financial Instruments' (continued)*

Other financial assets are measured at FVTPL. All derivative instruments that are either financial assets or financial liabilities will continue to be classified as held for trading and measured at FVTPL.

The accounting for financial liabilities is largely unchanged, except for financial liabilities designated at FVTPL. Changes in the fair value of these financial liabilities that are attributable to the company's own credit risk are recognised in OCI.

For equity investments that are neither held for trading nor contingent consideration, the company may irrevocably elect to present subsequent changes in fair value of these equity investments in either (i) profit or loss (FVTPL); or (ii) other comprehensive income (FVOCI). Where the equity investment is derecognised, the cumulative gain or loss previously recognised in OCI is not reclassified from equity to profit or loss. However, it may be reclassified within equity.

Based on the assessment of financial assets at 31 December 2017, the company does not expect the impact of the changes to classification and measurement of financial assets to be significant to the company's statement of financial position and performance.

*Impairment*

Under IFRS 9 impairment is determined based on an expected credit loss (ECL) model rather than the current incurred loss model required by IAS 39. The company will be required to recognise an allowance for either 12 month or lifetime ECLs, depending on whether there has been a significant increase in credit risk since initial recognition.

The measurement of ECLs reflects a probability-weighted outcome, the time value of money and the entity's best available forward looking information. The aforementioned probability-weighted outcome must consider the possibility that a credit loss occurs and the possibility that no credit loss occurs, even if the possibility of a credit loss occurring is low.

The ECL model applies to financial assets measured at amortised cost and FVOCI, lease receivables and certain loan commitments as well as financial guarantee contracts.

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

- Development, build and testing of impairment models with respect to financial assets held at amortised cost or FVOCI;
- Finalisation of the reporting and disclosure framework, and completion of the supporting business rules; and
- Documentation and implementation of the relevant control environment and related governance processes.

Significant development in the above areas facilitated the performance of a parallel run for the majority of the company's significant holdings of financial assets held at amortised cost or FVOCI during the latter part of 2017.

Key assumptions and judgements applied in relation to the new impairment model:

- Cash at bank – no ECL allowance is recognised, as deposits are held with banks with medium to high quality credit ratings and credit risk is considered to be minimal.
- Inter-company loans – no ECL allowance is recognised as these balances are internal to the company and credit risk is considered to be low.
- Loans and receivables (longer term) – methodology based on provision matrix approach, whereby historical data is extrapolated forward to derive a 12 month ECL allowance and then monitored for increases in credit risk which may trigger the recognition of a Lifetime ECL.
- Other assets (short term) – simplified approach is adopted, whereby a Lifetime ECL is recognised immediately and there is no need to track for any increases in credit risk

The company has estimated that the impact of adopting IFRS 9's ECL model has an immaterial transitional impact on the company's opening retained earnings at 1 January 2018.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

***IFRS 15 'Revenue from Contracts with Customers'***

IFRS 15 replaces all existing revenue requirements in IFRS and applies to all revenue arising from contracts with clients, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments. The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the client. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

The standard is effective for the company for the financial year commencing 1 January 2018. The company intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of adoption will be recognised in retained earnings as of 1 January 2018.

The company performed an assessment to determine the potential impact of the new standard on the company's statement of financial position and performance. The company considered the five-step analysis prescribed by the standard. It also took into account the different types of contracts it has with its customers, the corresponding types of services provided to customers and when these service obligations are satisfied. In addition, the company considered the types of fee income generated across all products from the contracts with its customers and when the fee income is recognised. This impact assessment concluded that IFRS 15 will have minimal effect on the company.

An increased level of disclosure is required by IFRS 15 which will include qualitative and quantitative information about the company's contracts with customers, significant judgements made and changes in those judgements. IFRS 15 also introduces standard definitions and will require additional information about contract costs (previously known as Deferred Acquisition Costs from non-insurance contracts), contract assets (previously known as Accrued Income from contracts with customers), and contract liabilities (previously known as Deferred Fee Income from contracts with customers).

***IFRS 17 Insurance Contracts***

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

The new IFRS 17 standard is effective for reporting periods beginning on or after 1 January 2021; it is yet to be endorsed by the EU. The new rules will affect the financial statements and key performance indicators of companies that issue insurance contracts or investment contracts with discretionary participation features.

The company will commence assessing the impact of IFRS 17.

The following standards have been issued by the International Accounting Standards Board, and are expected to be either not relevant or not applicable for the company:

***IFRS 16 Leases*** (endorsed by the European Union)

**Critical accounting estimates and judgements**

The preparation of financial statements requires management to exercise judgement in applying accounting policies and make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements. Critical accounting estimates and judgements are those that involve the most complex or subjective assessments and assumptions. Management uses its knowledge of current facts and circumstances and applies estimation and assumption setting techniques that are aligned with relevant actuarial and accounting guidance to make predictions about future actions and events. Actual results may differ significantly from those estimates.

The Old Mutual Wealth Life Assurance Limited board reviews the reasonableness of judgements and assumptions applied and the appropriateness of significant accounting policies adopted in the preparation of these financial statements. The areas where judgements, estimates and assumptions have the most significant effect on the amounts recognised in the financial statements are summarised in the following table:



**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

Area	Critical accounting judgement or assumption/estimate	Note
Insurance contracts – recognition and measurement	Assessment of the significance of insurance risk transferred to the Company in determining whether a contract should be classified (and accounted for) as an insurance or investment contract. Measurement involves significant use of assumptions including mortality, morbidity, persistency, expense valuation and interest rates.	7
Deferred acquisition costs (DAC)	Management utilises the present value (PV) of estimated future profits using estimation techniques to determine the amortisation profile and impairment testing in relation to deferred acquisition costs (DAC).	13
Provisions and contingent liabilities	In assessing whether a provision should be recognised or a contingent liability disclosed, the Company evaluates the likelihood of a constructive or legal obligation to settle an event that took place in the past and whether a reliable estimate can be made. The amount of provision is calculated, based on the Company's estimation of the expenditure required to settle the obligation at the statement of financial position date.	26&29
Tax	The calculation and recognition of temporary differences resulting in deferred tax balances includes estimation of the extent to which future taxable profits are available against which temporary differences can be utilised.	24

Each of these are discussed in more detail in the relevant accounting policies and notes to the financial statements.

**Insurance and investment contracts – classification and unbundling**

The company issues both insurance contracts and investment contracts. Insurance contracts are contracts under which the company accepts significant insurance risk from the policyholder by agreeing to compensate the policyholder or other beneficiary on the occurrence of a defined insured event. Investment contracts are financial instruments that do not meet the definition of an insurance contract as they do not transfer significant insurance risk from the policyholder to the company.

For contracts containing both an insurance component and an investment component, the company has taken the option to unbundle these contracts and account for each component separately. This approach has been applied to the company's unit-linked contracts.

*Insurance contracts*

Insurance contracts comprise the unbundled insurance component of unit-linked contracts and traditional life and health insurance contracts.

For long term traditional life contracts, the liability for contractual benefits that are expected to be incurred in the future is determined as the discounted value of the excess of future expected outgoings over future expected income. Future expected outgoings include claim costs, expenses, commissions and reinsurance premiums. Future expected income includes premiums paid by policyholders and recoveries made from reinsurers. For anticipated future claims that have been incurred but not yet paid, the company establishes a provision for outstanding claims.

The method used to determine liabilities for long term traditional life contracts makes allowance for the level of risk and uncertainty inherent in the business by the use of margins for caution within the assumptions used to project future income and outgoings. The portion of premiums received that relates to unexpired risks at 31 December 2017 is reported as an unearned premium liability within the insurance provision.

At each reporting date, the company carries out a liability adequacy test on its insurance contract liabilities to ensure that the carrying amount of its liabilities is sufficient in the light of estimated future cash flows. Any deficiency is initially recognised by writing down the deferred acquisition costs ("DAC") asset. The recoverability of the DAC asset is tested against the present value of in-force business, determined on a best estimate basis, with any deficit written off the DAC asset immediately. Any required write down in excess of the value of the DAC is disclosed as an additional liability.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Investment contracts*

Investment contracts comprise the unbundled investment component of unit-linked contracts. Investment contracts result in financial liabilities whose fair value is dependent on the fair value of underlying financial assets. They are designated at inception as financial liabilities at 'fair value through the income statement'.

Valuation techniques are used to establish the fair value at inception and each reporting date. The company's main valuation techniques incorporate all factors that market participants would consider and are based on observable market data. The financial liability is measured both initially and subsequently at fair value. However, if the liability is subject to a surrender option, the fair value of the financial liability is never less than the amount payable on surrender. The fair value of a unit-linked financial liability is determined using the fair value of the financial assets contained within the funds linked to the financial liability.

If, for a certain portfolio of investment contracts, the expected future revenue is less than expected future variable costs, a provision for onerous contracts is established for such a portfolio based on the net present value of the expected net outflow of cash.

*Reinsurance*

Contracts entered into by the company with reinsurers are classified as either ceded reinsurance or financial assets and liabilities. Ceded reinsurance contracts include arrangements where regular risk premiums are paid by the company to the reinsurer and an agreed share of claims are paid by the reinsurer to the company; these arrangements are in respect of underlying policies that are classified as insurance contracts.

The value of the benefits that the company is entitled to under the ceded reinsurance arrangements are reported as 'reinsurers' share of insurance provisions'. This is calculated as the difference between the insurance contract liability assuming no reinsurance arrangement exists (the gross basis) and the liability with explicit allowance for all cash flows relating to the reinsurance arrangement (the net basis).

