PART IX
SELECTED FINANCIAL INFORMATION

The following review of the Group's financial condition and operating results sets out selected consolidated audited financial information for the Group as at and for each of the years ended 31 December 2015, 2016 and 2017, in each case prepared in accordance with IFRS. The information has been extracted without material adjustment from the financial information in Part XII – "Historical Financial Information" in this Prospectus. The following section also includes certain non-IFRS financial information for the periods indicated, which has not been extracted from the financial information in Part XII – "Historical Financial Information" and has not been prepared in accordance with IFRS.

The selected financial information should be read in conjunction with the information referred to above and in Part X – "Operating and Financial Review". Investors are advised to read the whole of this Prospectus and not rely on the information summarised in this Part IX – "Selected Financial Information".

Consolidated Income Statement

	Year Ended 31 December		
	2015	**2016**	**2017**
		(£ millions)	
Revenue			
Gross earned premiums	135	141	148
Premiums ceded to reinsurers	(81)	(84)	(88)
Net earned premiums	54	57	60
Fee and commission income, and income from service activities	816	803	895
Net investment income	1,166	6,310	5,195
Other income	2	17	13
Total revenue	**2,038**	**7,187**	**6,163**
Expenses			
Claims and benefits paid	(77)	(72)	(76)
Reinsurance recoveries	56	51	54
Net insurance claims and benefits incurred	(21)	(21)	(22)
Change in reinsurance assets and liabilities	40	119	85
Change in insurance contract liabilities	(32)	(125)	(78)
Change in investment contract liabilities	(949)	(5,522)	(4,308)
Fee and commission expenses, and other acquisition costs	(362)	(299)	(320)
Change in third-party interest in consolidated funds	(76)	(575)	(673)
Other operating and administrative expenses	(565)	(654)	(816)
Finance costs	(32)	(43)	(39)
Total expenses	**(1,997)**	**(7,120)**	**(6,171)**
Profit on the acquisition and re-measurement of subsidiaries	–	–	3
Profit/(loss) before tax	**41**	**67**	**(5)**
Tax expense attributable to policyholders' funds	7	(102)	(49)
Profit/(loss) before tax attributable to shareholders' profits	**48**	**(35)**	**(54)**
Income tax expense	16	(94)	(41)
Less: tax attributable to policyholders' funds	(7)	102	49
Tax attributable to shareholders' funds	9	8	8
Profit/(loss) after tax from continuing operations	**57**	**(27)**	**(46)**
Profit after tax from discontinued operations	28	62	203
Profit for the year after tax	**85**	**35**	**157**

	Year Ended 31 December		
	2015	**2016**	**2017**
		(£ millions)	
Attributable to:			
Equity holders of the Parent Company	85	35	157
Earnings per ordinary share on profit attributable to ordinary shareholders of the Parent Company			
Basic			
From continuing operations (pence)	43.9	(20.8)	(35.4)
From discontinued operations (pence)	21.5	47.7	156.2
	65.4	**26.9**	**120.8**
Diluted			
From continuing operations (pence)	43.9	(20.8)	(35.4)
From discontinued operations (pence)	21.5	47.7	156.2
	65.4	26.9	120.8

Consolidated Statement of Comprehensive Income

	Year Ended 31 December		
	2015	**2016**	**2017**
		(£ millions)	
Profit for the year after tax	85	35	157
Other comprehensive income:			
Items that may be reclassified subsequently to income statement			
Exchange gains/(losses) on translation of foreign operations	(8)	23	–
Other comprehensive income/(expenses) for the year	–	(2)	3
	(8)	21	3
Items that will not be reclassified subsequently to income statement			
Measurement movements on DB plans	(1)	(1)	–
	(1)	(1)	–
Total other comprehensive income, net of tax	**(9)**	**20**	**3**
Total comprehensive income for the year	**76**	**55**	**160**
Attributable to:			
Equity holders of the Parent Company	**76**	**55**	**160**

Consolidated Statement of Financial Position

	As at 31 December		
	2015	**2016**	**2017**
		(£ millions)	
Assets			
Goodwill and other intangible assets	670	654	574
Property, plant and equipment	19	18	18
Investments in associated undertakings	1	1	3
Loans and advances	190	220	199
Financial investments	49,294	52,235	64,248
Reinsurers' share of policyholder liabilities	2,507	2,863	2,908
Deferred tax assets	8	8	22
Current tax receivable	27	20	–
Trade, other receivables and other assets	716	794	497
Deferred acquisition costs	768	655	611
Derivative assets	971	26	87
Cash and cash equivalents	1,601	1,595	2,360
Assets of operations classified as held for sale	–	6,396	446
Total assets	**56,772**	**65,485**	**71,973**
Equity and liabilities			
Equity			
Ordinary share capital	130	130	130
Ordinary share premium reserve	–	–	58
Other reserves	60	80	39
Retained earnings	723	782	872
Total equity	**913**	**992**	**1,099**
Liabilities			
Long-term business insurance policyholder liabilities	293	417	489
Investment contract liabilities	49,041	51,265	59,139
Third-party interests in consolidated funds	3,311	4,140	7,905
Provisions and accruals	35	29	104
Deferred tax liabilities	152	179	190
Current tax payable	13	20	38
Borrowings	786	839	782
Trade, other payables and other liabilities	938	1,024	1,331
Deferred revenue	312	261	244
Derivative liabilities	978	56	433
Liabilities of operations classified as held for sale	–	6,263	219
Total liabilities	**55,859**	**64,493**	**70,874**
Total equity and liabilities	**56,772**	**65,485**	**71,973**

Consolidated Statement of Cash Flows[1]

	Year Ended 31 December		
	2015	2016	2017
		(£ millions)	
Cash flows from operating activities			
Profit before tax	84	149	227
Non-cash movements in profit before tax	2,878	2,552	4,061
Net changes in working capital	(190)	229	1,134
Taxation paid	(40)	(59)	(9)
Total net cash flows from operating activities	**2,732**	**2,871**	**5,413**
Cash flows from investing activities			
Net acquisitions of financial investments	(2,430)	(2,810)	(4,760)
Acquisition of property, plant and equipment	(5)	(4)	(8)
Acquisition of intangible assets	(14)	(9)	(9)
Acquisition of interests in subsidiaries and associated undertakings joint ventures	(567)	(16)	(33)
Proceeds from the disposal of interests in subsidiaries	(4)	–	208
Total net cash used in investing activities	**(3,020)**	**(2,839)**	**(4,602)**
Cash flows from financing activities			
Dividends paid to ordinary equity holders of the Company	(24)	–	(210)
Interest paid	(32)	(43)	(39)
Proceeds from issue of ordinary shares	–	–	258
Loan to Employee Benefit Trust	(54)	(43)	–
Proceeds from issue of subordinated and other debt	614	53	–
Subordinated and other debt repaid	–	–	(57)
Total net cash from/(used in) financing activities	**504**	**(33)**	**(48)**
Net increase/(decrease)in cash and cash equivalents	216	(1)	763
Cash and cash equivalents at beginning of the year	1,386	1,601	1,595
Effects of exchange rate changes on cash and cash equivalents	(1)	(5)	2
Cash and cash equivalents at end of the year	**1,601**	**1,595**	**2,360**

[1] Cash flows include both continuing and discontinued operations.

Non-IFRS Financial Information

The tables below present certain non-IFRS financial measures as at and for the years ended 31 December 2015, 2016 and 2017. The Directors believe that these measures provide useful information with respect to the performance of its business and operations. These non-IFRS financial measures are not audited. They are not meant to be considered in isolation or as a substitute for metrics of financial performance reported in accordance with IFRS. Moreover, these measures may be defined or calculated differently by other companies and, as a result, they may not be comparable to similar measures calculated by the Group's peers. See *Part II – "Presentation of Financial and Other Information—3. Non-IFRS Financial Measures"*.

The following table sets forth the reconciliation of profit after tax to operating profit from continuing operations:

	Year Ended 31 December		
	2015	**2016**	**2017**
		(£ millions)	
Profit for the year after tax	**85**	**35**	**157**
Adjustments:			
Profit after tax from discontinued operations	**(28)**	**(62)**	**(203)**
Profit/(loss) after tax from continuing operations	**57**	**(27)**	**(46)**
Income tax on continuing business	(16)	94	41
Profit/(loss) before tax	**41**	**67**	**(5)**
Income tax attributable to policyholder returns	7	(102)	(49)
Profit/(loss) before tax attributable to shareholders' profits	**48**	**(35)**	**(54)**
Goodwill and amortisation of purchased intangibles[1]	57	52	54
Business transformation costs[2]	96	102	89
Finance costs[3]	32	43	39
Quilter Separation one off costs[4]	–	7	32
Profit on acquisition and re-measurement of subsidiaries[5]	–	–	(3)
Policyholder tax adjustments[6]	(12)	8	(17)
Voluntary customer remediation costs[7]	–	–	69
Total non-operating adjusting items before tax	**173**	**212**	**263**
Operating profit before tax from continuing operations	**221**	**177**	**209**

(1) Represents acquisition costs and the amortisation of intangible assets acquired by the Group, in relation to policies sold by acquired businesses pre-acquisition. When applying acquisition accounting, deferred acquisition costs and deferred revenue existing at the point of acquisition are not recognised under IFRS. These are reversed on acquisition in the statement of financial position and replaced by goodwill and other intangible assets. In determining operating profit, the Group recognises deferred revenue, acquisition costs and deferred revenue in relation to policies sold by acquired businesses pre-acquisition. The Group excludes the impairment of goodwill, the amortisation and impairment of acquired other intangible assets as well as the movements in certain acquisition date provisions. If the intangible assets recognised as a result of a business combination are subsequently impaired, this is excluded from operating profit. Costs incurred on completed acquisitions are also excluded from operating profit.

(2) Represents the costs the Group has incurred in connection with its UK Platform Transformation Programme and the transformation costs in relation to the South African branches. This programme is on-going and involves replacing many aspects of the existing UK platform and migration of services to third party service providers. The cost of developing the new technology typically cannot be capitalised, hence these costs and the costs of decommissioning existing technology and migrating of services are excluded from operating profit from continuing operations. Only costs that are directly attributable to the programme are excluded from operating profit from continuing operations. The contracts with IFDS came to an end by mutual agreement effective as of 2 May 2017, at which point the costs for the year ended 31 December 2017 totalled £53 million (2016: £102 million), (2015: £96 million). The Group subsequently entered into a new contract with FNZ, under which additional costs of £21 million were incurred for the year ended 31 December 2017. The transformation costs for the South African branches include charges of £15 million for the year ended 31 December 2017 related to historical arrangements with the wider Old Mutual plc group's South African businesses. As a consequence of Managed Separation, these arrangements were severed and, as a result, deferred acquisition cost balances were written off, together with a loss incurred on the cancellation of reinsurance arrangements.

(3) Represents the cost of interest and finance charges on the Group's borrowings from Old Mutual plc, borrowed to primarily fund acquisitions, including Quilter Cheviot in 2015.

(4) Represents the one off transition costs to separate the Group from Old Mutual plc to become standalone and any additional one off costs associated with listing.

(5) Relates to the Group acquiring 100% of the whole of the issued share capital of GET, a company incorporated in South Africa, from OMGUK (part of the Old Mutual plc group) for around £1 million. Along with recording the book values of the assets acquired and liabilities assumed of £4 million, the Group recognised a gain of £3 million. The excess of the book value over consideration paid was attributable to potential future integration costs which, if incurred, would be expensed in future periods. As potential future integration activities do not qualify as a liability under the acquisition method of accounting, none was recorded, resulting in a gain.

(6) Relates to the removal of distortions arising from market volatility that can, in turn, lead to volatility in the policyholder tax charge between periods. In addition, adjustments are made to remove distortions to policyholder tax arising from the utilisation of tax allowances from elsewhere in the Group (e.g. capital losses) which are regarded economically as impacting shareholder tax, and from distortions arising from other non-operating adjusting items.

(7) Represents the costs the Group expects to incur in relation to the decision to commence voluntary remediation to customers in certain legacy products within Quilter Life Assurance.

The following table sets forth a breakdown of the Group's reported and normalised operating profit from continuing operations, as well as other selected key metrics on a normalised basis for the periods indicated. See *Part II – "Presentation of Financial and Other Information—3. Non-IFRS Financial Measures"* for a further discussion of the normalisation adjustments.

	Year Ended 31 December		
	2015	**2016**	**2017**
	(£ millions, unless otherwise indicated)		
Reported basis			
Net management fee[1]	505	495	591
Other revenue[2]	81	121	137
Total revenue	586	616	728
Total expenses	(365)	(439)	(519)
Operating profit from continuing operations	**221**	**177**	**209**
Adjustments to reported basis			
Quilter Life Assurance fee restructure[3]			
Net management fee	–	24	–
Other revenue	–	(1)	–
Total expenses	–	4	–
Total Quilter Life Assurance fee restructure adjustment	–	27	–
Other normalisation adjustments[4]			
Net management fee	(2)	5	–
Other revenue	3	2	–
Total expenses	(9)	(3)	–
Total other normalisation adjustments	(8)	4	–
Total adjustments	**(8)**	**31**	**–**
Normalised basis			
Normalised net management fee[5]	503	524	591
Normalised other revenue[5]	84	122	137
Total normalised revenue[5]	587	646	728
Total normalised expenses[5]	(374)	(438)	(519)
Normalised operating profit from continuing operations[5]	**213**	**208**	**209**
Key performance indicators			
Revenue margin (bps)[6]	64	59	56
Operating margin (%)[7]	36	32	29
Closing AuMA (£bn)[8]	85.3	98.2	114.4
Average AuMA (£bn)[9]	82.5	89.2	105.1
NCCF (£bn)[10]	3.9	3.3	6.3
NCCF (excl. Quilter Life Assurance) (£bn)	4.3	4.2	7.6
NCCF/Opening AuMA (%)[11]	6	6	9

[1] Net management fee consists of revenue generated from AuMA, fixed fee revenues and policyholder tax contributions, netted off by trail commissions payable.

[2] Other revenue represents revenue not directly linked to AuMA (e.g. early encashment charges, risk result, adviser initial fees and adviser fees linked to AuMA in Quilter Financial Planning (recurring fees)).

[3] The Quilter Life Assurance fee restructure adjustment relates to the removal of a fee restructure exercise conducted on Quilter Life Assurance's pension products in the year ended 31 December 2016 following the FCA Thematic Review. This adjustment impacts the Wealth Platforms segment and includes the one-off revenue impact, expenses incurred in relation to the Thematic Review and compensation paid to policyholders for the understatement of fund rebates.

[4] Other normalisation adjustments relate to certain one-time adjustments and rebates. The rebate adjustments impacts the Advice & Wealth Management segment (a decrease in revenue on a normalised basis by £2 million in the year ended 31 December 2015 and an increase in revenue on a normalised basis by £5 million in the year ended 31 December 2016). The remaining normalisation adjustments impact the Wealth Platforms segment.

[5] Adjusted for the Quilter Life Assurance fee restructure and other normalisation adjustments (each as described above).

[6] Revenue margin represents net management fee, including policyholder tax, divided by average AuMA.

[7] Operating margin represents reported operating profit from continuing operations divided by total revenue, including policyholder tax and adviser fees. Operating margin excludes financing costs.

(8) Closing AuMA represents the total market value of all financial assets managed and administered on behalf of customers as at 31 December of the financial year, after intra-group eliminations.

(9) Average AuMA represents the average total assets managed and administered on behalf of customers during the financial year ended 31 December, after intra-group eliminations. Average AuMA is calculated using a 13-point average of monthly closing AuMA.

(10) NCCF measures the difference between money received from and the money returned to customers during the relevant period for the Group or for the business indicated.