Insurance contract liabilities are calculated quarterly on the gross and net bases taking into account all relevant experience effects. The reinsurers' share of insurance provisions is updated consistently with these calculations. Any resulting movement in the reinsurers' share of insurance provisions is recognised in the income statement.

Policyholder investments that are fully managed by a third party reinsurer are shown on the statement of financial position within reinsurers' share of investment contract liabilities, with the corresponding liability to the policyholder included within liabilities for linked investment contracts. As investment contracts, the premiums received, investment gains or losses and claims paid are reflected in the change in investment contract liabilities in note 15.

**Other investments**

Other investments comprise UK Government fixed interest securities backing insurance contracts, held as shareholder investments or relate to the investment in Old Mutual Global Investors (OMGI) generation funds. All investments are classified as 'fair value through the income statement' at initial recognition and are stated at quoted bid prices which equates to fair value, with any resultant gain or loss recognised in the income statement.

Purchases and sales of securities are recognised on the trade date.

**Investments in subsidiaries**

Investments in subsidiary undertakings are stated at cost less provision for impairment. An investment in a subsidiary is deemed to be impaired when its carrying amount is greater than its estimated recoverable amount, and there is evidence to suggest that the impairment occurred subsequent to the initial recognition of the asset in the financial statements. All impairments are recognised in the income statement as they occur.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Investments held for the benefit of policyholders**

Investments held for the benefit of policyholders are stated at fair value and reported on a separate line in the statement of financial position.

The assets are classified using the 'fair value through the income statement' at initial recognition option with any resultant gain or loss recognised in the income statement. Changes in the value of linked assets and the corresponding change in liabilities are offset and do not appear on the face of the income statement as they relate solely to the policyholders. The directors believe that including these changes in value separately on the face of the income statement, as required by IAS 39, would detract from the ability of users to understand the transactions and assess the entity's performance and future cash flows. The changes in value are disclosed in note 17.

Investments held for the benefit of policyholders are valued at market prices on the last business day of the year.

The valuation bases at the reporting date were as follows:

- Freehold property is included at the latest independent valuation;
- Fixed interest and index-linked securities are valued at quoted bid prices;
- Equities and investment trusts are valued at quoted bid prices;
- Unit trusts are valued at quoted bid prices;
- Open Ended Investment Company (OEIC) assets are single priced funds and are valued at the quoted net asset value per share.

**Deferred acquisition costs**

Incremental costs directly attributable to securing investment and insurance contracts are deferred. These costs consist mainly of commission paid to financial advisers and internal sales personnel. The costs are capitalised as deferred acquisition costs and are amortised as an expense over the directors' best estimate of the life of the contract as the services are provided. Equal service provision is assumed over the lifetime of the contract and, as such, the deferred costs are amortised on a linear basis over the expected life of the contract, adjusted for expected persistency.

At the end of each reporting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related contracts at the statement of financial position date. An impairment loss is recognised in the income statement if the carrying amount of the deferred acquisition costs is greater than the future margins from the related contracts.

**Other receivables**

Other receivables are not interest-bearing and are stated at their amortised cost, less appropriate allowances for estimated irrecoverable amounts which approximates to fair value.

**Cash and cash equivalents**

Cash and cash equivalents comprise cash balances, call deposits, money market OEIC funds and other short term deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

**Other provisions**

Provisions are recognised when the company has an obligation, legal or constructive, as a result of a past event, and it is probable that the company will be required to settle that obligation. Provisions are estimated at the directors' best estimate of the expenditure required to settle the obligation at the reporting date, and are discounted to present values where the effect is material.

**Other payables**

Other payables are short term, not interest-bearing and are stated at their amortised cost which is not materially different to cost and approximates to fair value.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue recognition**

Revenue comprises the fair value for services, net of value-added tax. Revenue is recognised as follows:

***Fee income***

Fees charged for managing investment contracts comprise fees taken both on inception and throughout the life of the contract. All fee income is recognised as revenue in line with the provision of the investment management services.

***Deferred fee income***

Front-end fee income, comprising fees received at inception or receivable over an initial period for services not yet provided, is deferred through the creation of a deferred fee income liability (DFI) on the statement of financial position and released to income as the services are provided. Equal service provision is assumed over the lifetime of the contract and, as such, the deferred fees are amortised on a linear basis over the expected life of the contract, adjusted for expected persistency. The deferred fee income liability principally comprises fee income already received in cash.

***Premiums***

Premiums for insurance contracts are recognised as revenue when they become payable by the policyholder.

Outward reinsurance premiums are accounted for in the period they become payable.

***Gains and losses on non-linked assets backing insurance contracts and shareholder investments***

Realised investment gains and losses represent the difference between the net sales proceeds and the cost of the investment or value at start of the year. The movement in unrealised investment gains and losses represents the difference between the carrying value of investments at the year-end and the value at the start of the year, or the original cost where an investment is acquired during the year. The realised gains and losses and movement in unrealised gains and losses on investments arising in the year are included in the income statement.

***Interest income***

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that financial asset's carrying amount.

***Dividend income***

Dividend income from investments is recognised when the shareholder's rights to receive payments have been established.

***Unit trust rebates***

Rebates received from unit trust managers are accounted for on an accruals basis.

**Insurance contract claims**

Claims are recorded as an expense when incurred. Reinsurance recoveries are recorded in the same accounting period as the related claim.

**Other expenses**

All other expenses are recognised in the income statement when incurred.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Taxation**

*Current tax*

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date and any adjustment to income tax payable in respect of previous years. The taxable income for the year is determined in accordance with enacted legislation and taxation authority practice for calculating the amount of tax payable.

Current tax is charged or credited to the income statement, except when it relates to items recognised directly in equity or in other comprehensive income.

*Deferred tax*

Deferred taxes are calculated according to the statement of financial position method, based on temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax is charged or credited to the income statement, except when it relates to items recognised directly in equity or in other comprehensive income.

*Policyholder tax*

Certain products are subject to tax on policyholder's investment returns. This 'policyholder tax' is an element of tax expense. To make the tax expense more meaningful, tax attributable to policyholder returns and tax attributable to shareholder profits is shown separately.

The tax attributable to policyholder returns is the amount payable in the year plus the movement of amounts expected to be payable in future years. The remainder of the tax expense is attributed to shareholders as tax attributable to shareholder profits.

**Foreign currencies**

Transactions in foreign currencies are translated at the exchange rate in effect at the date of the transaction. Foreign currency monetary assets and liabilities are translated to sterling at the year end closing rate. Non-monetary assets denominated in a foreign currency that are measured in terms of historical cost are translated using the exchange rate in effect at the date of the transaction and non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rate in effect at the date when the fair value was determined. Foreign exchange rate differences that arise are reported net in the income statement as foreign exchange gains/losses.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

### 3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES

#### Risk management framework

The Enterprise Risk Management (ERM) framework is defined for the Old Mutual Wealth (OMW) business unit of Old Mutual plc. The company has adopted the OMW ERM framework. The ERM framework comprises core components such as:

- the corporate governance arrangements which set out the way that the organisation is structured and managed;
- the end-to-end processes involved in the identification, measurement, assessment, management and monitoring of risk, including assignment of risk owners and risk reporting;
- the culture and behaviour that is exhibited and the associated reward mechanisms;

The ERM framework aims to align strategy, capital, processes, people, technology and knowledge in order to evaluate and manage business opportunities, uncertainties and threats in a structured, disciplined manner. In this way OMW seeks to ensure that risk and capital implications are considered when making strategic and operational decisions, and to ensure that the OMW's risk profile is understood and managed within the agreed risk appetite.

OMW's risk appetite framework (RAF) is defined as the policies, processes, skills and systems that set out the way that OMW staff across all business and control functions should talk about, think about, and manage risk in relation to OMW's risk appetite. OMW's RAF builds upon the existing business planning, capital and risk management processes.

The RAF has three distinctive components:

- Strategy and Business Planning Process: High level strategic risk appetite principles provide 'macro' statements that enable risk appetite to be linked and aggregated at the highest level to the strategic drivers of the business.
- The Stress and Scenario Framework: Quantitative risk appetite statements linked to the business strategic objectives, and contractual and regulatory requirements.
- The Risk Policy Framework: Quantitative and qualitative risk appetite statements for individual risks embedded into the policy framework. These set out the approach taken within OMW Group to mitigate and manage risks, informed by the policy appetite statements and control standards.

The risk culture is defined by the following principles:

- Responsibility and accountability for risk management is clearly assigned throughout the organisation with the aim of fostering an open and transparent organisational culture that encourages the right behaviours;
- The company creates a climate for the employees to voice genuine concerns about, and risks within, the business;
- A risk-aware culture is seen as an enabler for management to be empowered to take risks in a manner that is transparent and that is in line with the business and risk strategy;
- Good risk management practices are encouraged, such that employees understand how to make educated risk-related decisions in their day-to-day roles;
- Training and awareness programmes are in place to ensure that a risk-aware culture is fostered and that employees understand the importance of good risk management;

Performance management encourages and incentivises good risk management practices.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

### 3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

The risks faced by the company are described below:

#### Market risk

Market risk arises primarily through potential reductions in future revenues, whereby a change in the value of or income from any particular asset is not matched by an equal change in the value of the corresponding liability within the portfolio. This may occur due to a fall in value of underlying assets, as a result of fluctuations in equity prices, bond prices, property prices, interest rates and foreign exchange rates, where the market value of assets and liabilities within the portfolio are not precisely matched. The Asset Liability Management process employed for matching within the portfolio keeps the impacts of this risk within acceptable limits.