(11) Excludes Quilter Life Assurance.

PART X
OPERATING AND FINANCIAL REVIEW

This Part X – "Operating and Financial Review" should be read in conjunction with Part II – "Presentation of Financial and Other Information", Part V – "Industry Overview", Part VI – "Business Description" and Part XII – "Historical Financial Information". Prospective investors should read the entire document and not just rely on the summary set out below. The financial information considered in this Part X – "Operating and Financial Review" is extracted from the financial information set out in Part XII – "Historical Financial Information".

The following discussion of the Group's results of operations and financial condition contains forward-looking statements. The Group's actual results could differ materially from those that it discusses in these forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this document, particularly under Part I – "Risk Factors" and Part II – "Presentation of Financial and Other Information—12. Forward-looking Statements". In addition, certain industry issues also affect the Group's results of operations and are described in Part V – "Industry Overview".

This discussion and analysis contains forward-looking statements that are subject to known and unknown risks and uncertainties. Quilter's actual results and the timing of events could differ materially from those expressed or implied by such forward-looking statements as a result of various factors, including those discussed below and elsewhere in this Prospectus. Quilter does not undertake any obligation to revise or publicly release the results of any revision to these forward-looking statements.

1. **Overview**

The Group is a leader in the UK and in selected offshore markets in wealth management, providing advice-led investment solutions and investment platforms to over 900,000 customers, principally in the affluent market segment. At the core of the Group are a multi-channel wealth management proposition and a strong investment performance track record, driving Integrated NCCF and long term customer relationships. As at 31 December 2017, the Group had £114.4 billion of AuMA following the elimination of intra-Group assets.

The Group operates through two segments, Advice & Wealth Management and Wealth Platforms.

The Group's Advice & Wealth Management segment, with £41.7 billion of AuM as at 31 December 2017, comprises:

- *Quilter Financial Planning*, which is a network of over 3,500 financial advisers, including approximately 2,000 CF30 Advisers, of which 1,561 are RFPs, who deliver face-to-face financial advice tailored to meet the specific needs of the customer. Quilter Financial Planning is the second largest restricted advice network in the UK, as measured by the number of CF30 Advisers as at 31 December 2017 (*Source:* Financial Times);
- *Quilter Investors*, which is a leading provider of multi-asset investment solutions in the UK, offering a broad range of solutions for its customers' accumulation and decumulation needs; and
- *Quilter Cheviot*, which is a leading UK-based private-client wealth manager providing discretionary and advisory wealth management services to private clients, corporates, pension funds, trusts and charities.

The Group's Wealth Platforms segment, with £84.6 billion of AuA as at 31 December 2017, comprises:

- *Quilter Wealth Solutions*, which is a leading investment platform provider of advice-based wealth management products and services in the UK. Quilter Wealth Solutions serves a largely affluent customer base through both Quilter Financial Planning and third party advisers. The UK Platform Transformation Programme, a major enhancement of Quilter Wealth Solutions' range of products and capabilities, is designed to improve clients' and advisers' experience and expand the proposition;
- *Quilter Life Assurance*, the Group's book of legacy UK life insurance, insurance bonds and pension business, as well as the Group's open protection book of business. It also includes the Group's institutional life business, which is closed to new business and the majority of which the Group expects will run off over the next one to two years. Quilter Life Assurance's retail book is also in a steady managed run-off expected to be at around 15% per annum; and
- *Quilter International*, which is a leading investment platform provider of cross-border investment solutions (portfolio bonds and unit-linked products) aimed primarily at affluent and high net worth UK residents seeking investment solutions outside of the UK, as well as expatriates and international investors in selected offshore markets.

The Group has adopted a multi-channel access model, using both advised and open market approaches, designed for better customer outcomes by giving customers greater accessibility and choice. As at 31 December 2017, the Group's advised channel included approximately 200,000 advised customers paying ongoing advice fees, 1,561 RFPs (who advise on a range of investment solutions offered by the Group and from third parties that have been pre-researched by the Group) and 422 IFAs on the Quilter Financial Planning network (who advise on an unrestricted whole of market basis). The Group's open market channel included approximately 700,000 customers (of which approximately 400,000 are customers of Quilter Wealth Solutions) who are primarily serviced by over 4,000 active third party UK advice firms using the Group's platforms and investment solutions. The Directors believe that the Group's multi-channel wealth management proposition provides greater market breadth and customer and adviser choice which support long-term customer relationships. The Group's multi-channel wealth management proposition has also contributed to growth in the Group's Integrated NCCF (excluding Quilter Life Assurance), which has increased from £1.6 billion in the year ended 31 December 2015 to £5.2 billion in the year ended 31 December 2017. The Group's open market NCCF (excluding Quilter Life Assurance) has decreased from £2.7 billion in the year ended 31 December 2015 to £2.4 billion in the year ended 31 December 2017. Growth in Integrated NCCF has also been supported by the increase in the Group's RFPs from 930 as at 31 December 2014 to 1,561 as at 31 December 2017, an increase of 68% as a result of acquisitions, organic growth and transition of advisers from IFAs to RFPs.

2. Current Trading and Prospects

The Group has continued to trade in line with the Directors' expectations since the year ended 31 December 2017. Overall the Directors continue to remain confident in the Group's prospects. The Directors believe that the outlook for the Group is attractive due to the strong growth prospects of the sectors within which the Group operates.

The Group's vision is to be the leading UK wealth manager, as a purpose-built, full service wealth manager delivering good customer outcomes. The Group has leading positions in one of the world's largest wealth markets, and its multi-channel wealth management 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.

In 2017, alongside strong investment performance, the Group attracted very high levels of net flows, and the integrated business model is proving a success in providing what customers want. This has enabled the Group to maintain profitability while still investing in the business ahead of listing, and achieving a 29% operating margin for 2017 for the go-forward business. The Group has further grown its distribution capabilities through the acquisition of Caerus, and remains on track and on budget with the UK Platform Transformation Programme. The Group has a strong balance sheet, strong capital and liquidity positions and is independently funded.

The strong levels of Integrated NCCF in recent periods have helped the Group exceed its target of delivering NCCF (excluding Quilter Life Assurance) of 5% of opening AuMA per annum over the medium term and, should market conditions remain supportive, the Directors expect to exceed this target in 2018.

The Company expects to publish the Q1 Results Supplement on or about 30 April 2018.

3. Segmental Reporting

The Group's operations are divided into two principal reporting segments: Advice & Wealth Management and Wealth Platforms, which accounted for 43% and 56% of the Group's revenue and 39% and 76% of the Group's operating profit from continuing operations, respectively, for the year ended 31 December 2017 (in each case, excluding Head Office). The Group's Advice & Wealth Management segment comprises the Quilter Financial Planning, Quilter Cheviot (since its acquisition in February 2015) and Quilter Investors businesses. The Group's Wealth Platforms segment comprises the Quilter Wealth Solutions, Quilter International and Quilter Life Assurance businesses. The Group's Head Office function comprises aggregate head office and other central costs, Quilter Separation and related standalone costs, as well as financing costs. In addition, the Group contains a number of businesses which constitute "Discontinued Operations" and have been, or are planned to be, divested. The Group's Discontinued Operations include the Single Strategy Business, Old Mutual Wealth Italy S.p.A (up to the date of its sale completed on 9 January 2017) and Skandia Life S.A. (Skandia Luxembourg and Skandia France) (up to the date of its sale completed on 2 February 2015). The following discussion and analysis presents the Group's historical financial information on a continuing operations basis, which therefore excludes discontinued operations from the discussion.

The business area segmentation that is presented has changed over the historical period under review. In order to facilitate the comparability of results between the periods presented, the Group has prepared the historical financial information to reflect the current segmentation of the business. For a description of the Group's current business areas, see *Part VI – "Business Description"*.

4. Key Factors Affecting the Group's Results of Operations and Financial Condition

The Group's results of operations and financial condition are affected by a variety of factors, a number of which are outside the control of the Group. Set out below is a discussion of the most significant factors that have affected the Group's financial results during the periods under review and which the Group currently expects to affect its financial results in the future. Factors other than those presented below could also have a significant impact on the Group's results of operations and financial condition in the future. (i) 9.2.1

4.1 *Economic and market conditions in the UK and internationally*

The Group's results are affected by conditions in global capital markets, the economy generally and the UK economy in particular. Such conditions impact the value of customer investment portfolios, which in turn impacts the Group's results because a significant portion of the Group's income is derived from fees which are calculated as a percentage of AuM or AuA. Factors such as consumer spending, business investment, the volatility and (i) 12.1 12.2

strength of both debt and equity markets, exchange rates and inflation all affect the economic environment, investor confidence and, ultimately, the volume and profitability of the Group's business. In an economic downturn characterised by higher unemployment, lower household income, lower corporate earnings, lower business investment and lower consumer spending, the demand for savings products could be adversely affected. Further, customer sentiment regarding the future prospects of investment markets, and of the economy more generally, could impact customer behaviour and reduce demand for the Group's products and services.

The Group's results of operations may be impacted by Brexit. Due to the size and importance of the UK economy, particularly with respect to the financial services market, as well as the uncertainty and unpredictability concerning the UK's legal, political and economic relationship with Europe after Brexit, there may continue to be instability in the national and international 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, which could reduce the demand for or value of investment assets.

Despite recent fluctuations and market changes, the Directors believe that the historical strength of the UK equity markets, combined with demographic factors and government efforts to increase individual savings and self-provision for retirement, has resulted in increased consumer focus on savings and investment products. In addition, the Group has continued to perform against a challenging background of difficult capital markets, volatile equity markets and widespread economic uncertainty which has led to consumers looking for greater certainty and security through trusted and financially strong brands.

4.2 *Government policy, legislation and regulation*

The Group is subject to detailed and comprehensive regulation in each of the jurisdictions in which it conducts business. Changes in government policy, legislation or regulation applying to companies in the financial services industry in any of the jurisdictions in which the Group operates, particularly in the United Kingdom, has historically impacted and may continue to impact the Group's results of operations. For example, changes in taxation legislation applicable to the Group's products have impacted the Group's results of operations in the past and further changes in taxation legislation could impact the Group's results of operations in the future.

Following the implementation of the RDR in 2012 and the Pension Freedom legislation in 2015, there has been increased customer demand for financial planning throughout retirement and a limited supply of advisers to meet the demand. The Pension Freedom legislation has given retirees greater flexibility in how to access and invest DC pensions at retirement, including through platforms like Quilter Wealth Solutions. Under Pension Freedom, consumers approaching retirement have the option to take their whole pension pot as cash (the first 25% tax free, with the balance taxed at the individual's marginal rate). Consumers who do not draw down their pensions immediately have significantly more control and flexibility with respect to how their pensions are invested as a consequence of the Pension Freedom legislation. As a result, the Group has experienced an increase in demand for pension products, potentially as an alternative to annuities products. The impact of Pension Freedom on Quilter Wealth Solutions has been significant, and, as a result, sales in the pension propositions have accounted for 48%, 56% and 61% of Quilter Wealth Solutions' gross sales in the years ended 31 December 2015, 2016 and 2017, respectively. However, there can be no assurance that the Group will continue to capture new business in this manner, or that the trends seen in the aftermath of Pension Freedom will not reverse, as there is still uncertainty over the longer-term impact of the Pension Freedom on the sales of individual annuities and alternative savings products.

As part of RDR, the FCA announced that IFAs and wealth managers had to move to a more transparent and fair charging system, in which the services received are clear to the client. As a result of RDR and the shift towards clean, fee based charging for financial advice, revenue margins were suppressed as commission based charging mechanisms are no longer in place. Furthermore, in 2012 the FCA announced that platform businesses had to move to adviser charging for new business. Adviser charges are an explicit agreement between the adviser and customer to pay for a service which the adviser is providing the customer. Prior to RDR, the advisers were remunerated through a commission mechanism paid by the platforms. A Sunset Clause came into effect in April 2016 for existing business which meant that all rebates needed to be passed onto customers for ISA and CIA accounts. As a result, a number of charging structures within the Wealth Platforms segment were changed in early 2016. Most notably, UK Platform moved ISA and CIA accounts that were still on an old charging structure (SIS1 and SIS2) to the SIS3 charging structure in early 2016. CRA and CIB were not moved to the new structure as they were not impacted by the Sunset Clause, but they were naturally migrating over time.

The Group's efforts to comply with changes in regulations have historically, and may in the future, lead to increased operating and administrative expenses. Recent and ongoing regulatory reform initiatives include MiFID II, the PRIIPs regulation, Solvency II, GDPR and the IDD. These regulations could make it more expensive for the Group to conduct its business, require that the Group make changes to its business model, require that the Group satisfy increased capital requirements, necessitate time-consuming and costly implementation measures, or subject the Group to greater regulatory scrutiny.

The Group is also subject to regulatory review, whether as part of an industry-wide review, a firm-specific assessment or otherwise. The outcome of such reviews, though difficult to predict, could have an impact on the Group's results of operations. For example, possible outcomes include a requirement to compensate customers for losses or certain costs they have incurred as a result of the products they were sold or services they received or the initiation of regulatory enforcement action against the Group, potentially including the imposition of a fine. Further, even if the Group is not named specifically, these reviews could negatively impact the Group's reputation or demand for the Group's products.

On 3 March 2016, the FCA issued a report detailing the findings of its industry-wide Thematic Review into the treatment of long-standing customers invested in closed-book products sold by the life insurance sector, with a focus on four areas or "outcomes": strategy and governance, communications, fund performance and charges (in particular exit charges and paid-up charges). At the same time, the FCA announced that its enforcement division was initiating investigations into six firms in connection with the findings of the Thematic Review (although the investigation into one of those firms was subsequently discontinued on 7 September 2017).

OMWLA, a subsidiary of the Group which will be rebranded, and is referred to elsewhere in this Prospectus, as Quilter Life Assurance, is one of the firms under investigation by the FCA. The Investigation covers the four outcomes/areas of focus identified in the Thematic Review and in particular: (i) OMWLA's behaviour in respect of the disclosure of exit charges and paid up charges after December 2008 (Outcomes 2 and 4 in the Thematic Review); and (ii) whether OMWLA contravened regulatory requirements across a number of other areas assessed in the Thematic Review. In relation to point (ii), these other areas are aspects of OMWLA's strategy and governance in relation to its closed-book customers (outcome 1 in the Thematic Review) and aspects of fund performance, again in relation to OMWLA's closed-book customers (Outcome 3 in the Thematic Review).

OMWLA is working with the FCA and is cooperating with its Investigation. To date, the FCA has issued, and OMWLA has given responses in respect of, a number of information requirements. For further information, see *Part VII – "Regulatory Overview—5. Recent and Future Regulatory Developments—5.1 United Kingdom and European Union—5.1.2 FCA Thematic Reviews"*.

There are a number of studies and thematic reviews currently being initiated or undertaken by the UK regulators. These include the FCA's Asset Management Review, the findings of which were published on 28 June 2017, and the Investment Platforms Market Study, the terms of reference for which were announced on 17 July 2017. The Group fully supports these studies, which it believes will increase the confidence and credibility of the wealth management industry in the UK and ensure that it provides fair outcomes for customers.

The Group may also be affected by future changes in government in the UK, which may lead to changes in government policy, legislation or regulatory interpretation applying to the Group and may ultimately influence investor decisions in particular markets in which the Group operates, change the structure of those markets and the products offered, or increase the costs of doing business in those markets. Changes in government could also introduce a range of anti-wealth policies. See *"—4.3 Taxation"* below.

4.3 *Taxation*

The Group currently benefits from customer demand supported by government policies aimed at encouraging personal savings through the application of tax relief to certain types of investment. The Group also benefits from tax policies which offer customers cross-border tax benefits, in particular with regard to Quilter International's single premium portfolio bonds. Changes in taxation legislation and policy, either as a result of a change in government or otherwise, have historically affected, and may in the future affect, investor sentiment, making investment generally, and specific types of investment products or solutions in particular, either more or less appealing. Quilter International (and particularly the business located in the Isle of Man) may be particularly vulnerable to the impact of changes in taxation legislation, or to the impact of public perception of offshore accounts in low tax jurisdictions. As a result of the negative press surrounding these events, the Group may experience decreased demand for certain of its products and services due to social and political pressure concerning offshore investing.

Under UK legislation enacted in 2016, the Group will be required, post-Quilter Separation to publish its UK tax strategy (the "**Quilter UK Tax Strategy**"), setting out the Group's approach to the management of tax affairs in the context of the Group's wider strategy. The Group aims to fulfill its strategic objectives within a stated risk framework, encompassing tax risk management and governance processes within a formal tax risk policy which is approved by the Board Risk Committee. In operating tax risk management and governance processes, the Group has a low appetite towards tax risk. The Group does not promote tax avoidance or aggressive tax planning arrangements to customers or to other parties. The Group maintains an open and co-operative relationship with HMRC, holding regular meetings to ensure that HMRC understands the business and to provide the opportunity to discuss tax implications of strategy and business developments in real time. The full Quilter UK Tax Strategy will be published on the company website post-Quilter Separation and in line with regulatory requirements.

4.4 *Impact of acquisitions, disposals and exited businesses*

Throughout the period under review, the Group has focused on transforming its business from a traditional UK and European life assurer, which was dependent upon legacy business, to a modern, multi-channel UK-focused wealth manager with the majority of profits resulting from its advice-driven wealth model. The Group has undertaken this transformation, in particular, through the acquisitions of UK advice and wealth management businesses, the closing to new business of its legacy life insurance businesses in the UK and the disposal of its European life assurance businesses. In respect of acquisitions completed during the periods under review, the

Group's consolidated historical financial information only includes the results of acquired entities as from the date of acquisition.

In February 2015, the Group acquired Quilter Cheviot, one of the UK's leading discretionary wealth managers with closing AuM of £17.4 billion in the month of the acquisition, for £585 million. This transaction represented a significant milestone in the Group's transition from primarily a platform business to a multi-channel wealth management business that delivers increased value to advisers and customers. Quilter Cheviot accounted for 20%, 22% and 22% of the Group's total revenue in the years ended 31 December 2015, 2016 and 2017, respectively.

The Group has also focused on delivering growth and increasing Integrated NCCF within the Group, primarily by increasing the number of RFPs through acquisitions and organic recruitment. RFPs numbers have grown by 930 since the beginning of 2014 to 1,561 as at 31 December 2017. This increase in RFPs is 28% due to organic growth, 31% due to transition of IFAs to RFPs, and 41% due to acquisitions. Quilter Financial Planning's significant acquisitions include Positive Solutions in 2013 (adding over 740 advisers) and Caerus in 2017 (adding 296 advisers, of which 130 were RFPs). In addition, following the closure of Sesame's IFA network, Intrinsic was named as Sesame's "Preferred Partner" (adding 245 advisers in 2015). To further increase Integrated NCCF, the Group has also focused on improving adviser productivity through the services and support that the Group provides to its advisers and investment managers. Productivity, defined as average NCCF per adviser into the advised proposition (consisting of Quilter Investors or Quilter Cheviot), has increased from £0.9 million in the year ended 31 December 2015 to £1.8 million in the year ended 31 December 2017.

The Group has divested its European life assurance businesses to streamline and de-risk the business and support the financing of its acquisitions, allowing the Group to focus on its core UK and re-focused international business. During the period under review, these disposals include Skandia France and Skandia Luxembourg in February 2015 and Old Mutual Wealth Italy in January 2017. Revenue from these disposed businesses was £51 million, £41 million and £nil for the years ended 31 December 2015, 2016 and 2017.

In November 2017, the Group completed the transfer in of GET, an IT company which had previously been part of the wider Old Mutual plc group. This transfer ensures that the Group will continue to provide direct IT support to Quilter Wealth Solutions and help deliver IT activities required to support completion of the Quilter Separation and the UK Platform Transformation Programme.

In December 2017, the Group entered into an agreement to sell OMGI, which operates the Single Strategy Business through certain subsidiaries including OMGIUK, to Bidco (a special purpose vehicle ultimately owned by funds managed by TA Associates and certain members of OMGIUK's management), subject to certain conditions, including in relation to mandatory regulatory change of controller approvals and a re-organisation pursuant to which all the shares in OMIML and the Multi-Asset Business will be separated and retained by the Group. The parties currently expect the sale to complete in the second half of 2018. The Single Strategy Business is classified within discontinued operations and had a total profit before tax of £48 million, £60 million and £152 million for the years ended 31 December 2015, 2016 and 2017, respectively. While the Single Strategy Business has contributed to the Group's performance historically, the Directors believe a single strategy, active investment solution, which is primarily reliant on wholesale and institutional market distributions, is less closely aligned to the Group's goal of becoming the leading UK wealth manager. Accordingly, it was decided to affect a disposal of the Single Strategy Business via the sale of OMGI, coupled with the separation and retention of the Multi-Asset Business. The consideration payable under the OMGI SPA is subject to a number of adjustments and the expected total consideration payable to the Group is approximately £600 million, comprising cash consideration of approximately £570 million payable on completion, with approximately £30 million anticipated to be payable thereafter, paid primarily in 2019 to 2021 as surplus capital of the Single Strategy Business associated with the separation from the Group is released. These values are subject to a number of potential price adjustments, depending on the net asset value of the business and other factors at the disposal date. The deferred consideration is not subject to performance conditions. At completion, economic ownership of the Single Strategy Business will pass to Bidco effective from 1 January 2018 with all profits and performance fees generated up until 31 December 2017 for the account of the Group. Proceeds from a completed transaction will be used to repay the New Term Loan in full and for general corporate purposes. In connection with the OMGI Transaction, bi-lateral transitional services are required for the duration of the transition period to ensure a smooth separation of OMGI and the Single Strategy Business from the Group and the Multi-Asset Business from OMGI. The period of services will vary on a service by service basis but can be up to 36 months. The Group's contracted costs under the OMGI TSA are expected to be approximately £10 million per annum. For a further discussion of the OMGI Transaction, see *Part I – "Risk Factors—2. Risks relating to the Group's business—2.6 The Group faces risks relating to the disposal of OMGI", Part VI – "Business Description—5. Business Overview—5.3 Business held for disposal – OMGI and the Single Strategy Business"* and *Part XVII – "Additional Information—14. Material contracts—14.6 Material disposals—14.6.1 OMGI Transaction".*

The Group has also closed certain product lines during the period under review. For example, Quilter Life Assurance's products (including life insurance, insurance bonds and pension business) have generally been closed to new business over the last decade and are in steady, managed run-off. Most recently, Quilter Life Assurance announced on 15 November 2017 that it would cease to take on new institutional clients for its low margin institutional life business. As at 31 December 2017, the institutional life business represented approximately £4.9 billion of AuA. The Directors expect that the majority of the institutional life business will run off over the next one to two years. Quilter Life Assurance delivered 32% of the Group's profit in the year ended 31 December 2017 and an operating margin of 55% in the year ended 31 December 2017. Quilter Life Assurance has historically been a strong contributor of the Group's cash generation and source of dividends.

4.5 *The Group's multi-channel wealth management proposition*

The Group's multi-channel wealth management proposition provides market breadth and customer and adviser choice which support long-term customer relationships. The Group's multi-channel wealth management proposition has also contributed to growth in the Group's Integrated NCCF excluding Quilter Life Assurance, which has increased from £1.6 billion, or 37% of total NCCF, in the year ended 31 December 2015 to £5.2 billion, or 68% of total NCCF, in the year ended 31 December 2017. Growth in Integrated NCCF has been supported by the increase in the Group's RFPs from 930 as at 31 December 2014 to 1,561 as at 31 December 2017. This is a net increase of approximately 68%, with 355 RFPs joining the network via acquisitions and a further 276 new RFPs being generated via recruitment and internal transfers over the same period. Since the end of 2015, 142 IFAs have transferred to become RFPs and a further 55 RFPs have transferred from a Mortgage & Protection adviser role. The Group aims to further increase the number of RFPs through acquisitions and organic recruitment. See *"—4.4 Impact of acquisitions, disposals and exited businesses"* for a discussion of the Group's RFP acquisitions during the period under review. To further support the growth of RFPs, Quilter Financial Planning also acquired the FAS to encourage new entrants into the market and to support the growth and development of the adviser community.

In addition to driving Integrated NCCF, the Group's multi-channel wealth management proposition is expected to enable the Group to benefit from scale and improved operating efficiency. For example, the Group's scale and the margin earned in its multi-channel model have reduced the impact of industry pricing pressure. Going forward, the Group will have further opportunities to deliver scale benefits through distribution and through its multi-asset and discretionary portfolio management capabilities. The Group also believes that it will have opportunities to improve its operating margins in the medium term. Expense margins (in basis point terms) have been stable while the Group has been investing in its business, because the additional costs have come at a time when the Group has experienced market and asset growth.

Finally, the Directors believe that the Group's multi-channel model helps to mitigate against business-specific headwinds, including both Group-specific and industry-wide trends. This can be seen as the Group has continued to grow its absolute level of revenues, despite the decrease in revenue margin the Group has experienced during the period under review.

4.6 *Competition in the Group's markets*

The markets for financial services in the UK and the Group's other geographic markets are competitive. The Group's financial performance and its ability to maintain and grow its market share and generate an appropriate return depends upon its capacity to anticipate and respond appropriately to these competitive pressures and trends. The Group currently has leading positions in attractive markets and across its businesses.

Within the Advice & Wealth Management segment, Quilter Financial Planning is the second largest restricted advice network in the UK, with the Group's network of CF30 Advisers representing approximately 9% of the total CF30 Adviser market (*Source:* APFA). Quilter Cheviot is one of the UK's leading discretionary investment management firms, and it has outperformed its peer group in nearly all investment risk categories in the period under review. Quilter Investors held a leading market position in the UK multi-manager ratings by net flows as at 30 June 2017, according to the Pridham report. The Group also faces competition from direct-to-consumer advice models, including emerging financial technology competitors. For example, PwC forecasts that passives will gain significant market share, rising from 17% of total industry AuM in 2016 to 25% by 2025. Furthermore, transparent, flexible, cheap, passive exchange-traded funds are expected to continue to grow, primarily led by demand from younger, high net worth investors, but also as a result of the rising popularity of "robo-advisors" and other forms of digital advice, which will further increase the take up of these inexpensive funds globally (*Source:* Asset & Wealth Management Revolution: Embracing Exponential Change, PwC).

Within the Wealth Platforms segment, Quilter Wealth Solutions is a top-three provider of advice-based wealth management products and services in the UK, with a leading market share of assets and net flows. Quilter International is a leader in cross-border investment solutions, and its share of the UK resident offshore market has been growing.

The ability of the Group to keep pace with software and infrastructure investment requirements and innovation may also have an impact on its ability to remain competitive within the relevant markets, which the UK Platform Transformation Programme and other IT initiatives are designed to mitigate.

4.7 *Investment performance*

Investment performance can impact inflows and outflows of AuM, because customers and intermediaries generally are attracted to asset management products with a consistent, strong record of investment outperformance. The Group's strong investment performance has supported consistent positive net sales of AuM over the period under review. The Group's net sales directly impact revenues and results of operations where fees are charged as a percentage of AuM. For example, Cirilium Balanced was the top selling multi-asset fund in the UK in 2017, according to Pridham, and was continually a first quartile performer over the period under review.

The Group's investment performance track record is strong for the majority of its portfolios and products during the period under review. This strong relative investment performance can contribute to enhanced appreciation in AuM or, in falling equity markets, can mitigate the impact of depreciation on AuM. Conversely, in the case of weak relative investment performance, the opposite can be the case.

Quilter Investors accounted for 11%, 12% and 15% of the Group's total AuM (excluding discontinued operations) as at 31 December 2015, 2016 and 2017, respectively. In the last three years, Quilter Investors has delivered strong performance across its range of products, in particular the Cirilium range has been consistently first quartile over the period. All funds investment performance is assessed either by assessing performance relative to the median fund in each peer group or, in the case of those funds without a peer group, the performance above the published target (on an AuM weighted basis). 84% of the funds that were measured against peers performed above the peer median over a three year period. Notably, two Generation products had a period of under-performance before the modernisation programme was commenced and which has since been remedied through management action. While WealthSelect cannot be benchmarked against an index, it shows MPS actual fund performance versus the ex-ante returns forecast from risk profiles over one year and three year performance. For a further discussion of the performance of the Group's key products, see *Part VI – "Business Description—5. Business Overview—5.1 Advice & Wealth Management—5.1.2 Quilter Investors—(a) Products and Services"*.

Quilter Cheviot accounted for 21% of the Group's total AuM as at 31 December 2015, 2016 and 2017. During the period under review, Quilter Cheviot has delivered a strong outperformance versus its peers. In Quilter Cheviot's Balanced Strategy, the Group has outperformed the peer group in all risk categories over all time periods since inception in March 2007. For a further discussion of the performance of the Group's key portfolios, see *Part VI – "Business Description—5. Business Overview—5.1 Advice & Wealth Management—5.1.3 Quilter Cheviot—(a) Products and Services"*.

4.8 *Quilter Separation and becoming a public company*

The Group has taken a number of actions as part of the Quilter Separation to create the corporate infrastructure necessary to operate as an independent public company. These actions include the establishment of independent corporate functions and governance following the completion of a number of separation initiatives, including a fully independent Board, building capability within head office functions to support a publicly listed group, rebranding and the transfer of certain information technology systems.

The Group expects to incur up to £30 million per annum of additional recurring fixed costs above 2016 operating expense levels as a consequence of Managed Separation. Of the additional expenses, approximately £16 million on an annual basis were reflected in 2017 year-end reported results, and the Directors expect incremental costs of up to approximately £14 million will be incurred during 2018.

The primary recurring costs being incurred by the Group in connection with the Quilter Separation include:

- ***Operational costs:*** The Group's recurring costs include those incurred in the running of the Group's stand-alone arrangements in a wide range of areas including finance, investor relations, risk and governance functions, which it either did not previously require, or where it previously relied on support and services from Old Mutual plc. In addition, the Group will experience increased ongoing costs in connection with being an independent public company, including potentially as a result of the need for further investment in these new services and functions.
- ***Transitional services arrangements:*** In anticipation of the Quilter Separation, in 2016 the Group commenced a project to achieve operational independence from Old Mutual plc by replicating and transferring the functions, systems and infrastructure it had obtained from Old Mutual plc in the past as a member of Old Mutual plc. Pursuant to certain TSAs, the Group will continue to perform or support certain services for Old Mutual plc and Old Mutual plc will continue to perform or support certain services for the Group. These TSAs are not indefinite and the services will continue to be provided by the Group and Old Mutual plc under the TSAs until a date specified in the TSAs. The Group's contracted costs with Old Mutual plc under the TSAs are initially expected to be approximately £1 million in the year ending 31 December 2018, and those costs will reduce as services gradually migrate to the Group. However, the actual amount and timing of these costs may be different to those expected. In the event that migration extends beyond the date specified in the TSAs, the Group and Old Mutual plc are obliged to extend the service terms until completion of migration, subject to the payment of additional charges. See *Part XV – "Additional Information—14. Material Contracts—14.7.2 GET Sale and Purchase Agreement"*.