The Old Mutual Wealth business unit has established a market risk policy which sets out the market risk management governance framework, permitted and prohibited market risk exposures, maximum limits on market risk exposures, management information and stress testing requirements.

The financial impact of more extensive movements in market risk other than those that could reasonably be expected is examined through scenario testing.

The sensitivity of future earnings to the level and performance of investment markets is monitored through sensitivity analyses performed for business planning.

Market risk arises from exposure to movements in interest rates, bond, equity and property values and foreign exchange rates.

#### Equity and property price risk

In accordance with the market risk policy, the company does not invest shareholder assets in equity or property, or related collective investments, except where the exposure arises due to:

- Mismatches between unitised fund assets and liabilities. These mismatches are permitted, subject to maximum limits, to avoid excessive dealing costs;
- Seed capital investments. Seed capital is invested within new unit-linked funds at the time when these funds are launched. The seed capital is then withdrawn from the funds as policyholders invest in the funds.

The above exposures are not material.

Equity assets are all held indirectly through collective investments to back unit-linked liabilities. Due to the nature of the investments held there is no material exposure to equity and property price risk on non-linked term assurance policyholder assets.

The company derives fees (e.g. annual management charges) and incurs costs (e.g. adviser fund based renewal commissions) which are linked to the performance of the underlying assets. Therefore future earnings will be affected by equity and property market performance.

The sensitivity of profit to changes in equity and property prices is given in the sensitivity analysis. The sensitivity analysis is not limited to the unit-linked business and therefore reflects the sensitivity of the company as a whole.

In conclusion, the equity risk is directly correlated to the size of the AuA (Assets under Administration).

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)**

**Market risk (continued)**

***Interest rate risk***

Interest rate risk arises primarily from investment in fixed interest government securities, which are exposed to fluctuations in interest rates.

Fixed interest government securities are held to match liabilities for non-linked protection business determined on an IFRS basis. Therefore, on an IFRS basis there is no material exposure to interest rate movements.

A rise in interest rates would also cause an immediate fall in the value of investments in fixed income securities within unit-linked funds, resulting in a short term fall in fund based fees.

Exposure of the IFRS income statement and statement of financial position equity to interest rates are summarised in sensitivities later within this section.

***Interest rates applicable to interest bearing financial instruments***

	2017 Fixed	2017 Variable	2016 Fixed	2016 Variable
<b>Assets</b>				
Bonds	3.79%	-	3.71%	-
Deposits with credit institutions	-	0.27%	-	0.20%

***Currency risk***

The company is not exposed to significant direct currency risk. The company holds limited foreign currency balances to meet settlements as they fall due. At the reporting date the company had cash balances held in Euro £0.5m (2016: £0.5m), £0.6m in Norwegian Krona (2016: £0.9m), £1.1m in Swedish Krona (2016: £0.8m) and £0.3m in US Dollar (2016: £0.1m).

The company is exposed to currency risk indirectly through fund based fees derived from unit-linked funds which hold assets denominated in foreign currencies. Therefore, a movement in exchange rates would affect the value of future fund based fees received by the company.

Overall, the currency risk continues to steadily decrease a result of the gradual decline in AuA because of the business run-off.



**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)**

**Spread risk**

Similar to equity risk, spread risk reflects the potential loss of future revenue resulting from adverse movements in corporate bond markets which reduce underlying unit-linked asset values, held indirectly through collective investments held to back unit-linked liabilities.

The assets under administration (AuA) contain corporate bonds. When the spread on these bonds widens, the value of these bonds falls, decreasing the fund based future revenue.

The spread risk is directly related to the size of the company's AuA.

**Credit risk**

Credit risk is the risk that the company is exposed to a loss if another party fails to meet its financial and contractual obligations to that company, including failing to meet them in a timely manner.

The Old Mutual Wealth division has established a credit risk policy which sets out restrictions on the permitted financial transactions with counterparties to control and monitor the level of credit risk exposure.

The areas in which the company is exposed to credit risk are:

- Defaults by banks and other financial institutions in respect of company deposits;
- Default in respect of the investment of shareholder's assets;
- Default by financial advisers in respect of commission debt;
- Default by fund management groups in respect of settlements and rebates of fund management charges on collective investments held for the benefit of policyholders; and
- Failure by a reinsurer to meet its obligations in respect of a legitimate claim under a risk reinsurance contract.

The company has a low tolerance for credit and counterparty risk. In addition, as per the prudence principle shareholder funds are only deposited in permitted instruments as set out in the Old Mutual Wealth Treasury Statement of Practice. The permitted instruments are bank call & fixed term deposits, permitted money market funds and UK government bonds.

The credit risk exposures of the company are monitored on a daily basis to ensure that concentrations of exposure are kept within accepted limits as per the company's Treasury Standard. Monthly due diligence is performed using reports from the treasury department to ensure the company's counterparties remain creditworthy.

There is no direct exposure to European sovereign debt (outside of the UK) within the shareholder investments.

The company has no significant concentrations of credit risk exposure, as cash is invested with a number of counterparties with high credit ratings.

The company's maximum exposure to credit risk does not differ from the carrying value disclosed in the relevant notes to the financial statements.

***Reinsurance arrangements***

The company has reinsurance arrangements in place to mitigate the risk of excessive claims on unit-linked and non-linked protection contracts. Reinsurance arrangements are also used in respect of unit-linked institutional business to access specific funds not available through direct fund links.

The most material credit risk relates to reinsurance counterparties. Since the company uses reinsurance as a means of mitigating insurance risk, reinsurance counterparties bear a significant financial obligation to the company.

In general, credit risk is controlled through the use of risk premium reinsurance terms, where reinsurance cover is paid for as the cover is provided. In these arrangements credit risk is limited to the risk of being unable to recover amounts due as a result of claims arising over the latest quarter, since reinsurance accounts are settled quarterly in arrears. This risk is largely mitigated since the company would be able to withhold amounts due to the reinsurer to offset amounts due from the reinsurer.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

### 3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

The company also has reinsurance arrangements in which there is a timing difference between the reinsurance premium payment and the provision of cover, which results in prepayment for cover by the company. In respect of these arrangements, a credit risk exposure can arise.

Reinsurance credit risk is managed by dealing only with reinsurance firms with credit ratings which meet the requirements of the company's credit risk policy on inception of new reinsurance arrangements.

The company monitors the exposure to and credit rating of reinsurance counterparties regularly to ensure that these remain within acceptable limits.

Legal agreements are in place for all reinsurance arrangements which set out the terms of the arrangement and the rights of both the company and the reinsurance providers.

Details of the age analyses and credit quality of reinsurance assets in respect of insurance contracts and investment contracts are included in notes 14 and 15 respectively.

#### *Other credit risks*

Risk of defaults by banks and other financial institutions in respect of company deposits is mitigated by investing only in UK government bonds and placing company deposits with an appropriately diversified set of institutions with strong credit ratings.

Risk of default in respect of the investment of shareholder assets is controlled by:

- Depositing only in the permitted instruments set out in the Old Mutual Wealth Treasury Statement of Practice;
- Setting minimum credit rating requirements for counterparties;
- Setting restrictions relating to longer term (greater than 90 day) deposits;
- Setting limits for individual counterparties and counterparty concentrations; and
- Reviewing limits annually and monitoring exposures regularly.

Risk of default by financial advisors in respect of commission debt is controlled through monthly monitoring of commission debt balances.

Risk of default by fund management groups in respect of settlements and rebates of fund management charges on collective investments held for the benefit of policyholders is managed through the due diligence process which is completed before entering into any relationship with a fund group. Amounts due to and from fund groups are monitored for prompt settlement and appropriate action is taken where settlement is not timely.

Risk of default by other life companies in respect of claims against a life fund reinsurance policy is managed using a due diligence process similar to that used when entering into relationships with fund groups. Credit risk is controlled using a floating charge over the assets of the life company.

Legal contracts are maintained where the company enters into credit transactions with a counterparty.

Details of the credit quality of debt securities can be found in note 18.

#### *Impact of credit risk on fair value*

Due to the limited exposure that the company has to credit risk, credit risk does not have a material impact on the fair value movement of financial instruments for the year under review.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

### 3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

#### Liquidity risk

Liquidity risk is the risk that a company, although solvent, does not have available sufficient financial resources to enable it to meet its obligations as they fall due, or can secure them only at excessive cost.

The Old Mutual Wealth division has established a liquidity risk policy, which sets out the practices that each regulated firm must perform to manage exposure to liquidity risk.

Liquidity risk can arise as a result of significant switches or surrenders of policyholder funds over a short timeframe or an individual very large switch or surrender. In some cases, switches and surrenders of policyholder funds are paid by the company before settlement is received from the market on the sale of policyholder assets. This risk is managed through the performance of annual stress tests, which calculate a minimum liquidity amount required by the company, taking into account the cash need for various stress scenarios plus business as usual requirements. Cash balances are monitored daily against the minimum liquidity amounts. In addition, the company has the option to request a facility to borrow from its parent undertaking, Old Mutual Wealth UK Holding Limited, in the extreme event of insufficient liquidity.