In addition, the Group currently expects total one-off costs of approximately £75 million in respect of the completion of the Quilter Separation, which will be charged outside of operating profit to reflect their one-off nature. Of these, £32 million and £7 million were incurred in 2017 and 2016 respectively, and approximately £36 million is expected to be incurred in due course, including costs incurred in connection with listing. These comprise a mixture of standalone, advisor and other transaction costs, and will be charged outside of operating profit to reflect their one-off nature. Of these, approximately £12 million is expected to be incurred in respect of the rebrand of the business from Old Mutual Wealth to Quilter.

The primary one off costs being incurred by the Group in connection with the Quilter Separation include:

- ***Standalone costs:*** The Group's standalone costs include those incurred in the establishment of the Group's stand-alone arrangements in a wide range of areas including finance, investor relations, risk and governance functions, which it either did not previously require, or where it previously relied on support and services from Old Mutual plc.
- ***Migration costs:*** In connection with the migration of services to the Group during and at the end of the TSA period, the Group may be required to make an investment in its own infrastructure to prepare for and execute that migration. The actual cost of the migration of services may, however, cost more than the Group expects. See *Part I – "Risk Factors—4. Risks relating to the Quilter Separation"*.
- ***Other separation costs:*** In addition to the above items, the Group has incurred and expects to incur additional Quilter Separation costs related to the Group's professional fees in relation to the Offer.

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

4.9 *Other one-off costs and other impacts associated with implementing the Group's significant change initiatives*

The Group is currently in the process of planning and executing significant change across all business units, including in response to regulatory initiatives. The non-operational costs, which do not form part of operating profit from continuing operations, include the Quilter Separation (which includes both the separation and listing activities) as explained above in *"—4.8 Quilter Separation and becoming a public company"*, the UK Platform Transformation Programme, the disposal of the Single Strategy Business and the transfer of the South African branches.

The Group is currently undergoing a material change in Quilter Wealth Solutions, with the UK Platform Transformation Programme and transition of technology and services to those provided by FNZ. The UK Platform Transformation Programme is currently in the implementation and test phase with total forecast costs of £120 to 160 million, of which £21 million had been incurred as at 31 December 2017. The Group expects to incur £75 million in 2018, with the balance in 2019. The UK Platform Transformation Programme is scheduled to soft launch in late 2018 or early 2019, with migration of existing clients and advisers to follow thereafter. The UK Platform Transformation Programme will broaden the range of products offered and is expected to facilitate NCCF growth and continued service enhancements.

The Group's previous re-platforming programme with IFDS came to an end by mutual agreement effective 2 May 2017, with total costs of £333 million at the end date. The Group conducted a comprehensive review of the options available and entered into a new contract with FNZ, having concluded that FNZ's scale, market-proven and functionally rich offering was the most suitable to meet the current and anticipated needs of the business. In partnership with FNZ, the Group expects to deliver all the existing functionality of the platform with increased levels of straight-through processing and enhanced functionality by late 2018 or early 2019, with migration of the existing clients and advisers to follow thereafter.

The Group is in the process of separating the Multi-Asset Business from OMGI following the sale of the Single Strategy Business to Bidco. The Group expects to record a restructuring charge of approximately £20 million in respect of the establishment of the standalone Multi-Asset Business. See *Part I – "Risk Factors—2. Risks relating to the Group's business—2.6 The Group faces risks relating to the disposal of OMGI—2.6.3 Separation and establishment of the Multi-Asset Business"*.

The Group's operational costs in the year ended 31 December 2017 were affected by regulatory change, including MiFID II and GDPR, as well as spend on Quilter Wealth Solutions to maintain its existing IT and operational capabilities. In addition, costs have been incurred to enhance information security, cyber security and business resilience across the Group. Costs have also continued to be incurred on the Wealth Interactive enhancement programme, which underpins the platform for Quilter International.

4.10 ***The composition and volume of the Group's AuMA***

Given that fees are largely earned on the amount of AuMA, factors that affect the levels and relative composition of the Group's AuMA have a direct impact on the Group's results of operations. While a portion of the Group's costs are variable and indirectly linked to levels of AuMA, the majority of costs are fixed despite the level of the Group's AuMA and, therefore, factors affecting AuMA will have a magnified effect on profitability.

	Year ended 31 December		
	2015	**2016**	**2017**
AuMA		(£ billions)	
Advice & Wealth Management			
Quilter Financial Planning	–	–	1.2
Quilter Investors	9.8	12.1	16.9
Quilter Cheviot	17.8	20.7	23.6
Wealth Platforms			
Quilter Wealth Solutions[1]	34.5	41.4	50.2
Quilter International	14.5	16.9	19.3
Quilter Life Assurance	14.7	15.3	15.1
Head Office	0.2	0.1	0.2
Elimination of intra-Group assets	(6.3)	(8.3)	(12.1)
Total	**85.3**	**98.2**	**114.4**

[1] Includes shareholder assets.

The Group's AuMA has increased by 34%, from £85.3 billion in the year ended 31 December 2015 to £114.4 billion in the year ended 31 December 2017. The Group's AuMA is predominantly made up of equities, bonds, and cash and cash equivalents. Although the Group does not actively diversify its AuMA, it provides access to different products and in various markets, which may be impacted by different factors, and thus benefits to a certain degree from natural diversification.

Key factors influencing the size and composition of the Group's AuMA include the performance of the markets in which the Group's AuMA are invested, the choice of customers to transfer more of their wealth to existing Group accounts, the addition of new customer accounts, the withdrawal of funds, the Group's ability to attract and retain advisers and consumer preferences (such as the attractiveness of the Group's advice-led proposition and preference for the Group's wealth management offering over traditional pension or other alternatives).

5. Results of Operations

In *"—5.1 IFRS Financial Statements"* below, the Group presents its results of operations on an IFRS basis, which have been extracted from the Group's historical financial information set out in *Part XII – "Historical Financial Information"*. In *"—5.2 Operating Basis"* below, the Group presents certain non-IFRS financial measures, including operating profit from continuing operations and certain key measures on a management view basis and on a normalised basis. The Group presents these metrics because they are less affected than IFRS measures of performance by one-time impacts, and thus in the Group's view provide a better basis for assessing trends in the operational performance of the Group over time. The Directors believe that operating profit from continuing operations is a more accurate reflection of the normal operating performance of the Group and believe that this measure provides additional useful information for prospective investors on the Group's performance and is consistent with how business performance is measured internally. Operating profit from continuing operations, the normalised metrics and the management view basis metrics presented below should not be considered in isolation as an alternative to profit before tax or other data presented in the Group's financial statements as indicators of financial performance. Because they are not determined in accordance with IFRS, operating profit from continuing operations, the normalised metrics and the management view basis metrics presented below as presented by the Group may not be comparable to other similarly titled measures of performance of other companies. See *Part II – "Presentation of Financial and Other Information—3. Non-IFRS Financial Measures"*.

5.1 *IFRS Financial Statements*

5.1.1 *Description of Certain Line Items*

As presented in the consolidated audited financial statements, the Group's revenue is comprised of:

- *Net earned premiums*, which are premiums earned in respect of the Group's insurance business (or gross premiums) less the cost of premiums ceded to reinsurers. Net earned premiums exclude the investment contract business that forms the majority of the Group's business.
- *Fee and commission income, and income from service activities*, which are predominantly fees charged to clients for plan and policy administration, investment management, surrenders and other contract services in relation to the Group's unit linked business. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance. In addition, this also includes advice income from Quilter Financial Planning.
- *Net investment income*, which is the income derived from market growth (including foreign exchange gains and losses), which belongs to policyholders that are clients of Quilter Wealth Solutions, Quilter Life Assurance and Quilter International, rather than shareholders and so is broadly matched by movement in the line item 'change in investment contract liabilities'.
- *Other income*, which includes gross income from the Group's notional investments and seed capital placed in funds in connection with new product development by the Group's wealth management businesses. This is required to be consolidated under IFRS.

The Group's expenses are comprised of:

- *Net claims and benefits paid*, which include payments for maturities, annuities, surrender, death and disability claims, net of reinsurance recoveries, as well as claims handling costs, incurred in connection with the negotiation and settlement of claims.
- *Change in insurance liabilities, net of reinsurance*, which reflect the movement in the reporting period of insurance liabilities, net of reinsurance, as calculated in accordance with actuarial principles and assumptions.
- *Change in investment contract liabilities*, which is the offsetting impact of "net investment income" described above, attributing the majority of the related revenue to policyholders.
- *Fee and commission expenses, and other acquisition costs*, which are incremental costs directly attributable to securing an insurance or investment contract.
- *Change in third-party interest in consolidated funds* relates to the change in the amounts due to third party interests in investment funds that have met the criteria for consolidation.
- *Other operating and administrative expenses*, which are the expenses incurred in running the business. These expenses include staff costs, property costs, depreciation, business transformation costs for the UK Platform Transformation Programme, separation one-off costs and other administrative expenses including information technology. In 2017, other operating and administrative expenses also included voluntary customer remediation costs for the Quilter Life Assurance business, as explained further in *"—5.2.2 Reconciliation of profit after tax to operating profit from continuing operations"* below.
- *Finance costs (including interest and similar expenses)*, which include interest payable, financing fees and similar financing charges, principally to Old Mutual plc.
- *Income tax expense*, which is the total of the corporation tax accounted for during the relevant period, covering both shareholder and policyholder tax.

Discontinued operations relate to the discontinued operations of Skandia Life S.A. (Skandia Luxembourg and Skandia France), which was sold in 2015; Old Mutual Wealth Italy, which was sold in January 2017; and OMGI, the sale of which is expected to complete in the second half of 2018.

5.1.2 *Comparison of Financial Years Ended 31 December 2015, 2016 and 2017*

(a) *Consolidated revenue*

The following table sets forth a breakdown of the Group's consolidated revenue for the periods indicated:

	Year Ended 31 December		
	2015	**2016**	**2017**
		(£ millions)	
Revenue			
Gross earned premiums	135	141	148
Outward reinsurance	(81)	(84)	(88)
Net earned premiums	**54**	**57**	**60**
Fee and commission income, and income from service activities	816	803	895
Net investment income	1,166	6,310	5,195
Other income	2	17	13
Total revenues	**2,038**	**7,187**	**6,163**

(i) Net earned premiums

For the year ended 31 December 2016, net earned premiums were £57 million, representing an increase of 6% from £54 million in the year ended 31 December 2015. For the same period, gross earned premiums were £141 million, representing an increase of 4% from £135 million in the year ended 31 December 2015, and outward reinsurance was £84 million, representing an increase of 4% from £81 million in the year ended 31 December 2015. The increase in net earned premiums was primarily due to an increase in protection contract sales in Quilter Life Assurance.

For the year ended 31 December 2017, net earned premiums were £60 million, representing an increase of 5% from £57 million in the year ended 31 December 2016. For the same period, gross earned premiums were £148 million, representing an increase of 5% from £141 million in the year ended 31 December 2016; and outward reinsurance was £88 million, representing an increase of 5% from £84 million. The increase in net earned premiums was principally due to higher sales in Quilter Life Assurance for guaranteed whole of life and life rolling term products within the protection book of business.

(ii) Fee and commission income, and income from service activities

For the year ended 31 December 2016, fee and commission income, and income from service activities was £803 million, representing a decrease of 2% from £816 million in the year ended 31 December 2015. This decrease was primarily due to the reduction in early encashment charges to 1% for pension customers over the age of 55, policyholder rebate corrections and a decrease in AuM resulting in lower AMCs in the Quilter Life Assurance business, as well as the continued impact of charging structure changes post RDR in the Quilter Wealth Solutions business. This decrease was partly offset by growth of the business and higher adviser fees in Quilter Financial Planning, and higher AuM driving growth of fee income in Quilter Investors. The year ended 31 December 2016 also represents the first year during which 12 months of income from the acquisition of Quilter Cheviot is reflected in the Group's consolidated results of operations, as compared to 10 months in the year ended 31 December 2015.

For the year ended 31 December 2017, fee and commission income, and income from service activities was £895 million, representing an increase of 11% from £803 million in the year ended 31 December 2016. This increase was primarily due to higher AuM driving growth of fee income in Quilter Investors and Quilter Cheviot, and higher adviser fees in Quilter Financial Planning. Quilter Wealth Solutions also experienced a continued increase in fee and commission income in the year ended 31 December 2017 as a result of the one-off structure changes arising from RDR, which decreased income in the year ended 31 December 2016.

(iii) Net investment income

For the year ended 31 December 2016, net investment income was £6,310 million, as compared to £1,166 million in the year ended 31 December 2015. This increase was due to positive movement in markets and foreign exchange gains on policies held by policyholders compared to the year ended 31 December 2015.

For the year ended 31 December 2017, net investment income was £5,195 million, as compared to £6,310 million in the year ended 31 December 2016. This decrease primarily related to a reduction in investment return for Quilter International due to adverse foreign exchange movements in policies held by policyholders compared to the year ended 31 December 2016.

As these movements are broadly offset by equivalent reductions in investment contract liabilities, the overall effect on the Group's financial performance is broadly neutral.

(iv) Other income

For the year ended 31 December 2016, other income was £17 million, an increase of £15 million as compared to £2 million in the year ended 31 December 2015. The increase was principally due to higher gross income from the Group's interest in its consolidated funds for the year ended 31 December 2016.

For the year ended 31 December 2017, other income was £13 million, representing a decrease of 24% from £17 million in the year ended 31 December 2016. This decrease was primarily due to losses on the termination of a reinsurance agreement and the accelerated recognition of deferred acquisition costs on the transfer of the South African branch business in Quilter International.

(b) *Consolidated expenses*

The following table sets forth a breakdown of the Group's consolidated expenses for the periods indicated:

	Year Ended 31 December		
	2015	**2016**	**2017**
		(£ millions)	
Expenses			
Net claims and benefits incurred	(21)	(21)	(22)
Change in reinsurance assets and liabilities	40	119	85
Change in insurance contract liabilities	(32)	(125)	(78)
Change in insurance liabilities, net of reinsurance	**(13)**	**(27)**	**(15)**
Change in investment contract liabilities	(949)	(5,522)	(4,308)
Fee and commission expenses, and other acquisition costs	(362)	(299)	(320)
Change in third-party interest in consolidated funds	(76)	(575)	(673)
Other operating and administrative expenses	(565)	(654)	(816)
Finance costs	(32)	(43)	(39)
Total expenses	**(1,997)**	**(7,120)**	**(6,171)**

(i) Change in insurance liabilities, net of reinsurance

For the year ended 31 December 2016, change in insurance liabilities, net of reinsurance was £27 million, as compared to £13 million in the year ended 31 December 2015. The increase was primarily due to higher sales of protection policies in 2016, which are reassured by the Group, marginally offset by a favourable movement in assumptions.

For the year ended 31 December 2017, change in insurance liabilities, net of reinsurance was £15 million, as compared to £27 million in the year ended 31 December 2016. The decrease in change in insurance liabilities, net of reinsurance was primarily due to a reduction in reserves for Quilter Life Assurance, primarily driven by a change in assumptions during the year.

(ii) Change in investment contract liabilities

For the year ended 31 December 2016, change in investment contract liabilities was £5,522 million, as compared to £949 million in the year ended 31 December 2015. This increase was primarily due to the movement in underlying stock markets in which the linked policyholders are invested and broadly represents the offsetting impact of the investment return revenue described above, attributing the majority of the revenue to policyholders.

For the year ended 31 December 2017, change in investment contract liabilities was £4,308 million, representing a decrease of 22% from £5,522 million in the year ended 31 December 2016. This decrease was primarily due to the movement in underlying stock markets in which the linked policyholders are invested, and broadly represents the offsetting impact of the investment return revenue described above, attributing the majority of the revenue to policyholders.

(iii) Fee and commission expenses, and other acquisition costs

For the year ended 31 December 2016, fee and commission expenses, and other acquisition costs were £299 million, representing a decrease of 17% from £362 million in the year ended 31 December 2015. This decrease was primarily due to a reduction in the Quilter Wealth Solutions business as a result of the continuing impacts of the RDR on changes in fee structures, where no trail commission is paid on new business, as well as a reduction in rebates on fees paid by Quilter Wealth Solutions to other third party fund managers. This decrease was partially offset by an increase of £8 million in Quilter International, due predominantly to the acquisition of AAM Advisory during the year and the inclusion of its financials for the first time.

For the year ended 31 December 2017, fee and commission expenses, and other acquisition costs were £320 million, representing an increase of 7% from £299 million in the year ended 31 December 2016. This increase was principally driven by an increase in fee and commission expenses in respect of consolidated funds. The impact of the RDR changes in fee structures in Quilter Wealth Solutions continued, as described above.

(iv) Change in third-party interest in consolidated funds

For the year ended 31 December 2016, change in third-party interest in consolidated funds was £575 million, as compared to £76 million in the year ended 31 December 2015. The increase was primarily due to the impact of market movements on the underlying funds, which resulted in an increase in amounts in relation to the interest due to third parties.

For the year ended 31 December 2017, change in third-party interest in consolidated funds was £673 million, as compared to £575 million in the year ended 31 December 2016. The increase was primarily due to new funds launched during 2017, which had interests held by third parties.

(v) Other operating and administrative expenses

For the year ended 31 December 2016, other operating and administrative expenses were £654 million, representing an increase of 16% from £565 million in the year ended 31 December 2015. This increase was primarily due to 2016 being the first full year that reflects twelve months of Quilter Cheviot subsequent to its acquisition in February 2015; increased variable compensation at Quilter Investors as a result of higher AuM; additional staff costs due to increased headcount; AAM Advisory costs in Quilter International; continued investment in IT and infrastructure development leading to higher operational costs.

For the year ended 31 December 2017, other operating and administrative expenses were £816 million, representing an increase of 25% from £654 million in the year ended 31 December 2016. This increase was primarily due to the recognition of a provision for £69 million in relation to the voluntary customer remediation for Quilter Life Assurance; higher administration costs as a result of increased technology spend, regulatory change spend, and other organic and inflationary costs; and higher costs in preparation for becoming a standalone business.

(vi) Finance costs

For the year ended 31 December 2016, finance costs were £43 million, representing an increase of 34% from £32 million in the year ended 31 December 2015. This increase was primarily due to an increase in interest paid to Old Mutual plc as a result of the loan funding to acquire Quilter Cheviot, and the market value adjustment in respect of the derivative taken out by Old Mutual plc for hedging the proceeds of the sale of Old Mutual Wealth Italy. Quilter Cheviot was purchased at the end of February 2015, with interest costs for ten months in 2015, whereas a full year of interest costs were incurred in the year ended 31 December 2016.

For the year ended 31 December 2017, finance costs were £39 million, representing a decrease of 9% from £43 million in the year ended 31 December 2016. This decrease was primarily due to a reduction in the Group's liabilities payable to Old Mutual plc during the year. This relates to the one-off 2016 market value adjustment to the derivative taken out by Old Mutual plc for hedging the proceeds of the sale of Old Mutual Wealth Italy.

(c) *Income tax expense*

For the year ended 31 December 2016, income tax expense was £94 million as compared to a gain of £16 million in the year ended 31 December 2015. This increase was primarily due to high income tax attributable to policyholder returns of £102 million, driven by market movements during year ended 31 December 2016 and the impact of temporary timing differences during year ended 31 December 2015.

For the year ended 31 December 2017, income tax expense was £41 million, representing a decrease of 56% from £94 million in the year ended 31 December 2016. This decrease was primarily due to lower profit for the year and lower tax attributable to policyholder returns due to changes in market movements.

The Group's income tax expense can vary significantly year on year, even in years of consistent profit before tax, due to the impact of changes in the income tax attributable to policyholder returns. In turn, income tax attributable to policyholder returns can vary significantly year on year as a result of changes in market movements and the associated gains or losses from policyholder investments.

(d) *Post-tax profit/(loss)*

The Group's post-tax profit was £35 million in the year ended 31 December 2016, compared to a post-tax profit of £85 million in the year ended 31 December 2015. This was due to a reduction in profit after tax from continuing operations of £84 million, principally due to increased operational expenses; one-off Quilter Separation costs of £7 million; increased finance costs of £11 million, incorporating interest paid to Old Mutual plc principally as a result of the loan funding the acquisition of Quilter Cheviot, partially offset by a £34 million increase in profit after tax from discontinued operations.

For the year ended 31 December 2017, post-tax profit was £157 million, representing an increase of 349% from £35 million in the year ended 31 December 2016. This increase was primarily due to higher profit after tax from discontinued operations from £62 million in 2016 to £203 million in 2017, which was mainly as a result of increased net performance fees in 2017 for the Single Strategy Business. The higher profit after tax for discontinued operations was partially offset by an increased loss after tax from continuing operations from £27 million in the year ended 31 December 2016 to £46 million in the year ended 31 December 2017, which was primarily due to higher Quilter separation one off costs and voluntary customer remediation costs for Quilter Life Assurance in the year ended 31 December 2017.

The following table presents the Group's profit and loss for the years under review.

	Year Ended 31 December		
	2015	**2016**	**2017**
Profit & Loss		*(£ millions)*	
Revenue	2,038	7,187	6,163
Expenses	(1,997)	(7,120)	(6,171)
Profit on acquisition and re-measurement of subsidiaries	–	–	3
Profit/(loss) before tax	**41**	**67**	**(5)**
Tax expense attributable to policyholders funds	7	(102)	(49)
Profit/(loss) attributable to shareholder profits	**48**	**(35)**	**(54)**
Income tax expense	16	(94)	(41)
Tax attributable to policyholder funds	(7)	102	49
Profit/(loss) from continuing operations	**57**	**(27)**	**(46)**
Profit after tax from discontinued operations	28	62	203
Profit after tax	**85**	**35**	**157**

5.2 *Operating Basis*

5.2.1 *Reconciliation of IFRS results of operations to management view results of operations*

The following tables present the reconciliation of certain of the Group's IFRS results of operations to the management view, reflecting a number of adjustments and reclassifications. The Group presents these non-IFRS results of operations on a management view basis because they are less affected than IFRS measures of performance by one-time impacts, and the Directors believe that these measures are a more accurate reflection of the normal operating performance of the Group. These measures are consistent with how performance is measured internally. The use of these non-IFRS measures are explained in more detail in the introductory paragraph to *"—5. Results of Operations"* above.

	Year Ended 31 December 2015			
	IFRS	**Adjustments**(1)	**Reclassi-fications**(2)	**Management view**
		(£ millions)		
Net management fee	–	–	–	505
Other revenue	–	–	–	81
Total revenue	2,038	–	(1,452)	586
Total expenses	(1,997)	180	1,452	(365)
Profit before tax	**41**	**180**	**–**	**221**

(1) The key adjustments to IFRS profit before tax are shown in the reconciliation table in *"—5.2.2 Reconciliation of profit after tax to operating profit from continuing operations"* below.

(2) The reclassification adjustments between revenue and expenses primarily relate to the reclassification of "Change in investment contract liabilities" and "Fee and commission expenses, and other acquisition costs", coupled with other revenue related costs, as shown in the expenses table in *"—5.1.2 Comparison of Financial Years Ended 31 December 2015, 2016 and 2017—(b) Consolidated expenses"* above.

	Year Ended 31 December 2016			
	IFRS	**Adjustments**(1)	**Reclassi-fications**(2)	**Management view**
		(£ millions)		
Net management fee	–	–	–	495
Other revenue	–	–	–	121
Total revenue	7,187	–	(6,571)	616
Total expenses	(7,120)	110	6,571	(439)
Profit before tax	**67**	**110**	**–**	**177**

(1) The key adjustments to IFRS profit before tax are shown in the reconciliation table in *"—5.2.2 Reconciliation of profit after tax to operating profit from continuing operations"* below.

(2) The reclassification adjustments between revenue and expenses primarily relate to the reclassification of "Change in investment contract liabilities" and "Fee and commission expenses, and other acquisition costs", coupled with other revenue related costs, as shown in the expenses table in *"—5.1.2 Comparison of Financial Years Ended 31 December 2015, 2016 and 2017—(b) Consolidated expenses"* above.

	Year Ended 31 December 2017			
	IFRS	**Adjustments**(1)	**Reclassi-fications**(2)	**Management view**
		(£ millions)		
Net management fee	–	–	–	591
Other revenue	–	–	–	137
Total revenue	6,163	–	(5,435)	728
Total expenses	(6,171)	217	5,435	(519)
Profit on the acquisition and re-measurement of subsidiaries	3	(3)	–	–
(Loss)/profit before tax	**(5)**	**214**	**–**	**209**

(1) The key adjustments to IFRS profit before tax are shown in the reconciliation table in *"—5.2.2 Reconciliation of profit after tax to operating profit from continuing operations"* below.

(2) The reclassification adjustments between revenue and expenses primarily relate to the reclassification of "Change in investment contract liabilities" and "Fee and commission expenses, and other acquisition costs", coupled with other revenue related costs, as shown in the expenses table in *"—5.1.2 Comparison of Financial Years Ended 31 December 2015, 2016 and 2017—(b) Consolidated expenses"* above.

5.2.2 ***Reconciliation of profit after tax to operating profit from continuing operations***

Operating profit from continuing operations represents operating profit before tax attributable to shareholders' profits and is management's main measure of underlying profitability, as set forth in the reconciliation below:

	Year Ended 31 December		
	2015	**2016**	**2017**
		(£ millions)	
Profit for the year after tax	**85**	**35**	**157**
Adjustments:			
Profit after tax from discontinued operations	(28)	(62)	(203)
Profit/(loss) after tax from continuing operations	**57**	**(27)**	**(46)**
Income tax on continuing business	(16)	94	41
Profit/(loss) before tax	**41**	**67**	**(5)**
Income tax attributable to policyholder returns	7	(102)	(49)
Profit/(loss) before tax attributable to shareholders' profits	**48**	**(35)**	**(54)**
Goodwill and amortisation of purchased intangibles	57	52	54
Business transformation costs	96	102	89
Finance costs	32	43	39
Quilter Separation one off costs	–	7	32
Profit on acquisition and re-measurement of subsidiaries	–	–	(3)
Policyholder tax adjustments	(12)	8	(17)
Voluntary customer remediation costs	–	–	69
Total non-operating adjusting items before tax	**173**	**212**	**263**
Operating profit before tax from continuing operations	**221**	**177**	**209**

The key adjustments in the reconciliation above are as follows:

- *Goodwill and amortisation of purchased intangibles*, reflects acquisition costs and the amortisation of intangible assets acquired by the Group, in relation to policies sold by acquired businesses pre-acquisition. When applying acquisition accounting, deferred acquisition costs and deferred revenue existing at the point of acquisition are not recognised under IFRS. These are reversed on acquisition in the statement of financial position and replaced by goodwill and other intangible assets. In determining operating profit, the Group recognises deferred revenue, acquisition costs and deferred revenue in relation to policies sold by acquired businesses pre-acquisition. The Group excludes the impairment of goodwill, the amortisation and impairment of acquired other intangible assets as well as the movements in certain acquisition date provisions. If the intangible assets recognised as a result of a business combination are subsequently impaired, this is excluded from operating profit. Costs incurred on completed acquisitions are also excluded from operating profit.
- *Business transformation costs*, which represent the costs the Group has incurred in connection with its UK Platform Transformation Programme and the transformation costs in relation to the South African branches. The UK Platform Transformation Programme is on-going and involves replacing many aspects of the existing UK platform and migration of services to third party service providers. The cost of developing the new technology typically cannot be capitalised, hence these costs and the costs of decommissioning existing technology and migrating of services are excluded from operating profit from continuing operations. Only costs that are directly attributable to the programme are excluded from operating profit from continuing operations. The contracts with IFDS came to an end by mutual agreement effective as of 2 May 2017, at which point the costs for the year ended 31 December 2017 totalled £53 million (2016: £102 million), (2015: £96 million). The Group subsequently entered into a new contract with FNZ, under which additional costs of £21 million were incurred for the year ended 31 December 2017. The transformation costs for the South African branches include charges of £15 million for the year ended 31 December 2017 related to historical arrangements with the wider Old Mutual plc group's South African businesses. As a consequence of Managed Separation, these arrangements were severed and, as a result, deferred acquisition cost balances were written off, together with a loss incurred on the cancellation of reinsurance arrangements.

- *Finance costs*, which represent the cost of interest and finance charges on the Group's borrowings from Old Mutual plc, borrowed to primarily fund acquisitions, including Quilter Cheviot in 2015;
- *Quilter Separation one off costs*, which represent the one off transition costs to separate the Group from Old Mutual plc to become standalone and any additional one off costs associated with listing.
- *Profit on acquisition and re-measurement of subsidiaries* relates to the Group acquiring 100% of the whole of the issued share capital of GET, a company incorporated in South Africa, from OMGUK (part of the Old Mutual plc group) for around £1 million. Along with recording the book values of the assets acquired and liabilities assumed of £4 million, the Group recognised a gain of £3 million. The excess of the book value over consideration paid was attributable to potential future integration costs which, if incurred, would be expensed in future periods. As potential future integration activities do not qualify as a liability under the acquisition method of accounting, none was recorded, resulting in a gain.
- *Policyholder tax adjustments* relate to the removal of distortions arising from market volatility that can, in turn, lead to volatility in the policyholder tax charge between periods. In addition, adjustments are made to remove distortions to policyholder tax arising from the utilisation of tax allowances from elsewhere in the Group (e.g. capital losses) which are regarded economically as impacting shareholder tax, and from distortions arising from other non-operating adjusting items.
- *Voluntary customer remediation costs*, which represent the costs the Group expects to incur in relation to the decision to commence voluntary remediation to customers in certain legacy products within Quilter Life Assurance.

In addition to the adjustments detailed above, there may be other one off costs arising in the future which require adjustment in order for operating profit from continuing operations to continue to reflect the Directors' view of the underlying long-term performance of the Group.

5.2.3 ***Reconciliation of operating profit from continuing operations to normalised operating profit from continuing operations***

The following table sets forth a breakdown of the Group's reported and normalised operating profit from continuing operations, as well as other selected key metrics on a normalised basis for the periods indicated. See *Part II – "Presentation of Financial and Other Information—3. Non-IFRS Financial Measures"* for a further discussion of the normalisation adjustments.

	Year Ended 31 December		
	2015	**2016**	**2017**
	(£ millions, unless otherwise indicated)		
Reported basis			
Net management fee[1]	505	495	591
Other revenue[2]	81	121	137
Total revenue	586	616	728
Total expenses	(365)	(439)	(519)
Operating profit from continuing operations	**221**	**177**	**209**
Adjustments to reported basis			
Quilter Life Assurance fee restructure[3]			
Net management fee	–	24	–
Other revenue	–	(1)	–
Total expenses	–	4	–
Total Quilter Life Assurance fee restructure adjustment	–	27	–
Other normalisation adjustments[4]			
Net management fee	(2)	5	–
Other revenue	3	2	–
Total expenses	(9)	(3)	–
Total other normalisation adjustments	(8)	4	–

	Year Ended 31 December		
	2015	2016	2017
	(£ millions, unless otherwise indicated)		
Total adjustments	(8)	31	–
Normalised basis			
Normalised net management fee(5)	503	524	591
Normalised other revenue(5)	84	122	137
Total normalised revenue (5)	587	646	728
Total normalised expenses (5)	(374)	(438)	(519)
Normalised operating profit from continuing operations (5)	213	208	209
Key performance indicators			
Revenue margin (bps) (6)	64	59	56
Operating margin (%) (7)	36	32	29
Closing AuMA (£bn) (8)	85.3	98.2	114.4
Average AuMA (£bn) (9)	82.5	89.2	105.1
NCCF (£bn) (10)	3.9	3.3	6.3
NCCF (excl. Quilter Life Assurance)	4.3	4.2	7.6
NCCF/Opening AuMA (%) (11)	6	6	9

(1) Net management fee consists of revenue generated from AuMA, fixed fee revenues and policyholder tax contributions, netted off by trail commissions payable.