Old Mutual Wealth maintains a Contingency Funding Plan which sets out the potential funding sources and processes for providing liquidity to the legal entities in the event that liquidity support is required.

On certain funds available to policyholders (primarily property funds), there is a risk that in the event of a shortage of liquidity within the funds, these funds may be suspended, resulting in policyholders being unable to buy or sell units for a period of time. The liquidity risk in relation to fund suspensions is largely borne by policyholders.

#### Maturity schedule

The maturity dates of financial liabilities are shown below.

	<3 months £m	3-12 months £m	1-5 years £m	>5 years £m	Total £m
<b>2017:</b>					
Insurance provisions	6.2	7.8	33.6	855.1	902.7
Liabilities for linked investment contracts	14,498.5	-	-	-	14,498.5
Other payables	118.6	-	-	-	118.6
	<u>14,623.3</u>	<u>7.8</u>	<u>33.6</u>	<u>855.1</u>	<u>15,519.8</u>
<b>2016:</b>					
Insurance provisions	6.8	9.5	55.5	660.5	732.3
Liabilities for linked investment contracts	14,828.0	-	-	-	14,828.0
Other payables	129.8	-	-	-	129.8
	<u>14,964.6</u>	<u>9.5</u>	<u>55.5</u>	<u>660.5</u>	<u>15,690.1</u>

The insurance provisions shown in the above maturity schedule are undiscounted. Liabilities for linked investment contracts are classified as less than three months maturity; whilst it is not expected that all liabilities will be settled within this period, the terms of the contracts allow the policyholders to redeem their policies at any time.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)**

**Insurance risk**

Insurance risk arises through exposure to unfavourable claims experience on life assurance and critical illness business and exposure to unfavourable operating experience in respect of factors such as persistency levels and management expenses.

Insurance risk arises due to uncertainty in mortality, persistency, expense and claim rates, relative to the actuarial assumptions made in the pricing process which may prevent the company from achieving its profit objectives.

The Old Mutual Wealth division has developed an insurance risk policy which sets out the practices which are used to manage insurance risk, management information and stress testing requirements.

As well as management of persistency, expense and claims experience, the insurance risk policy sets requirements and standards on matters such as underwriting and claims management practices, use of reinsurance to mitigate insurance risk, application of charges in respect of taxation and exercise of discretion.

The insurance risk profile and experience is closely monitored to ensure that the exposure remains acceptable.

The financial impact of insurance risk events is examined through stress tests carried out within the Solvency II regulatory capital assessment.

***Mortality and morbidity***

Mortality and morbidity risk is the risk that death, critical illness and disability claims are higher than expected within the company's pricing assumptions. Possible causes are unexpected epidemics of new diseases and widespread changes in lifestyle such as eating, smoking and exercise habits.

For unit-linked contracts a risk charge is applied to meet the expected cost of the insured benefit. This risk charge can be altered in the event of significant changes in the expectation for future claims experience.

The company does not transact group protection business and so there are no concentrations of mortality and morbidity risk.

Sensitivity of profit to changes in mortality and morbidity experience is illustrated in the sensitivity analysis later in this section.

The company manages mortality risks through its underwriting policy and external reinsurance arrangements where its policy is to retain certain types of insurance risks within specified maximum single event loss limits. Exposures above accepted limits are transferred to reinsurance counterparties.

The value of insurance liabilities and the impact of reinsurance on those liabilities are shown in note 14.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)**

**Insurance risk (continued)**

***Persistency***

Persistency risk is the risk that a policyholder surrenders, transfers or ceases premium payments for their contracts with the company in a volume that has not been expected within the pricing assumptions thereby leading to a reduction in financial profit and an impact on liquidity.

Most insurance contracts can be surrendered before maturity for a cash surrender value. For insurance business, the surrender value is never more than the current reported value of the contract liability.

Persistency risk is managed through focus on customer service, conduct, and reputation. In order to limit this risk to an acceptable level, charging and commission structures are designed to limit the risk of direct financial loss on surrender. Persistency statistics are monitored monthly. Actions may be triggered as a result of higher than expected lapse rates and significant emerging trends. A detailed persistency analysis at a product level is carried out on an annual basis.

In the short term, profit is not materially impacted by changes in persistency experience that are reasonably foreseeable.

In conclusion, there is a downward trend in the persistency (lapse) risk because the unit-linked business is largely in run-off and the company expects to receive less revenue from this book of business.

***Expenses***

Expense risk is the risk that actual expenses exceed expense levels assumed in product pricing. This may result in emerging profit falling below the company's profit objectives.

Expense risk is managed through tight budget control and discipline, balanced against the need to ensure sufficient resources to achieve the company's strategic aims. An activity based costing process is used to allocate costs relating to processes and activities to individual product lines.

Some products' structures include maintenance charges. These charges are reviewed annually in light of changes in maintenance expense levels and as result can trigger changes to the maintenance charge allocations.

Sensitivity of profit to changes in management expenses is illustrated in the sensitivity analysis on pages 36 to 37.

In conclusion, there is a general upward trend in the expense risk driven mainly by the business being in run-off, which is increasing the maintenance cost per policy over 2017.

**Operational risk**

Operational risk is the risk that failure of people, processes, systems or external events results in financial loss, damage to the brand/reputation, adverse regulatory intervention or government or regulatory fine.

The company has exposure to operational risk resulting from operational activities, excluding risks already described above and excluding strategic risks and risks resulting from being part of a wider group of companies.

The company has exposure to a number of operational risks which threaten the company's ability to meet its business objectives including regulatory compliance breach, misrepresentation in product literature or illustrations leading to unfair treatment of customers and litigation, poor business plan execution, cyber-attack, IT instability, issues relating to third party supply and outsourced services, financial crime, and process failure such as in customer administration, investment and fund management, tax and financial management processes.

Operational risks are managed in accordance with the company's operational risk policy and standards consistent with the Enterprise Risk Management Framework. Operational risk exposure is measured primarily through scenario assessments which use internal and external loss event data, Risk and Control Self-Assessments, and expert judgement provided by the key subject matter experts. Resultant exposures are evaluated against the company's risk appetite which is the process that drives operational risk reporting and management action.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

### 3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)

The company operates a “three lines of defence” model in accordance with the Group Governance Manual. The board has overall responsibility for managing the company within operational risk appetite and risk culture. First line management have responsibility for the embedding and applying the operational risk framework and managing operational risk and controls. The company’s Risk Function are the Second Line who provide risk oversight, and the company’s Internal Audit function provide Third Line assurance. The company’s governance structure is designed to ensure clarity of responsibilities and delegated authorities, segregation of duty, and clear escalation of risk issues to enable timely management response to manage risks within acceptable tolerances.

#### **Risk and capital management**

The potential impacts on the capital resources and future profits of the company are assessed regularly. Market risks are assessed through stress tests applied to business plan financial projections by varying assumptions for future experience. The impact of insurance risks are assessed through stresses applied as part of the Solvency II regulatory framework. Operational risks are assessed using scenario based risk assessments, constructed using expert judgment supplemented by review of the risk control processes in place, internal and external event data, key risk indicators and internal & external audit opinions. Credit risks are assessed by determining the financial exposure to material counterparties and the likelihood of default of these counterparties. Credit ratings are used to assess the likelihood of default.

The capital management policy sets out the key considerations and restrictions with regard to the amount of capital that is retained.

Capital is managed to the company’s Solvency target which is set to ensure that the business can maintain its own funds above the Solvency Capital Requirement under plausible but severe stresses. In addition, the company maintains working capital to provide for fluctuations in experience and to meet strategic objectives. The company has met the regulatory requirement for capital throughout 2017. From 1 January 2016 the regulatory capital regime has changed to reflect the implementation of the European Solvency II directive. The company is well capitalised on a Solvency II basis.

The Own Risk and Solvency Assessment (ORSA) process is used to assess the level of capital which should be retained by the company. This process considers all of the risks faced by the company and the degree to which risks have similar or related causes, and so could occur together.

Capital assessment and scenario testing results are used to inform strategic decisions such as whether to alter operational processes and controls to ensure that risks are effectively managed within the firm's risk appetite.

#### **Sensitivity tests**

Sensitivity analysis has been performed by applying the following parameters to the statement of financial position and income statement as at 31 December 2017 and 31 December 2016.

#### **Interest rates**

The impact of an increase and decrease in market interest rates of 1% is tested (e.g. if the current interest rate is 5%, the test allows for the effects of an instantaneous change to 4% and 6% from the start of the year). The test allows consistently for similar changes in investment returns and movements in the market value of assets backing non-linked liabilities. The sensitivity of both profit and shareholders equity to interest rates is provided.

A 1% rise in interest rates would impact the value of linked funds and therefore impact the fee income that is based on the market value of the investments held for the policyholders. Linked funds would move in value by around 2% as a shift of 1% in gilt yields moves gilt market values by 10%, but only 20% of linked assets are gilts.

Perfect matching has been assumed for insurance contracts so that any movement in asset values is balanced by a movement in the insurance provision.

A decrease in interest rates by 1% would have increased loss and reduced shareholders' equity by £1.9m after tax (2016: £1.2m decrease). An equal change in the opposite direction would have decreased loss and increased shareholders' equity by £4.0m after tax (2016: £2.4m decrease).