(2) Other revenue represents revenue not directly linked to AuMA (e.g. early encashment charges, risk result, adviser initial fees and adviser fees linked to AuMA in Quilter Financial Planning (recurring fees)).

(3) The Quilter Life Assurance fee restructure adjustment relates to the removal of a fee restructure exercise conducted on Quilter Life Assurance's pension products in the year ended 31 December 2016 following the FCA Thematic Review. This adjustment impacts the Wealth Platforms segment and includes the one-off revenue impact, expenses incurred in relation to the Thematic Review and compensation paid to policyholders for the understatement of fund rebates.

(4) Other normalisation adjustments relate to certain one-time adjustments and rebates. The rebate adjustments impacts the Advice & Wealth Management segment (a decrease in revenue on a normalised basis by £2 million in the year ended 31 December 2015 and an increase in revenue on a normalised basis by £5 million in the year ended 31 December 2016). The remaining normalisation adjustments impact the Wealth Platforms segment.

(5) Adjusted for the Quilter Life Assurance fee restructure and other normalisation adjustments (each as described above).

(6) Revenue margin represents net management fee, including policyholder tax, divided by average AuMA.

(7) Operating margin represents reported operating profit from continuing operations divided by total revenue, including policyholder tax and adviser fees. Operating margin excludes financing costs.

(8) Closing AuMA represents the total market value of all financial assets managed and administered on behalf of customers as at 31 December of the financial year, after intra-group eliminations.

(9) Average AuMA represents the average total assets managed and administered on behalf of customers during the financial year ended 31 December, after intra-group eliminations. Average AuMA is calculated using a 13-point average of monthly closing AuMA.

(10) NCCF measures the difference between money received from and the money returned to customers during the relevant period for the Group or for the business indicated.

(11) Excludes Quilter Life Assurance.

(a) *Normalised revenue*

Total revenue increased by £59 million to £646 million in the year ended 31 December 2016, as compared to £587 million in the year ended 31 December 2015. The growth is due to an increase of £21 million in net management fees, predominantly related to the acquisition of Quilter Cheviot in February 2015 and an increase in other revenues such as advice fees, the benefits of an assumption change and higher protection income within Quilter Life Assurance, together totalling £38 million. Average assets during the year ended 31 December 2016 were 8% higher than during the prior year, contributing to increased net management fees of £524 million in the year ended 31 December 2016 due to the full-year impact of the Quilter Cheviot acquisition, as compared to £503 million in the year ended 31 December 2015. Overall, the Group reported a decline in the blended revenue margin from 64 basis points in the year ended 31 December 2015 to 59 basis points in the year ended 31 December 2016, with the Wealth Platforms segment contributing to that decline to a greater extent than the Advice & Wealth Management segment.

Other revenue increased by £38 million to £122 million in the year ended 31 December 2016, as compared to £84 million in the year ended 31 December 2015. This increase is primarily due to an increase in RFPs from 1,230 to 1,423 in 2016, leading to an increase in advice income, as well as an assumption change for Quilter Life Assurance, and higher early encashment charges for Quilter International.

Total revenue increased by £82 million to £728 million in the year ended 31 December 2017, as compared to £646 million in the year ended 31 December 2016. This increase was primarily due to strong growth in net management fees, which accounted for 81% of total revenue. Charging structure changes introduced in response to RDR also resulted in lower net management fee growth in the year ended 31 December 2016. Overall, the Group reported a decrease in the blended revenue margin from 59 basis points in the year ended 31 December 2016 to 56 basis points in the year ended 31 December 2017.

Other revenue increased by £15 million in the year ended 31 December 2017, primarily due to growth in PCA revenues and the acquisitions of Sesame Bankhall, Caerus and Attivo Investment Management Limited ("**Attivo**"), which was acquired by Quilter Cheviot in the first quarter of 2017.

The Group's revenue margins reduced from 64 basis points in the year ended 31 December 2015 to 59 basis points in the year ended 31 December 2016, then by a further 3 basis points to 56 basis points in the year ended 31 December 2017, as a result of changing fee structure mix, reduced trading commission income in Quilter Cheviot, changes in business mix and competitive pressures. However, the Group's multi-channel business model has allowed it to mitigate some of this impact as an increasing proportion of revenue is earned by providing solutions to customers across the value chain.

(b) *Normalised expenses*

Total expenses increased by £64 million, or 17%, to £438 million in the year ended 31 December 2016, from £374 million in the year ended 31 December 2015. This reflected incremental business investment of £25 million mainly in building out the financial advice capacity as a part of the overall strategy of the Group, including £6 million of expenses incurred to develop PCA. In addition, expenses driven by growth in the business, business volumes and inflation contributed to a £20 million increase in costs, of which £15 million of the increase reflected the impact of the full year run rate of the expense base of Quilter Cheviot. Variable incentives reflected a further £14 million increase in line with performance. Further expense increases reflected the strengthening of the central functions in the lead up to being a standalone listed group, coupled with additional spend to strengthen the Group's IT infrastructure.

Total expenses increased by £81 million, or 18%, to £519 million in the year ended 31 December 2017, from £438 million in the year ended 31 December 2016. This increase was primarily due to (i) the increase in underlying administration expenses of £39 million, reflecting increased technology spend, regulatory change spend (including spend associated with MiFID II, GDPR and PRIIPs), and other organic and inflationary costs, (ii) an increase in variable incentives of £14 million due to higher levels of AuM and higher senior headcount, (iii) incremental investment in new business initiatives of £12 million, and (iv) additional recurring managed separation and standalone costs of £16 million. Of the Group's total £519 million of expenses in the year ended 31 December 2017, £237 million were non-staff expenses, £203 million were staff expenses and £78 million were variable expenses.

(c) *Normalised operating profit from continuing operations*

Normalised operating profit from continuing operations was £208 million for the year ended 31 December 2016, representing a decrease of £5 million, or 2%, from £213 million in the year ended 31 December 2015. The decrease was due to increasing investment in the Group's distribution capabilities, investment to become a standalone business and an increase in variable incentives paid to staff. This was partly offset by revenue growth due to increased net management fees due to the full-year impact of the Quilter Cheviot acquisition and increased AuMA leading to higher fees and commissions. Normalised operating profit margin from continuing operations decreased by 4 percentage points to 32% in the year ended 31 December 2016, reflecting the Group-wide revenue margin decline and higher expenses, which primarily related to the increased investment spend being greater than the increase in revenues during the period.

Normalised operating profit from continuing operations was £209 million for the year ended 31 December 2017, representing an increase of £1 million, from £208 million for the year ended 31 December 2016. The increase was primarily due to market performance, the benefits of integrated NCCF and growth in RFPs on net management fees partially offset by the cost of investment in future growth and the impact of revenue margin decline in several business areas. Normalised operating profit margin from continuing operations decreased to 29% in the year ended 31 December 2017, from 32% in the year ended 31 December 2016, driven by material expense increases, including the impact of £16 million of additional costs in relation to the Quilter Separation and the Group becoming capable of operating on a standalone basis, and higher development spend, including the build out of PCA and Caerus.

(d) *Key performance indicators*

	Year Ended 31 December	
	2016	2017
	(£ billions, except where indicated)	
Opening AuMA	85.3	98.2
Quilter Life Assurance assets	14.7	15.3
Market movement	9.6	8.6
Acquired AuM[1]	–	1.3
NCCF[2]	4.9	10.3
Quilter Life Assurance outflows	(1.1)	(1.6)
Eliminations	(0.5)	(2.4)
Closing AuMA	98.2	114.4
Quilter Life Assurance assets	15.3	15.1
NCCF/Opening AuMA (%)[2]	6	9

[1] Acquired AuM of £1.3 billion, of which £1.0 for Caerus and £0.3 billion for Attivo.

[2] Excludes Quilter Life Assurance.

(i) Net client cash flow

NCCF was £3.3 billion in the year ended 31 December 2016, a decrease of 15% from £3.9 billion in the year ended 31 December 2015. The decrease is believed to have been due to market uncertainty in the lead up to, and following, the Brexit referendum and the US presidential election result in the second half of 2016. Nevertheless, supported by the Group's investment in distribution during the year, NCCF remained positive for the period despite lower investor confidence. Integrated NCCF in the year ended 31 December 2016 was £1.8 billion, an increase of 50% compared to £1.2 billion in the year ended 31 December 2015, driven principally by NCCF into Cirilium.

NCCF was £6.3 billion in the year ended 31 December 2017, an increase of 91% from £3.3 billion in the year ended 31 December 2016, primarily due to growth of £2.8 billion in Advice & Wealth Management driven by flows for Quilter Investors into the Cirilium range, strong flows for Wealth Platforms into pension propositions as customers continue to consolidate existing pensions, and strong net flows for Quilter International from Latin America, the Middle East and UK. Integrated NCCF in the year ended 31 December 2017 was £4.8 billion, an increase of 167% compared to £1.8 billion in the year ended 31 December 2016, driven principally by increased productivity in Quilter Financial Planning, which generated £3.9 billion, of which 63% was recognised in Quilter Investors, 6% in Quilter Cheviot and 31% in Quilter Wealth Solutions.

(ii) Assets under management and administration

Total closing AuMA were £98.2 billion as at 31 December 2016, up £12.9 billion or 15%, from £85.3 billion as at 31 December 2015. The Group reported a positive market performance in the years ended 31 December 2015 and 2016, reflecting the year-on-year increase in equity markets and a favourable mix of assets. AuMA growth due to market movement in 2016 was £9.6 billion or 11%. This includes the impact of equity markets such as the FTSE 100, which rose by 17%, and other markets as well as the impact of the depreciation of the pound sterling by approximately 15% during the period. Additionally, the increase in the overall AuMA was impacted by acquisitions, principally of Quilter Cheviot, which was acquired by the Group on 25 February 2015. The closing AuM of Quilter Cheviot was £17.4 billion as at the month of the acquisition and £20.7 billion as at 31 December 2016.

Total closing AuMA were £114.4 billion as at 31 December 2017, an increase of £16.2 billion or 16%, from £98.2 billion as at 31 December 2016. This increase was due to positive market performance of £8.6 billion, positive net flows of £6.3 billion and acquisitions of £1.3 billion (Caerus and Attivo). The FTSE 100 increased 8% over the year ended 31 December 2017, impacting market growth.

(e) *Segmental overview*

The following tables present certain key performance indicators utilised by management with respect to the Group's operating segments (Advice & Wealth Management and Wealth Platforms), the Group's Head Office function and the consolidated Group, for the periods indicated.

	Year Ended 31 December 2015			
	Advice & Wealth Management	**Wealth Platforms**	**Head Office/ Eliminations**	**Group**
	(£ millions, except where indicated)			
Normalised basis				
Revenue	209	378	–	587
Expenses	(157)	(202)	(14)	(374)
Normalised operating profit from continuing operations	**51**	**176**	**(14)**	**213**
Revenue margin (bps)	68	56	–	64
Operating margin (%)	25	47	–	36
AuMA (£bn)[1]	27.6	63.8	(6.1)	85.3
NCCF (£bn)[2]	1.7	2.4	(0.2)	3.9
NCCF (excluding Quilter Life Assurance) (£bn)[2]	1.7	3.2	(0.6)	4.3
NCCF/Op. AuM (%)[3]	7	7	–	6

[1] Gross closing AuMA.

[2] NCCF measures the difference between money received from and returned to customers during the relevant period for the Group or for the business indicated.

[3] Excludes Quilter Life Assurance.

	Year Ended 31 December 2016			
	Advice & Wealth Management	**Wealth Platforms**	**Head Office/ Eliminations**	**Group**
	(£ millions, except where indicated)			
Normalised basis				
Revenue	253	392	1	646
Expenses	(194)	(226)	(18)	(438)
Normalised operating profit from continuing operations	**59**	**166**	**(17)**	**208**
Revenue margin (bps)	66	49	–	59
Operating margin (%)	23	42	–	32
AuMA (£bn)[1]	32.8	73.7	(8.3)	98.2
NCCF (£bn)[2]	1.6	2.2	(0.5)	3.3
NCCF (excluding Quilter Life Assurance) (£bn)[2]	1.6	3.3	(0.7)	4.2
NCCF/Op. AuM (%)[3]	6	7	–	6

[1] Gross closing AuMA.

[2] NCCF measures the difference between money received from and returned to customers during the relevant period for the Group or for the business indicated.

[3] Excludes Quilter Life Assurance.

	Year Ended 31 December 2017			
	Advice & Wealth Management	Wealth Platforms	Head Office/ Eliminations	Group
	(£ millions, except where indicated)			
Normalised basis				
Revenue	316	411	1	728
Expenses	(234)	(253)	(32)	(519)
Normalised operating profit from continuing operations	82	158	(31)	209
Revenue margin (bps)	63	46	–	56
Operating margin (%)	26	38	–	29
AuMA (£bn) [1]	41.7	84.6	(11.9)	114.4
NCCF (£bn) [2]	4.4	4.3	(2.4)	6.3
NCCF (excluding Quilter Life Assurance) (£bn) [2]	4.4	5.9	(2.7)	7.6
NCCF/Op. AuM (%) [3]	13	10	–	9

(1) Gross closing AuMA.

(2) NCCF measures the difference between money received from and returned to customers during the relevant period for the Group or for the business indicated.

(3) Excludes Quilter Life Assurance.

(i) Advice & Wealth Management

The following table sets forth certain key performance indicators utilised by management with respect to the business units of the Advice & Wealth Management segment, for the periods indicated.

	Year Ended 31 December		
	2015	**2016**	**2017**
	(£ millions, except where indicated)		
Advice & Wealth Management			
Quilter Financial Planning			
Net management fee	–	–	1
Other revenue	48	59	77
Total revenue	48	59	78
RFPs + PCA[1] (#)	1,230	1,423	1,561
Productivity[2]	0.9	0.9	1.8
Integrated AuM per RFP	2.4	3.0	4.6
Quilter Investors			
Net management fee	43	48	73
Other revenue	1	1	2
Total revenue	44	49	75

	Year Ended 31 December		
	2015	2016	2017
	(£ millions, except where indicated)		
NCCF (£bn)	0.7	0.8	3.3
Closing AuM (£bn)	9.8	12.1	16.9
Average AuM (£bn)	9.4	10.6	14.2
Revenue margin (bps)	46	45	51
Quilter Cheviot			
Net management fee	117	146	160
Other revenue	–	(1)	3
Total revenue	117	145	163
NCCF (£bn)	1.0	0.8	1.1
Closing AuM (£bn)	17.8	20.7	23.6
Average AuM (£bn)	17.3	19.0	22.2
Revenue margin (bps) [3]	80	77	72
Asset retention (%) [4]	92	91	92
Investment managers (#)	161	158	164
Productivity [5]	6.2	5.0	6.7
Average AuM per investment manager	107.5	120.1	135.4

(1) The overall number of restricted financial planners and advisers in PCA delivering the Group's solutions.

(2) Average NCCF per adviser for the advised proposition including Quilter Investors and Quilter Cheviot.

(3) Quilter Cheviot acquired in February 2015. Figures on an annualised basis (closing AuM of £17.4 billion at February 2015).

(4) Calculated as 1 – (gross outflows/opening AuM). In 2015, Quilter Cheviot outflows were annualised.

(5) Average NCCF per investment manager.

NCCF for the Advice & Wealth Management segment decreased to £1.6 billion in the year ended 31 December 2016 from £1.7 billion in the year ended 31 December 2015. The reduction was believed to reflect investor uncertainty around "Brexit" and the US presidential election result in the second half of 2016, impacting NCCF in Quilter Cheviot. NCCF (excluding intragroup flows) for the Advice & Wealth Management segment increased to £4.4 billion in the year ended 31 December 2017 from £1.6 billion in the year ended 31 December 2016. This increase was primarily due to higher net inflows for Quilter Investors, principally Quilter Financial Planning into the Cirilium fund range and Quilter Wealth Solutions via the WealthSelect fund range.

The Cirilium fund range managed by Quilter Investors, which is predominantly sold via Quilter Financial Planning's restricted channel, contributed £1.0 billion NCCF in the year ended 31 December 2016 and £2.3 billion NCCF in the year ended 31 December 2017. Growth in the Cirilium fund range is attributable to the fund range's strong historical investment performance and increases in RFPs in Quilter Financial Planning from 1,423 as at 31 December 2016 to 1,561 as at 31 December 2017.

Productivity for Quilter Financial Planning increased from the year ended 31 December 2015 to the year ended 31 December 2017 as a result of longer adviser tenure leading to growth in the number of customers, advisers having a stronger offering of performing funds such as Cirilium, and an increase in clients' income over time.

Asset retention for Quilter Cheviot has remained broadly consistent year on year from the year ended 31 December 2015 to the year ended 31 December 2017 as a result of a proven track record and performance, a comprehensive product offering, and strong client retention through focus on good customer outcomes.

AuM for the Advice & Wealth Management segment increased by £5.2 billion to £32.8 billion at 31 December 2016 from £27.6 billion at 31 December 2015, principally reflecting strong growth in markets. AuM for the Advice & Wealth Management segment increased by £8.9 billion to £41.7 billion at 31 December 2017 from £32.8 billion at 31 December 2016, principally reflecting strong flows into the Cirilium fund range, which was first quartile over three year period to 31 December 2017, and strong market performance.

Total revenue for the Advice & Wealth Management segment increased to £253 million in the year ended 31 December 2016 from £209 million in the year ended 31 December 2015. Quilter Cheviot revenue increased by £28 million as a result of the full year run rate following the acquisition of Quilter Cheviot in 2015 and a growth in average AuM of 10%. Quilter Investors net management fees increased by 12% in the year ended 31 December 2016, due to growth in average AuM of 13%, which was partially offset by a decrease of 1 basis point in revenue margin. The increase in other revenue principally reflects Quilter Financial Planning advice revenue which increased by £11 million in the year ended 31 December 2016, due to the increase of 193 RFPs.

Total revenue for the Advice & Wealth Management segment increased to £316 million in the year ended 31 December 2017 from £253 million in the year ended 31 December 2016. This increase was due to higher net management fee revenue for both Quilter Cheviot and Quilter Investors as a result of higher AuM. Other revenue increased by £23 million to £82 million in the year ended 31 December 2017, due to higher advice income for Quilter Financial Planning reflecting the increase in the number of RFPs, as described in the discussion of NCCF above.

Revenue margin for the Advice & Wealth Management segment declined by 2 basis points from the year ended 31 December 2015 to the year ended 31 December 2016. Revenue margin for the Advice & Wealth Management segment further declined by 3 basis points from the year ended 31 December 2016 to the year ended 31 December 2017. This reflected the decline in revenue margin within Quilter Cheviot from a change in business mix, lower trading commission income, the effect of tiered fee structures, and ongoing competitive margin pressures. This was partially offset by the benefit of a higher contribution to the blended revenue margin from Quilter Investors due to customers investing in higher margin products offered by the Group, particularly Cirilium.

Total expenses for the Advice & Wealth Management segment increased to £194 million in the year ended 31 December 2016 from £157 million in the year ended 31 December 2015. The material drivers of the higher expense base were investment in the Group's businesses, including building out the advice capabilities to support revenue growth, and increased performance-related incentives. Total expenses for the Advice & Wealth Management segment increased £40 million to £234 million in the year ended 31 December 2017 from £194 million in the year ended 31 December 2016. The increase relates to further investment in the business reflecting the costs of expanding PCA in Quilter Financial Planning, the inclusion of costs for Caerus, which was acquired in 2017, FSCS costs in Quilter Financial Planning, investment in IT and regulatory change and costs associated with becoming a standalone business.

Normalised operating profit from continuing operations for the Advice & Wealth Management segment increased by 16% to £59 million in the year ended 31 December 2016 from £51 million in the year ended 31 December 2015, driven by a combination of profit growth in Quilter Cheviot, due to its inclusion for the full 2016 year after its acquisition in early 2015, and Quilter Investors, partially offset by increased losses for Quilter Financial Planning, which is targeted to become a breakeven business over the medium term. Quilter Cheviot and Quilter Investors benefited from growth in AuM. Quilter Financial Planning incurred the first year of the Adviser incentive plan costs and continued to invest in adviser headcount growth. Normalised operating profit from continuing operations for the Advice & Wealth Management segment increased by 39% to £82 million in the year ended 31 December 2017 from £59 million in the year ended 31 December 2016, driven by an increase in the contribution from Quilter Investors as a result of 34% growth in average AuM.

Operating margin for the Advice & Wealth Management segment declined by 2 percentage points between 2015 and 2016. This reflects the ongoing investment in developing the Group's advice and investment management capabilities in line with its core strategy. Operating margin for the Advice & Wealth Management segment grew by 3 percentage points between 2016 and 2017, reflecting the increased contribution from Quilter Investors including scale benefits from the integrated business model.

(ii) Wealth Platforms

The following table sets forth certain key performance indicators utilised by management with respect to the business units of the Wealth Platforms segment, for the periods indicated.

	Year Ended 31 December		
	2015	2016	2017
	(£ millions, except where indicated)		
Wealth Platforms			
Quilter Wealth Solutions			
Net management fee	134	138	156
Other revenue	1	4	5
Total revenue	135	142	161
NCCF (£bn)	2.7	2.8	4.5
Closing AuA (£bn)[1]	34.5	41.4	50.2
Average AuA (£bn)[2]	32.7	37.1	45.5
Revenue margin (bps)[3]	39	36	33
Asset retention (%)[4]	88	89	90
Quilter International			
Net management fee	110	105	112
Other revenue	5	18	17
Total revenue	115	123	129
NCCF (£bn)	0.5	0.5	1.4
Closing AuA (£bn)	14.5	16.9	19.3
Average AuA (£bn)	14.5	15.4	17.7
Revenue margin (bps)	76	68	63
% premium-based charging (%)	56	57	54
Asset retention (%)[4]	91	90	91
Quilter Life Assurance			
Net management fee	99	87	89
Other revenue	28	39	32
Total revenue	127	126	121
NCCF (£bn)	(0.8)	(1.1)	(1.6)
Closing AuA (£bn)[1]	14.7	15.3	15.1
Average AuA (£bn)[2]	14.6	14.5	14.8
Revenue margin (bps)[3]	68	60	60
Asset retention (%)[4]	86	86	82
MCEV[5]	538	497	498
Normalised operating profit from continuing operations[6]	82	80	66

[1] Includes shareholder assets.

[2] Excludes shareholder assets.

[3] Revenue margin is calculated as net management fee over average AuA excluding shareholder assets and including International assets on the Quilter Wealth Solutions platform.

[4] Calculated as 1 – (gross outflows/opening AuA).

[5] Market Consistent Embedded Value ("MCEV") is a measure of the consolidated value of shareholders' interests in the covered business, including the impact of the Quilter Life Assurance product review. MCEV is a reporting standard for life insurance companies that provide a common set of principles and guidelines for use in calculating embedded value. MCEV measures the value of business in-force based on a set of best estimate assumptions, allowing for the impact of uncertainty in future investment returns.

[6] Does not include impact of Quilter Life Assurance product review due to charge outside of operating profit from continuing operations.

NCCF for the Wealth Platforms segment decreased to £2.2 billion in the year ended 31 December 2016 from £2.4 billion in the year ended 31 December 2015. NCCF net inflows in Quilter Wealth Solutions improved, mainly driven by strong sales in personal pension product (driven mainly by the impact of pension reform) which was offset by higher surrenders across other products. NCCF net outflows in Quilter Life Assurance increased to £1.1 billion in the year ended 31 December 2016 from £0.8 billion in the year ended 31 December 2015. The increase in net outflows was driven by lower levels of new business generated through the institutional life business as the business started withdrawing from entering new institutional mandates. Quilter International NCCF remained stable between 2015 and 2016, across both portfolio bonds and unit-linked products.

NCCF for the Wealth Platforms segment increased to £4.3 billion in the year ended 31 December 2017 from £2.2 billion in the year ended 31 December 2016. Quilter Wealth Solutions net flows were £4.5 billion, up 61% due to strong flows into pension propositions as customers continue to consolidate existing pensions. Sales into the pension propositions accounted for 61% of total Quilter Wealth Solutions sales in 2017. Transfers by customers from their DB pensions into DC schemes accounted for gross sales of £1.8 billion in 2017, representing 33% of gross pension sales and 20% of total gross sales for Quilter Wealth Solutions. Quilter Life Assurance had net outflows of £1.6 billion in the year ended 31 December 2017, up 45% from £1.1 billion in the year ended 31 December 2016, primarily due to expected institutional life business outflows, which is expected to run-off over one to two years. Quilter International's net flows increased 180% to £1.4 billion in the year ended 31 December 2017 with strong net flows of £0.5 billion from Latin America, the Middle East, UK and Europe. Unit-linked products experienced modest outflows as these products are largely in run-off.

Asset retention for Quilter Wealth Solutions has increased year on year from 2015 to 2017 as a result of a comprehensive product offering and strong client retention through focus on good customer outcomes. Asset retention for Quilter Life Assurance has decreased year on year from the year ended 31 December 2015 to the year ended 31 December 2017 as a result of this book of business being in a steady, managed run-off of approximately 15% per annum (excluding Institutional).

AuA for the Wealth Platforms segment increased by £9.9 billion to £73.7 billion at 31 December 2016 from £63.8 billion at 31 December 2015. AuA grew across all Wealth Platforms business units, but was mainly driven by Quilter Wealth Solutions (£6.9 billion) and Quilter International (£2.4 billion). Quilter Life Assurance closing AuA increased to £15.3 billion at 31 December 2016 from £14.7 billion at 31 December 2015, due to positive market performance, partially offset by net outflows. AuA for the Wealth Platforms segment increased by £10.9 billion to £84.6 billion at 31 December 2017 from £73.7 billion at 31 December 2016. AuA grew in Quilter Wealth Solutions and Quilter International due to strong NCCF and positive market movements.

Total revenue for the Wealth Platforms segment increased to £392 million in the year ended 31 December 2016 from £378 million in the year ended 31 December 2015. Quilter Wealth Solutions revenue increased during the period, following increased AuA due to strong net flows and market performance. This was partially offset by charging structure changes post RDR, which led to a decrease in fee income. Quilter Life Assurance net management fees decreased by 12% in the year ended 31 December 2016 as a result of a decline in revenue margin due to a change in business mix. Other revenue increased in 2016 due to an increase in early encashment charges in Quilter International and a one-off benefit from an assumption change in Quilter Life Assurance. Total revenue for the Wealth Platforms segment increased to £411 million in the year ended 31 December 2017 from £392 million in the year ended 31 December 2016, reflecting higher net management fee revenue from increased AuA, partially offset by lower revenue for Quilter Life Assurance due to the impact of the one-off assumption change in the year ended 31 December 2016, which did not reoccur in the year ended 31 December 2017.

Revenue margin for the Wealth Platforms segment declined by 7 basis points from the year ended 31 December 2015 to the year ended 31 December 2016. A further decline of 3 basis points from the year ended 31 December 2016 to the year ended 31 December 2017 reflected the competitive pressures, larger case sizes from pension transfers and the impact of the tiered charging structure in a strong market environment and changes to premium based fees in Quilter International.

Total expenses for the Wealth Platforms segment increased to £226 million in the year ended 31 December 2016 from £202 million in the year ended 31 December 2015. This was driven by investment in the IT infrastructure to build capabilities in line with best practice, including strengthening the second and third lines of defense teams, ahead of the transition to becoming standalone, and costs related to ensuring compliance with changes in regulation. Total expenses for the Wealth Platforms segment increased to £253 million in the year ended 31 December 2017 from £226 million in the year ended 31 December 2016. This was driven by continued investment in technology spend linked to improving resiliency of IT, infrastructure, changes to regulation, compliance with GDPR and MIFID II requirements, FSCS costs and costs associated with becoming a standalone business. Variable incentive costs also increased due to increased AuA and revenue.

Normalised operating profit from continuing operations for Wealth Platforms declined by 6% to £166 million in the year ended 31 December 2016 from £176 million in the year ended 31 December 2015. This was mainly due to a decline in revenue margin to 49 basis points in the year ended 31 December 2016 from 56 basis points in the year ended 31 December 2015 for the overall segment, due to margin pressure across its business units. The Quilter Life Assurance result benefitted from £10 million uplift from assumption changes over the two year period of the years ended 31 December 2016 and 2017. Normalised operating profit from continuing operations for Wealth Platforms decreased by 5% to £158 million in the year ended 31 December 2017 from £166 million in the year ended 31 December 2016. This was mainly due to expenses increasing more than revenues during the year as a result of continued investment in technology, as well as regulatory change costs, as explained in the expenses section above.

Operating margin for the Wealth Platforms segment has declined by 9 percentage points from the year ended 31 December 2015 to the year ended 31 December 2017, driven by the continued trend of increased costs in relation to improving the IT infrastructure and a decline in revenue due to the ongoing run-off of the Quilter Life Assurance business.

MCEV for Quilter Life Assurance decreased to £497 million at 31 December 2016 from £538 million at 31 December 2015. This reflected the impact of the fee restructure changes following the FCA Thematic Review, coupled with changes in expense assumptions.

The MCEV for Quilter Life Assurance was broadly unchanged at £498 million at 31 December 2017. Movements in the year, which had no overall impact, included benefits from positive investment return and policyholder tax experience variances, positive assumption changes with respect to pension maturities and a capital injection of £38 million. This was offset by the impact of the provision for the voluntary client remediation.

(iii) Head Office

The costs for Head Office increased by £4 million, or 29%, to £18 million in the year ended 31 December 2016, as compared to £14 million in the year ended 31 December 2015. This reflects the initial expenses incurred as a part of the build-up to become a standalone listed Group and include strengthening capability in the Group's Board and in central functions such as Risk, Finance and Company Secretariat. Revenue of £1 million was earned in the year ended 31 December 2016 as a result of other shareholder assets.

The costs for Head Office increased by £14 million, or 78%, to £32 million in the year ended 31 December 2017, as compared to £18 million in the year ended 31 December 2016. This reflects further additional expenses incurred to become a standalone Group, and higher variable incentive costs due to additional senior headcount. Revenue of £1 million was recognised in the year ended 31 December 2017 as a result of returns on shareholder assets.

6. Liquidity and Capital Resources

The Group manages its capital with a focus on capital efficiency and effective risk management. The capital objectives are to maintain the Group's ability to continue as a going concern while supporting the optimisation of return relative to the risks. The Group ensures that it can meet its expected capital and financing needs at all times having regard to the Group's business plans, forecasts and strategic initiatives and regulatory requirements in all businesses in the Group. The Group's overall capital risk appetite is set with reference to the requirements of the relevant stakeholders and seeks to:

- Maintain sufficient, but not excessive, financial strength to support stakeholder requirements;
- Optimise the debt to equity structure to enhance shareholder returns; and
- Retain financial flexibility by maintaining liquidity, including unutilised committed credit lines.