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURES (continued)**

**Sensitivity tests (continued)**

***Equity/property***

A movement in equity and property prices would impact the fee income that is based on the market value of the investments held for the policyholders. In this analysis, all linked renewal commission is assumed to be fund based and all gains are assumed to be realised gains. The sensitivity is applied as an instantaneous shock to equity and property prices at the start of the year.

An increase in equity and property prices of 10% would have increased profit by £6.2m after tax (2016: £4.1m). An equal change in the opposite direction would have decreased profit by £6.0m after tax (2016: £4.1m).

***Expenses***

The increase in expenses is assumed to apply to the costs associated with the maintenance and acquisition of contracts. It is assumed that these expenses are increased by 10% from the start of the year, so is applied as an expense shock rather than a gradual increase. The only administrative expenses that are deferrable are sales bonuses but as new business volumes are unchanged in this sensitivity, sales bonuses and the associated deferrals have not been increased. Administrative expenses have been allocated equally between life and pensions.

An increase in expenses of 10% would have decreased profit by £9.1m after tax (2016: £8.7m).

***Mortality/morbidity***

The impact on profit of an increase in mortality and morbidity claims rates of 5% is tested. This would affect the level of insurance contract claims and is assumed to apply throughout the year.

An increase in mortality and morbidity claims of 5% each would have decreased profit after tax by £0.9m (2016: £1.0m).

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**4 FEE INCOME**

	2017 £m	2016 £m
<b>Investment contracts</b>		
Premium based fees	5.4	6.6
Fund based fees	95.2	74.5
Fixed fees	2.5	2.8
Other fee income	54.5	74.3
	<u>157.6</u>	<u>158.2</u>

Other fee income consists primarily of charges taken from unit-linked funds to meet future policyholder tax liabilities.

**5 GROSS PREMIUMS WRITTEN**

	2017 £m	2016 £m
<b>Insurance contracts</b>		
Regular premiums	<u>146.7</u>	<u>140.2</u>

**6 INVESTMENT RETURN**

	2017 £m	2016 £m
<b>Investment income and realised gains</b>		
Interest on fixed interest securities and short term deposits	3.2	5.6
Realised gains on fixed interest securities, net	3.5	22.1
Realised gains on collective investment schemes, net	0.4	-
	<u>7.1</u>	<u>27.7</u>
<b>Unrealised losses</b>		
Unrealised losses on fixed interest securities	(3.1)	(2.5)
Unrealised gains on collective investment schemes	0.4	0.2
	<u>(2.7)</u>	<u>(2.3)</u>
	<u>4.4</u>	<u>25.4</u>

The above investment returns arise on non-linked assets backing insurance contracts and shareholder investments. All investment returns reflect gains on financial assets that are designated as fair value through the income statement.



**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**7 INSURANCE CONTRACT CLAIMS**

	2017 Gross £m	2017 Reinsurance £m	2017 Net £m	2016 Gross £m	2016 Reinsurance £m	2016 Net £m
Death	50.1	28.7	21.4	40.0	28.1	11.9
Disability and critical illness	25.1	25.3	(0.2)	30.8	21.5	9.3
Annuity payments	0.3	0.1	0.2	0.3	0.1	0.2
Claims handling expenses	0.3	-	0.3	0.2	-	0.2
	<u>75.8</u>	<u>54.1</u>	<u>21.7</u>	<u>71.3</u>	<u>49.7</u>	<u>21.6</u>

**8 COMMISSION EXPENSES**

	2017 £m	2016 £m
Initial commission	13.5	9.8
Renewal commission	<u>27.1</u>	<u>31.9</u>
	<u>40.6</u>	<u>41.7</u>

**9 ADMINISTRATIVE EXPENSES**

	2017 £m	2016 £m
Administrative expenses	<u>145.3</u>	<u>72.7</u>
Administrative expenses include:		
Management fees paid to fellow group undertakings (see note 30)	72.2	70.9
Of which:		
Auditor's remuneration: services paid to KPMG LLP	<u>0.2</u>	<u>0.7</u>

Amounts paid to KPMG LLP were in respect of audit services, consisting of fees for statutory audits and group reporting, of £205,004 (2016:£162,142) and non-audit services consisting of fees for regulatory returns of £25,000 (2016: £505,293).

Amounts paid to the company's auditor in respect of services rendered to the Old Mutual group, other than the audit of the company's financial statements, have not been disclosed as the information is required to be disclosed on a consolidated basis in the consolidated financial statements of Old Mutual plc.

In 2017 administrative expenses includes the cost to cover voluntary remediation to customers of £68.6m, as detailed in note 26.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

### 10 REMUNERATION OF KEY MANAGEMENT PERSONNEL

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity and as such, only directors are considered to meet this definition.

Directors' emoluments shown below are included in management fees payable to fellow subsidiary undertakings shown in note 9.

	2017 £m	2016 £m
<b>Aggregate directors' emoluments</b>		
Aggregate emoluments excluding pension contributions	0.5	0.7
Company pension contribution to money purchase schemes	-	-
Aggregate compensation for loss of office (cash payment)	-	0.5

6 directors had money paid to money purchase schemes during the year (2016: 7).

6 directors, including the highest paid director, received or were due to receive shares or share options in Old Mutual plc under a long term incentive scheme (2016: 3). 6 directors (2016: 6) exercised options during the year.

	2017 £m	2016 £m
<b>Emoluments of the highest paid director</b>		
Aggregate emoluments excluding pension contributions	0.2	0.2

The highest paid director did (2016: did) exercise share options during the year.

The above disclosure includes the remuneration of the directors in relation to their services to this company. The remuneration for each director is apportioned on the basis of time spent across the companies of which they are a director.

### 11 FINANCE COSTS

	2017 £m	2016 £m
<b>Financing costs for liabilities held at amortised cost</b>		
Interest expense on claims paid	0.3	1.0

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**12 TAXATION**

	2017 £m	2016 £m
<b>Shareholder taxation</b>		
UK corporation tax at 19.25% (2016: 20.00%)	0.8	9.6
Overseas tax	0.6	0.9
Deferred tax	(7.0)	(5.9)
	(5.6)	4.6
Prior years:		
Corporation tax payable underprovided	20.0	-
	14.4	4.6
<b>Policyholder taxation</b>		
UK corporation tax at 20.00% (2016: 20.00%)	18.3	26.4
Deferred tax	16.3	34.3
	34.6	60.7
Prior years:		
Income tax recoverable overprovided	(19.2)	(2.9)
	15.4	57.8
 Tax on profit for the year	 29.8	 62.4
 The total tax charge for the year can be reconciled to the accounting profit as follows:		
Pre-tax profit	10.8	81.5
Tax on profit at the applicable tax rate, 19.25% (2016: 20.00%)	2.1	16.3
Effect of:		
Tax pertaining to previous years	20.0	2.3
Non-deductible costs	0.1	-
Non-taxable revenues	(1.5)	(1.9)
Utilisation of previously unrecognised deferred tax	(0.2)	(0.1)
Policyholder taxes deductible in computing shareholder tax	(6.2)	(11.9)
Impact of reduction in shareholder tax rate	(0.4)	(0.8)
Policyholder tax	15.4	57.8
Overseas tax	0.5	0.7
	29.8	62.4

From 1 April 2017 the main rate of UK corporation tax was reduced to 19%. A further reduction to 17% from 1 April 2020 was enacted in 2016.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**13 DEFERRED ACQUISITION COSTS**

	2017 £m	2016 £m
Opening balance	107.4	137.0
Capitalisation of deferred acquisition costs	1.1	0.8
Amortisation of deferred acquisition costs	(24.5)	(30.4)
Change in deferred acquisition costs	(23.4)	(29.6)
Closing balance	<u>84.0</u>	<u>107.4</u>
Current	20.6	24.5
Non-current	<u>63.4</u>	<u>82.9</u>
	<u>84.0</u>	<u>107.4</u>

**14 INSURANCE PROVISIONS**

	2017 Gross £m	2017 Reinsurance £m	2017 Net £m	2016 Gross £m	2016 Reinsurance £m	2016 Net £m
<b>Provision for:</b>						
Non-linked insurance contracts	463.7	371.1	92.6	386.0	286.9	99.1
Unearned premiums	6.7	-	6.7	6.7	-	6.7
Premium annuity and sickness benefit	6.3	1.6	4.7	6.4	1.4	5.0
Incurred but not reported claims (IBNR)	3.0	2.0	1.0	2.3	1.5	0.8
	<u>479.7</u>	<u>374.7</u>	<u>105.0</u>	<u>401.4</u>	<u>289.8</u>	<u>111.6</u>
Claims received but not yet settled	9.1	7.8	1.3	15.0	12.8	2.2
	<u>488.8</u>	<u>382.5</u>	<u>106.3</u>	<u>416.4</u>	<u>302.6</u>	<u>113.8</u>

The reinsurers providing insurance provisions were rated as follows:

	2017 £m	2016 £m
<b>Rating</b>		
AA-	<u>382.5</u>	<u>302.6</u>
	<u>382.5</u>	<u>302.6</u>

None of these amounts were past due as at 31 December 2017 (2016: £nil).

The maturity of insurance provisions is shown in the maturity schedule in note 3 on page 33. The insurance provisions are shown undiscounted in the maturity schedule.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**14 INSURANCE PROVISIONS (continued)**

**Analysis of change in insurance provisions**

**2017:**

	Opening balance £m	Impact of new business £m	Impact of experience effects £m	Impact of assumption changes £m	Closing balance £m
<b>Provision for:</b>					
Non-linked insurance contracts	386.0	42.0	29.1	6.6	463.7
Unearned premiums	6.7	-	-	-	6.7
Premium annuity and sickness benefit	6.4	-	(0.1)	-	6.3
Incurred but not reported claims (IBNR)	2.3	-	0.7	-	3.0
Reinsurers' share of provisions	(289.8)	(54.5)	(23.4)	(7.0)	(374.7)
	<u>111.6</u>	<u>(12.5)</u>	<u>6.3</u>	<u>(0.4)</u>	<u>105.0</u>
	Opening balance £m	New claims received £m	Claims paid £m	Claims declined £m	Closing balance £m
<b>Provision for claims received but not yet settled</b>					
Claims received but not yet settled	15.0	52.6	(50.0)	(8.5)	9.1
Reinsurers' share	(12.8)	(41.8)	42.8	4.0	(7.8)
	<u>2.2</u>	<u>10.8</u>	<u>(7.2)</u>	<u>(4.5)</u>	<u>1.3</u>

**2016:**

	Opening balance £m	Impact of new business £m	Impact of experience effects £m	Impact of assumption changes £m	Closing balance £m
<b>Provision for:</b>					
Non-linked insurance contracts	262.1	25.2	32.8	65.9	386.0
Unearned premiums	6.6	-	0.1	-	6.7
Premium annuity and sickness benefit	5.0	-	1.0	0.4	6.4
Incurred but not reported claims (IBNR)	2.4	-	(0.1)	-	2.3
Reinsurers' share of provisions	(171.1)	(33.1)	(23.1)	(62.5)	(289.8)
	<u>105.0</u>	<u>(7.9)</u>	<u>10.7</u>	<u>3.8</u>	<u>111.6</u>
	Opening balance £m	New claims received £m	Claims paid £m	Claims declined £m	Closing balance £m
<b>Provision for claims received but not yet settled</b>					
Claims received but not yet settled	9.1	51.3	(37.7)	(7.7)	15.0
Reinsurers' share	(7.7)	(42.0)	30.5	6.4	(12.8)
	<u>1.4</u>	<u>9.3</u>	<u>(7.2)</u>	<u>(1.3)</u>	<u>2.2</u>

The 'impact of experience effects' column above includes changes in liabilities due to premium receipts, expenses, interest credited and policies ceasing due to surrender or other claim.

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2017

**14 INSURANCE PROVISIONS (continued)****Assumptions**

The liabilities for non-linked business have been calculated using a gross premium discounted cash flow approach on a policy by policy basis, using the following assumptions:

<i>Class of business</i>	<i>Mortality/morbidity</i>	<i>Interest rates</i>
Non-linked protection business	Based on relevant risk reinsurance rates	1.610%
Non-linked protection business (BLAGAB business)	Based on relevant risk reinsurance rates	1.287%
Pension annuities in payment	100% PA92 (C2030) ult. projected using the long term cohort basis	1.330%

During 2017, a modification was made to achieve a better match of the IFRS liabilities to available gilts. In aggregate across the non-linked protection business, there is expected to be a net income over the next 4 years. This net income has been excluded from the matching exercise and has instead been discounted using Bank of England forward rates of the relevant durations. Liabilities after these four years are matched and the rates provided above are used. For non-linked contracts (defined as insurance contracts under IFRS 4) the objective of the assumptions is to target a level of assurance within each individual assumption of at least 60%. On this basis there is a 40% chance that an event may occur over the following year that results in the actual experience being worse than that assumed in the valuation. When all of the assumptions are combined, the overall confidence levels are in excess of 60%. The interest rate assumption is calculated according to UK valuation regulations (INSRU) and so this assumption has been set at a level to comply with the relevant rules. The liability values do not make allowance for the amortisation of the deferred acquisition cost ("DAC") asset. A separate liability adequacy test is carried out on best estimate assumptions allowing for all of the cash flows used to derive the liability values and the run off of the DAC asset.

The key assumptions considered are mortality rates, maintenance expenses, interest rates, persistency rates and methodology changes. These assumptions are based on market data, internal experience data and also external data where either no internal experience data exists or where internal data is too sparse to give credible estimates of the true expectation of experience. Anticipated future trends have been allowed for in deriving mortality and morbidity assumptions.

**Impact of changes in assumptions**

	Impact on IFRS reported profit (before reinsurance) £m	Impact of reinsurance £m	Impact on IFRS reported profit (after reinsurance) £m
<b>2017:</b>			
<b>Assumption</b>			
Mortality/morbidity rates	10.1	(10.7)	(0.6)
Maintenance expense	3.1	(0.1)	3.0
Maintenance expense inflation	0.3	-	0.3
Interest rate	(15.1)	13.0	(2.1)
Persistency rates	(5.0)	4.8	(0.2)
	<u>(6.6)</u>	<u>7.0</u>	<u>0.4</u>
<b>2016:</b>			
<b>Assumption</b>			
Mortality/morbidity rates	18.4	(18.2)	0.2
Maintenance expense	12.7	(0.2)	12.5
Maintenance expense inflation	(0.6)	0.1	(0.5)
Interest rate	(93.2)	77.1	(16.1)
Methodology changes	1.9	-	1.9
Persistency rates	(5.5)	3.7	(1.8)
	<u>(66.3)</u>	<u>62.5</u>	<u>(3.8)</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**15 LIABILITIES FOR UNIT-LINKED INVESTMENT CONTRACTS**

	2017 Gross £m	2017 Reinsurance £m	2017 Net £m	2016 Gross £m	2016 Reinsurance £m	2016 Net £m
<b>At fair value through the income statement</b>						
Unit-linked liabilities	14,498.5	2,525.3	11,973.2	14,866.8	2,560.2	12,306.6

**Analysis of change in liabilities for linked investment contracts**

	2017 Gross £m	2017 Reinsurance £m	2017 Net £m	2016 Gross £m	2016 Reinsurance £m	2016 Net £m
Opening balance	14,866.8	2,560.2	12,306.6	14,265.6	2,328.2	11,937.4
Premiums received	1,199.5	413.6	785.9	1,102.8	404.4	698.4
Full surrenders	(1,168.4)	-	(1,168.4)	(1,103.4)	-	(1,103.4)
Maturities	(78.5)	-	(78.5)	(94.0)	-	(94.0)
Mortality/morbidity claims	(140.3)	-	(140.3)	(125.2)	-	(125.2)
Withdrawals	(1,285.4)	(778.9)	(506.5)	(722.0)	(542.2)	(179.8)
Changes in fair value of underlying assets	1,270.8	330.4	940.4	1,722.6	369.8	1,352.8
Charges for insurance risk	(78.6)	-	(78.6)	(80.1)	-	(80.1)
Other fees and charges	(87.4)	-	(87.4)	(99.5)	-	(99.5)
Closing balance	14,498.5	2,525.3	11,973.2	14,866.8	2,560.2	12,306.6

The benefits offered under the unit-linked investment contracts are based on the risk appetite of policyholders and the return on their selected collective fund investments, whose underlying investments include equities, debt securities, property and derivatives. This investment mix is unique to individual policyholders.

The maturity value of these financial liabilities is determined by the fair value of the linked assets at maturity date. There will be no difference between the carrying amount and the maturity amount at maturity date.

The reinsurers providing investment contract liabilities of £2,525.3m (2016: £2,560.2m) were rated according to the table below. None of these were past due as at 31 December 2017 (2016: £nil).

	2017 £m	2016 £m
<b>Rating</b>		
AA-	667.1	574.2
A+	137.0	183.6
A	1,651.1	1,713.0
A-	18.7	21.0
Unrated	51.4	68.4
	<u>2,525.3</u>	<u>2,560.2</u>

These balances are in respect of policyholder investments managed by third party reinsurers. The nature of reinsurance contracts is explained within the accounting policies (note 2).

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**15 LIABILITIES FOR UNIT-LINKED INVESTMENT CONTRACTS (continued)**

**Assumptions**

For unit-linked business, the unit liabilities are determined as the value of units credited to policyholders. Since these liabilities are determined on a retrospective basis no assumptions for future experience are required. Assumptions for future experience are required for unit-linked business in assessing whether the total of the DAC asset and DFI liability is greater than the present value of future profits expected to arise on the relevant blocks of business (the 'recoverability test'). If this is the case, then the DAC asset is restricted to the recoverable amount. For linked contracts, the assumptions are on a best estimate basis.

**16 INVESTMENTS IN SUBSIDIARIES**

Old Mutual Wealth Pensions Trustee Limited is a wholly owned subsidiary undertaking in the current and prior year.

Old Mutual Wealth Pensions Trustee Limited is incorporated in England & Wales and its registered office address is: Old Mutual House, Portland Terrace, Southampton, SO14 7EJ.

Its principal activity is to act as a scheme trustee for self-administered pension schemes, personal pension schemes, fully insured occupational pension schemes and free-standing additional voluntary contribution schemes established by Old Mutual Wealth Life Assurance Limited.

The value of the investment in Old Mutual Wealth Pensions Trustee Limited is (stated at net realisable value) £7,200 (2016: £7,200), due to immateriality this is not shown separately on the statement of financial position.

**17 INVESTMENTS HELD FOR THE BENEFIT OF POLICYHOLDERS**

	2017 Cost £m	2017 Fair value £m	2016 Cost £m	2016 Fair value £m
Cash and cash equivalents	8.6	8.6	8.5	8.5
<b>At fair value through the income statement</b>				
Financial assets	8,677.8	11,994.0	9,478.1	12,354.0
	<u>8,686.4</u>	<u>12,002.6</u>	<u>9,486.6</u>	<u>12,362.5</u>

These assets, together with the reinsurers' share of investment contract liabilities, are held to cover the liabilities for linked investment contracts (net of reinsurance) as shown in note 15. All amounts are current.

The difference between linked assets and linked liabilities is principally due to short term timing differences between policyholder premiums being received and invested in advance of policies being issued, and tax liabilities within funds which are reflected within the company's tax liabilities.



**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**18 OTHER INVESTMENTS**

	2017 Cost £m	2017 Fair value £m	2016 Cost £m	2016 Fair value £m
<b>At fair value through the income statement</b>				
Other investments	11.0	11.7	3.7	4.0
Other fixed income securities	107.7	124.0	76.1	95.1
	<u>118.7</u>	<u>135.7</u>	<u>79.8</u>	<u>99.1</u>

Other investments relate to the investment in Old Mutual Global Investors (OMGI) Generation funds.

Other fixed income securities are UK government stocks with a AA rating (2016: AA).

None of these fixed income securities are due to mature within 12 months (2016: £0.9m) and £124.0m (2016: £94.2m) are classified as non-current.

**19 OTHER RECEIVABLES**

	2017 £m	2016 £m
<b>Arising out of direct insurance operations</b>		
Intermediaries	24.8	24.7
	<u>24.8</u>	<u>24.7</u>
<b>Arising out of reinsurance operations</b>	7.4	6.4
<b>Other</b>		
Due from group undertakings (see note 30)	3.4	17.3
Other taxes and social security	2.6	2.2
Other	0.7	0.2
	<u>6.7</u>	<u>19.7</u>
	<u>38.9</u>	<u>50.8</u>

There have been no non-performing receivables or material impairments in the financial year that require disclosure. None of the receivables reflected above have been subject to the renegotiation of terms.

All amounts due from group companies are unsecured and are settled quarterly, except for group relief balances which are settled on demand. All amounts are current, short term and interest free with the carrying amount approximating to fair value.

**NOTES TO THE FINANCIAL STATEMENTS**  
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**20 OTHER PREPAYMENTS AND ACCRUED INCOME**

	2017 £m	2016 £m
Accrued interest	<u>1.0</u>	<u>1.2</u>

Accrued interest amounts are current and short term.

**21 CASH AND CASH EQUIVALENTS**

	2017 £m	2016 £m
Bank balances	49.5	20.5
Short term deposits with credit institutions	30.0	30.0
Money market OEIC investments	<u>410.4</u>	<u>326.9</u>
	<u>489.9</u>	<u>377.4</u>

All cash and cash equivalents are current.

Investments in money market OEICs are classified as cash and cash equivalents. Management hold these investment funds for short term liquidity purposes. The funds are highly liquid, have a strong credit rating and a very low risk of reduction in value.

Bank overdrafts are used to fulfil short term liquidity needs and are repayable on demand. The company has a gross overdraft facility of £12.5m (2016: £12.5m) for individual bank accounts subject to the aggregate balance across all accounts being at least zero.

**22 SHARE CAPITAL**

	2017 £m	2016 £m
<b>Allotted, called up and fully paid</b>		
257,822,752 (2016: 105,822,752) ordinary shares of £0.25p each	<u>64.5</u>	<u>26.5</u>

The issue of 152,000,000 ordinary shares of £0.25p each was approved on 22 December 2017.

The company has elected under the Companies Act 2006 to remove authorised share capital limits.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**23 FINANCIAL INSTRUMENTS**

**Fair value hierarchy**

The table below analyses financial instruments into a hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following statement of financial position captions contain financial instruments that have been analysed into the three specified levels as described above:

Assets - reinsurers' share of investment contract liabilities, other investments, investments held for the benefit of policyholders and cash and cash equivalents.

Liabilities - liabilities for linked investment contracts, provisions for guarantees and derivative liability.

2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Financial assets designated at fair value through the income statement</b>				
- Reinsurers' share of investment contract liabilities	2,525.3	-	-	2,525.3
- Investments and securities	11,977.1	-	0.5	11,977.6
- Bonds and other fixed income securities	149.0	-	-	149.0
- Holdings in collective investment schemes	422.1	-	-	422.1
	<u>15,073.5</u>	<u>-</u>	<u>0.5</u>	<u>15,074.0</u>
<b>Financial liabilities designated at fair value through the income statement</b>				
- Long term business policyholder liabilities	14,498.0	-	0.5	14,498.5
	<u>14,498.0</u>	<u>-</u>	<u>0.5</u>	<u>14,498.5</u>
<b>2016</b>	<b>Level 1 £m</b>	<b>Level 2 £m</b>	<b>Level 3 £m</b>	<b>Total £m</b>
<b>Financial assets designated at fair value through the income statement</b>				
- Reinsurers' share of investment contract liabilities	2,560.2	-	-	2,560.2
- Investments and securities	12,360.4	-	1.3	12,361.7
- Bonds and other fixed income securities	147.7	-	-	147.7
- Holdings in collective investment schemes	330.9	-	-	330.9
	<u>15,399.2</u>	<u>-</u>	<u>1.3</u>	<u>15,400.5</u>
<b>Financial liabilities designated at fair value through the income statement</b>				
- Long term business policyholder liabilities	14,864.7	-	1.3	14,866.0
	<u>14,864.7</u>	<u>-</u>	<u>1.3</u>	<u>14,866.0</u>

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**23 FINANCIAL INSTRUMENTS (continued)**

**Level 1 to 2 transfers**

There have been no changes in valuation techniques during the year under review. There have been no transfers between level 1 and level 2 during the year under review.

**Reconciliation of Level 3 fair value measurements of financial assets:**

Level 3 assets comprise linked policyholder investments in suspended property funds.

	2017 £m	2016 £m
<b>Fair value through the income statement</b>		
<b>Investments and securities:</b>		
Opening balance	1.3	3.1
Gains recognised in income statement	-	0.7
Transfers out of level 3	(0.8)	(2.5)
Closing balance	<u>0.5</u>	<u>1.3</u>
	2017 £m	2016 £m
<b>Long term business policyholders liabilities:</b>		
Opening balance	1.3	3.1
Gains recognised in income statement	-	0.7
Transfers out of level 3	(0.8)	(2.5)
Closing balance	<u>0.5</u>	<u>1.3</u>

**Structured entities**

The table below summarises the types of structured entities in which the company holds an interest:

<i>Type of structured entity</i>	<i>Nature</i>	<i>Purpose</i>	<i>Interest held by the company</i>
Investments in Seeded funds	Invest shareholder cash into the Old Mutual Global Investors (OMGI) Generation range funds	To start investment in new funds.	Investments in units issued by the fund
Investments held for the benefit of policyholders	Manage client funds through the investment in assets	To generate fees from managing assets on behalf of third-party investors	Investments in units issued by the fund

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**23 FINANCIAL INSTRUMENTS (continued)**

**Investments in unconsolidated structured entities**

The table below sets out the investments held by the company in unconsolidated structured entities. This represents the ownership of collective investment vehicles that have a narrow and well defined objective, which are purchased to match the liabilities to clients in respect of their linked fund investment choices. The maximum exposure to losses is equal to the carrying amount of assets held; these are offset by the equivalent liabilities to clients in respect of linked investment contracts.

	Investment securities £m
<b>As at 31 December 2017:</b>	
Investments in Seeded funds	11.7
Investments held for the benefit of policyholders	<u>11,903.6</u>
	<u>11,915.3</u>
<b>As at 31 December 2016:</b>	
Investments in Seeded funds	4.0
Investments held for the benefit of policyholders	<u>12,273.4</u>
	<u>12,277.4</u>

**Master netting or similar agreements**

This table is presented to provide further information on financial instruments that are subject to master netting agreements.

The company offsets financial assets and liabilities in the statement of financial position when it has a legal enforceable right to do so and intends to settle on a net basis or simultaneously.

This table presents information on the potential effect of netting offset arrangements after taking into consideration these types of agreements.

	Gross amount of financial instrument £m	Gross amounts of recognised financial instruments offset in the statement of financial position £m	Net amount of recognised financial instruments offset in the statement of financial position £m
<b>As at 31 December 2017:</b>			
<b>Financial assets</b>			
Cash and cash equivalents	491.7	(1.8)	489.9
<b>Financial liabilities</b>			
Trade, other payables and other liabilities	(114.4)	1.8	(112.6)
<b>As at 31 December 2016:</b>			
<b>Financial assets</b>			
Cash and cash equivalents	378.0	(0.6)	377.4
<b>Financial liabilities</b>			
Amounts owed to credit institutions	(4.3)	0.6	(3.7)

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2017

**24 DEFERRED TAX**

The following are the deferred tax balances recognised by the company and the movements thereon, during the current and prior reporting period.

	Deferred income & costs £m	Unrealised gain/(loss) on investments £m	Tax losses carried forward £m	Transitional adjustment £m	Other £m	Total £m
<b>Policyholder deferred tax</b>						
Liability/(asset) at 1 January 2016	(13.1)	67.5	-	(20.7)	0.2	33.9
Movement in the year	0.9	30.5	-	3.0	-	34.4
Liability/(asset) at 31 December 2016	(12.2)	98.0	-	(17.7)	0.2	68.3
Movement in the year	0.8	11.6	-	3.0	0.9	16.3
Liability/(asset) at 31 December 2017	(11.4)	109.6	-	(14.7)	1.1	84.6
<b>Shareholder deferred tax</b>						
Liability/(asset) at 1 January 2016	10.3	-	-	23.4	(0.2)	33.5
Movement in the year	(1.8)	-	-	(4.0)	(0.1)	(5.9)
Liability/(asset) at 31 December 2016	8.5	-	-	19.4	(0.3)	27.6
Movement in the year	(1.7)	-	-	(3.5)	(1.8)	(7.0)
Liability/(asset) at 31 December 2017	6.8	-	-	15.9	(2.1)	20.6
<b>Total deferred tax liability/(asset)</b>						
Liability/(asset) at 31 December 2016	(3.7)	98.0	-	1.7	(0.1)	95.9
Liability/(asset) at 31 December 2017	(4.6)	109.6	-	1.2	(1.0)	105.2

The value of deferred tax assets not recognised as at 31 December 2017 was £2.1m (2016: £2.3m). This relates to gross shareholder non-trade losses carried forward of £12.2m (2016: £13.2m). A deferred tax asset on losses carried forward is recognised to the extent that there are other taxable temporary differences expected to reverse in the foreseeable future. Any excess has not been recognised as there is sufficient uncertainty to the extent it is probable that there will be future taxable profits to utilise the losses. Unrecognised losses are available to carry forward without expiry subject to the continuation of the business.

From 1 April 2017 the main rate of UK corporation tax was reduced to 19%. A further reduction to 17% from 1 April 2020 was enacted in 2016.

**25 DEFERRED FEE INCOME**

	2017 £m	2016 £m
Opening balance	54.7	74.3
Capitalisation of deferred fee income	0.6	0.7
Amortisation of deferred fee income	(13.4)	(20.3)
Change in deferred fee income	(12.8)	(19.6)
Closing balance	41.9	54.7
Current	12.0	13.4
Non-current	29.9	41.3
	41.9	54.7

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

### 26 OTHER PROVISIONS

	Voluntary client redress £m	Other provisions £m	Total £m
<b>Balance at 1 January 2016</b>	-	0.8	0.8
Additions in the year	-	6.4	6.4
Utilisation	-	(5.9)	(5.9)
<b>Balance at 31 December 2016</b>	-	1.3	1.3
Additions in the year	68.6	6.6	75.2
Utilisation	-	(4.3)	(4.3)
Change in estimate	-	(0.5)	(0.5)
<b>Balance at 31 December 2017</b>	<b>68.6</b>	<b>3.1</b>	<b>71.7</b>

Other provisions comprise obligations in respect of client compensation relating to charging and communication. The provision held at 31 December 2017 is expected to be settled within 12 months.

#### *Voluntary client redress*

As part of its ongoing work to promote fair customer outcomes, the company has conducted 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'. Following these reviews, the company has decided to commence voluntary remediation to customers in certain legacy products, resulting in an additional provision raised during the year of £68.6m, including £7m of programme costs and £13m of estimated interest.

The voluntary remediation relates to early encashment charges and contribution servicing charges made on pension products and following the re-introduction of annual reviews, compensation payable to a subset of Protection plan holders.

The redress comprises retrospective refunds and compensation, going back to 1 January 2009, and prospective 5% caps on early encashment charges. An FCA press release (3 March 2016) stated that its investigation will focus on disclosure of exit and paid-up charges after December 2008. From 2004 to 2007 the Financial Services Authority published a number of communications on treating customers fairly (TCF) which made it clear that all firms were required to have regard to customers' information needs through the life cycle of a product. Firms were required to implement changes to complete their TCF work no later than December 2008.

The company intends to substantially complete the remediation by the end of 2018.

#### *Estimates and assumptions*

Key estimates and assumptions in relation to the provision are:

- Protection policy sustainability period assumption of 4 years; and
- The programme costs of carrying out the remediation activity and interest on remediation payments.

If past reviews had been carried out correctly, policies would be expected to have funds sufficient to provide up to four years' cover from the current reporting date, on the basis that future premium increases are not applied. This assumption has been used to determine the cost of reconstructing the impacted Protection policies to their expected values.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2017

### 26 OTHER PROVISIONS (continued)

The programme costs of conducting the remediation activity are highly variable and are subject to a number of uncertainties. In calculating the best estimate of these costs, consideration has been given to such matters as the identification of impacted customers, access to and the quality of customer files, likelihood of the customer contesting the offer, the complexity of the calculations, the level of quality assurance and checking, the ease of contacting and communicating with customers and the level of customer interactions.

Sensitivites relating to the assumptions and uncertainties are provided in the table below:

Assumption/estimate	Change in assumption/estimate	Consequential change in provision
Protection policy sustainability period	Protection policy sustainability period assumption reduced to 3 years	‑£3.1m
Protection policy sustainability period	Protection policy sustainability period assumption increased to 5 years	+£3.3m
Programme cost per case of conducting the review	+/- 20% of the cost per case	+/- £1.4m

The company has not provided for any future potential enforced redress and associated penalties. Disclosure of related contingent liabilities is included in Note 29.



**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**27 OTHER PAYABLES**

	2017 £m	2016 £m
<b>Arising out of direct insurance operations</b>		
Investment settlements outstanding	4.5	19.4
Commission due to intermediaries	6.0	6.4
Claims outstanding	83.8	78.1
Due to policyholders	1.4	1.5
Other	0.9	1.2
	<u>96.6</u>	<u>106.6</u>
 <b>Arising out of reinsurance operations</b>	 <u>6.0</u>	 <u>9.8</u>
 <b>Other</b>		
Due to group undertakings (see note 30)	6.2	5.3
Amounts owed to credit institutions	-	3.7
Other taxes and social security costs	0.5	0.7
Other	9.3	7.9
	<u>16.0</u>	<u>17.6</u>
	<u>118.6</u>	<u>134.0</u>

All amounts are current and short term. Amounts due to group companies are unsecured and are settled quarterly.

**28 FINANCIAL AND CAPITAL COMMITMENTS**

There are no material financial and capital commitments as at 31 December 2017 (2016: £nil).

**29 CONTINGENT LIABILITIES**

**UK Financial Conduct Authority notification of investigation**

During 2014 the Financial Conduct Authority (FCA) conducted an industry-wide thematic project on "Fair treatment of long-standing customers of life insurers". On 2 March 2016, the FCA notified the Old Mutual Wealth business that, as a consequence of the review, Old Mutual Wealth Life Assurance Limited will be investigated by the FCA's Enforcement Division. The company is in the process of assessing and responding to detailed thematic review feedback. The appointment of investigators does not itself mean that the FCA has determined that rule breaches and/or other contraventions or offences have occurred, and at this stage it is not possible to assess the outcome and, by extension, whether the matter will have financial consequences for Old Mutual Wealth.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**30 RELATED PARTY TRANSACTIONS**

The company receives rebates of annual fund management charges from fellow group undertakings where it acts as introducer. A proportion of these rebates are retained and taken to income; these are shown in fee income within the income statement. The remaining rebates are passed back to the policyholders as income through unit additions. The proportion retained varies according to the fund type, asset mix and the level of annual management charges applied by the fund managers.

The following transactions were entered into with related parties during the period:

	2017 £m	2016 £m
Rebates received - passed back to policyholders	8.6	9.3
Rebates received - taken to income	4.9	6.0
Total rebates received from fellow group undertakings	<u>13.5</u>	<u>15.3</u>
	2017 £m	2016 £m
Management fees paid to fellow group undertakings (see note 9)	<u>72.2</u>	<u>70.9</u>

Management services and fixed assets in the current and prior period in the UK are provided by Old Mutual Wealth Business Services Limited, a fellow group undertaking. Old Mutual Wealth Business Services Limited charges a management fee for costs incurred and services provided. This management fee is charged at cost.

Amounts due from or to group undertaking at the reporting date in notes 19 and 27 respectively include:

	2017 £m	2016 £m
<b>Amounts due from group undertaking (see note 19)</b>		
Rebates of annual management charges	2.3	2.5
Outstanding trade settlements	1.1	1.8
Other receivables	-	13.0
Total receivables	<u>3.4</u>	<u>17.3</u>
<b>Amounts due to group undertaking (see note 27)</b>		
Outstanding trade settlements	6.2	5.3
Total payables	<u>6.2</u>	<u>5.3</u>

Balances are settled in cash on a quarterly or monthly basis.

Details of transactions with directors are provided in note 10.

The company's life assurance and pension products are available to the directors and staff of the Old Mutual Wealth division on preferential staff terms.

Investment settlements payable and receivable have been shown gross on the statement of financial position to better reflect the settlement process.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2017

**31 EVENTS AFTER THE REPORTING DATE**

There are no events that have occurred, between the reporting date and the date when the financial statements have been authorised for issue, that require disclosure.

**32 ULTIMATE PARENT COMPANY**

The company's immediate parent is Old Mutual Wealth UK Holding Limited, a company registered in England & Wales.

The company's financial statements are consolidated within the financial statements of Old Mutual plc, the ultimate parent company and controlling party, registered in England & Wales. The financial statements are available from:

The Company Secretary  
Old Mutual plc  
5th Floor  
Millennium Bridge House  
2 Lambeth Hill  
London  
EC4V 4GG