The primary sources of capital used by the Group are equity shareholders' funds, subordinated debt and the value of in force insurance business. Liquidity is sourced from shareholder cash resources, borrowings and a revolving credit facility. Alternative resources are utilised where appropriate. Targets are established in relation to regulatory solvency, credit ratings, liquidity and dividend capacity and are a key tool in managing capital in accordance with the Group's risk appetite and the requirements of the Group's various stakeholders.

6.1 ***Consolidated Cash Flow***

The following table sets forth the Group's consolidated cash flows, which includes policyholder and shareholder cash, for the periods indicated and has been extracted without material adjustment from the consolidated historical financial information set out in *Part XII – "Historical Financial Information"*.

	Year Ended 31 December		
	2015	**2016**	**2017**
		(£ millions)	
Net cash flows from operating activities[1]	2,732	2,871	5,413
Net cash flows used in investing activities	(3,020)	(2,839)	(4,602)
Net cash flows from/(used in) financing activities	504	(33)	(48)
Net increase/(decrease) in cash and cash equivalents	**216**	**(1)**	**763**

[1] Cash flows include continuing and discontinued operating activities.

The required IFRS format for cash flow statements of life insurance businesses includes a commingling of cash flows related to policyholders and those related to shareholders. This results in, for example, market value movements within investment contract liabilities matching the "linked" funds investments being shown within operating activities, where the acquisition of the related linked financial investments is shown within investing activities. From a management perspective, these policyholder flows would be netted off. This makes it difficult to draw conclusions from the relative quantum of these operating and investing activities specifically impacting the shareholder.

6.1.1 ***Net cash flows from operating activities***

Net cash flows from operating activities were £2,871 million for the year ended 31 December 2016, as compared to £2,732 million for the year ended 31 December 2015. The increase in net cash flows from operating activities was due to an increase in profit before tax from discontinued operations, as well as cash inflows from changes in working capital, primarily driven by a movement in reinsurers' share of policyholder liabilities.

Net cash flows from operating activities were £5,413 million for the year ended 31 December 2017, as compared to £2,871 million for the year ended 31 December 2016. The increase in net cash inflows from operating activities was primarily driven by growth in NCCF and strong market performance, which led to an increase in the value of insurance and investment contract liabilities. There was also a reduction in net cash outflows associated with the sale of financial assets as part of regular trading activity, as well as net cash inflows from working capital requirements.

6.1.2 ***Net cash flows used in investing activities***

Net cash flows used in investing activities were £2,839 million for the year ended 31 December 2016, as compared to £3,020 million for the year ended 31 December 2015. The decrease in net cash used in investing activities was primarily due to a decrease in the outflows for acquisition of investments in subsidiaries and associated undertakings, which was £16 million for the year ended 31 December 2016 in relation to the AAM Advisory and PCA acquisitions, compared to £567 million for the year ended 31 December 2015 in relation to the acquisition of Quilter Cheviot. This was partially offset by an increase in the net cash used for the acquisition of financial investments, primarily for the benefit of policyholders, which was an outflow of £2,810 million for the year ended 31 December 2016, as compared to £2,430 million for the year ended 31 December 2015.

Net cash flows used in investing activities were £4,602 million for the year ended 31 December 2017, as compared to £2,839 million for the year ended 31 December 2016. The increase in the net cash used in investing activities was primarily due to increased trading and the acquisition of financial investments, primarily for the benefit of policyholders, which led to an outflow of £4,760 million for the year ended 31 December 2017, as compared to an outflow of £2,810 million for the year ended 31 December 2016. Cash outflows relating to the acquisition of subsidiaries increased from £16 million for the year ended 31 December 2016 to £33 million for the year ended 31 December 2017, which was more than offset by the cash inflows from the disposal of the Italy business of £208 million in the year ended 31 December 2017.

6.1.3 *Net cash flows from/(used in) financing activities*

Net cash flows used in financing activities were £33 million for the year ended 31 December 2016, as compared to net cash from investing activities of £504 million for the year ended 31 December 2015. The decrease in net cash flows from financing activities was due to the proceeds received from the issue of subordinated and other debt of £614 million in the year ended 31 December 2015, compared with £53 million in the year ended 31 December 2016. In addition, dividends paid to Old Mutual plc were £24 million, compared to nil in the year ended 31 December 2016.

Net cash flows used in financing activities was £48 million for the year ended 31 December 2017, as compared to £33 million for the year ended 31 December 2016. The increase in net cash used in financing activities was due to the proceeds from the issue of debt of £53 million in the year ended 31 December 2016, which was partially offset by a loan to the Employee Benefit Trust of £43 million. The dividends paid to Old Mutual plc of £210 million, and the debt repayments of £57 million, were separate from the proceeds from the issue of ordinary shares of £258 million in the year ended 31 December 2017.

6.1.4 *Closing cash position*

The closing cash positions for the period under review includes cash held with consolidated investment funds and was £1,601 million, £1,595 million and £2,360 million as at 31 December 2015, 2016 and 2017, respectively. This is an IFRS requirement but does not form part of the Group's operating cash as it is held within legally segregated collective fund vehicles. Excluding these amounts, the closing cash positions of the Group was £892 million, £1,076 million and £1,595 million as at 31 December 2015, 2016 and 2017, respectively.

These positions exclude cash held within entities shown as held for sale within the statement of financial position, which was £147 million as at 31 December 2017 and £14 million as at 31 December 2016.

6.2 *Capital Resources*

As at 31 December 2017, the Group had £2,360 million in cash and cash equivalents, and £782 million of outstanding indebtedness. The Group's interest expense for the year ended 31 December 2017 was £39 million, compared to £43 million for the year ended 31 December 2016 and £32 million for the year ended 31 December 2015.

During the years ended 31 December 2016 and 2015, the Group had an implicit borrowing arrangement with its parent Old Mutual plc under which it could receive funding for liquidity strains in stress scenarios should the need arise. No drawdown on this arrangement was made over the period. In January 2017, the Group established a new internal £200 million revolving credit facility with Old Mutual plc for a two year duration which was subsequently amended in May 2017 to £70 million over the same term.

On 23 February 2018, the Group entered into, and fully drew down on 28 February 2018, the New Term Loan, a £300 million senior unsecured term loan with five relationship banks all participating in an equal share with an opening interest rate of 45 basis points above LIBOR, subject to a margin ratchet linked to the Company's credit rating. The New Term Loan will be repaid in full using proceeds from the sale of the Single Strategy Business following the completion of the OMGI Transaction. On 28 February 2018, the Group issued a £200 million subordinated debt security in the form of a 10-year Tier 2 Bond with a one-time issuer call option after five years to J.P. Morgan Securities plc (the "**Tier 2 Bond Purchaser**"), paying a semi-annual coupon of 4.478%. Including the impact of amortisation of bond set-up costs, the issuance of the Tier 2 Bond will increase operating expenses in the Group's Head Office function by approximately £11 million on an annual basis. The Tier 2 Bond has a Fitch instrument rating of BBB- and has been admitted to trading on the regulated market of the London Stock Exchange. The Tier 2 Bond Purchaser sold the Tier 2 Bond to third party investors on 17 April 2018 following a remarketing exercise conducted by the Tier 2 Bond Purchaser and the Company. In addition, the Group entered into the New Revolving Facility for £125 million. The New Revolving Facility is currently undrawn and is expected to remain undrawn during 2018.

At 31 December 2017, the Group had total gross intercompany indebtedness to other companies within the Old Mutual plc group totalling £782 million, offset by a £16 million receivable. Subsequent to the year-end, and as part of a series of internal transactions, £566 million of intercompany indebtedness to other companies within the Old Mutual plc group has been effectively equitised, with the indebtedness to other companies within the Old Mutual plc group being replaced with equity in the form of share capital and a merger reserve. The overall indebtedness also reduced by £16 million from ordinary course transactions. The remaining £200 million intercompany indebtedness was repaid in full from the new facilities referred to above and from existing cash resources on 28 February 2018. On the same date, the £70 million revolving credit facility with Old Mutual plc was cancelled.

For a description of the Group's financing arrangements, see *Part XVII – "Additional Information—14. Material Contracts—14.8 Financing Agreements"* and Note 34 of the Group's historical financial information in *Part XII – "Historical Financial Information"*.

Save as outlined herein, there have been no other material loans made by third parties to the Group and its Major Subsidiaries, or any subsidiary where such loans are material to the Company. Details of all outstanding loan capital are listed as material borrowings of the Company, its Major Subsidiaries or any subsidiary where such loans are material to the Company as at the Last Practicable Date. There are no material loans receivable outstanding made by the Group, its Major Subsidiaries or any subsidiary where such loans are material to the Company, to third parties.

6.3 *Capital Expenditures*

Apart from consideration paid in respect of its acquisitions the Group, given the nature of its operations, has no significant capital expenditures other than certain leaseholds and office improvements made in the normal course of business.

6.4 *Capital Management*

The Group is subject to Solvency II group supervision. In addition, three life assurance companies based within the EEA (Old Mutual Wealth Life & Pensions Limited, Old Mutual Wealth Life Assurance Limited and Old Mutual International Ireland dac) are subject to Solvency II supervision at an entity level. Solvency II is also the umbrella regime for the Group's consolidated balance sheet; the headline capital ratio reported by the Group is its Solvency II ratio (in which the entities subject to ICAAP are included).

The ICAAP regime principally applies to the entities within the Group's Advice & Wealth Management segment, as well as to OMWL, the part of the Quilter Wealth Solutions business that is not under the Solvency II regime. The ICAAP is used to assess the level of capital which should be retained by the entities to which it applies and is a consolidated assessment of capital requirements for the investment and advice businesses within the Group. The ICAAP considers all of the risks faced by the relevant entities and the degree to which risks have similar or related causes and so could occur together. Capital resources are then allocated appropriately within the entities forming the ICAAP group taking into account the risks faced by each business.

Capital is managed to ensure continued compliance with entity level and group level capital requirements within the above frameworks.

6.4.1 *Regulatory capital in accordance with Solvency II rules*

From 1 January 2016, the regulated insurance entities within the Group operating in the EU have been required to measure and monitor their capital resources under the Solvency II regulatory regime. Following the Quilter Separation, the consolidated Group will also be subject to Solvency II reporting on a group basis.

The Group's capital position under Solvency II is determined by aggregating the assets and liabilities of the Group recognised and measured on a Solvency II basis with the excess of the former over the latter (if any) being "own funds" (reduced by the amount of own shares held). The result of this calculation is compared with the Group's Solvency II solvency capital requirement to determine surplus capital.

While the Group was not required to report on a Solvency II basis as at 31 December 2017, the Group's Solvency II surplus as at 31 December 2017 was £653 million, as compared to £800 million as at 31 December 2016, representing a Solvency II ratio of 155% as at 31 December 2017, compared to 175% as at 31 December 2016, calculated under the standard formula. Surplus capital at individual entity level is assessed for availability to the Group and therefore may be restricted when determining Group own funds.

For the period under review, the estimated solvency capital requirement and corresponding eligible own funds were as follows:

	As at 31 December		
	2015	**2016**	**2017**
	(£ millions, except where indicated)		
Eligible Own Funds[1]	1,768	1,872	1,849
Solvency capital requirements	974	1,072	1,196
Solvency II surplus	794	800	653
Coverage (%)	**182**	**175**	**155**

[1] Includes a £566 million subordinated loan from Old Mutual plc and, as such, represents how the capital position of the Group was presented within the broader Old Mutual plc group. This subordinated loan has been effectively converted to equity after the year-end following the acquisition of Skandia UK. See "*—6.4.3 Illustrative regulatory capital position as at 31 December 2017*".

6.4.2 ***EIOPA Solvency II Capital Guidance***

The EIOPA has recently published updated guidance regarding the treatment of the Individual Capital Guidance ("**ICG**") requirements in investment firms subject to the ICAAP regime. This guidance, which is non-mandatory, applies when calculating the Solvency II capital ratio on a consolidated basis for groups comprising both ICAAP and Solvency II regulated entities. The Group has adopted this treatment for all periods as shown above.

According to the EIOPA guidance, the solvency capital requirement under Solvency II for ICAAP regulated entities should include both the capital requirement from the ICAAP and any requirement imposed by the regulator. The previous methodology used by the Group included the Pillar 1 capital requirement for the ICAAP regulated entities within the Solvency II capital requirement, with the balance between this and the total capital requirement being excluded from both the Solvency II Own Funds and the solvency capital requirement. On a *pro forma* basis, the change in treatment would have increased both Own Funds and the solvency capital requirement by £0.2 billion as at 30 June 2017. As a result, the consolidated Solvency II ratio for the Group of 177% reported as at 30 June 2017 would have been 163% on a *pro forma* consolidated basis. The change in treatment is economically neutral and has no impact on the Solvency II surplus.

6.4.3 ***Illustrative regulatory capital position as at 31 December 2017***

The following illustrative regulatory capital position for Quilter plc as at 31 December 2017 has been prepared to illustrate the impact of the Skandia UK acquisition, the Tier 2 Bond, the New Term Loan and the repayment of the Old Mutual plc loan. For further information on the *pro forma* adjustments, see *Part XIII – "Unaudited Pro Forma Financial Information"*.

	Quilter plc as at 31 December 2017	**Acquisition of Skandia UK**	**Tier 2 Bond**	**New Term Loan**	**Repayment of Old Mutual plc loan**	***Pro forma***
	Note 1	Note 2	Note 3	Note 4	Note 5	
			(£ millions)			
Eligible Own Funds	1,849	11	200	–	–	2,060
Solvency capital requirements	1,196	2	5	7	(5)	1,205
Solvency II surplus	653	9	195	(7)	5	855
Coverage (%)	155					171

[1] The financial information as at 31 December 2017 has been extracted without adjustment from the historical financial information set out in Section B of *Part XII – "Historical Financial Information" of this Prospectus.*

[2] *Acquisition of Skandia UK from Old Mutual plc:* The Skandia UK Limited group of entities was acquired from Old Mutual plc on 31 January 2018 and comprises seven Old Mutual plc group entities with a net asset value of £591 million. The transfer was financed by the issue of one share, with the balance represented by a merger reserve; no debt was taken on as a result of this transaction. The most significant asset within these entities is a £566 million receivable which corresponds to an equivalent payable within the Group's statement of financial position. Subsequent to the year-end, a series of transactions were carried out the net effect of which was to replace £566 million of intercompany indebtedness to Old Mutual plc with equity in the form of share capital and a merger reserve.

[3] *Tier 2 Bond of £200 million:* On 28 February 2018, the Group issued a £200 million subordinated debt security in the form of a 10-year Tier 2 Bond with a one-time issuer call option after five years to J.P. Morgan Securities plc, paying a semi-annual coupon of 4.478%. Including the impact of amortisation of bond set-up costs, the issuance of the Tier 2 Bond will increase operating expenses, which will be reported as part of Head Office, by £11 million on an annual basis. The Tier 2 Bond has a Fitch instrument rating of BBB- and has been admitted to trading on the regulated market of the London Stock Exchange. The Tier 2 Bond Purchaser sold the Tier 2 Bond to third party investors on 17 April 2018 following a remarketing exercise conducted by the Tier 2 Bond Purchaser and the Company.

[4] *New Term Loan:* On 23 February 2018, the Group entered into, and fully drew down on 28 February 2018, the New Term Loan, a £300 million senior unsecured term loan with a number of lenders with an opening interest rate of 45 basis points above LIBOR subject to a margin ratchet linked to the Company's credit rating.

[5] *Repayment of Old Mutual plc loan of £200 million:* As at 31 December 2017, the Group had net payables due to Old Mutual plc of £766 million (representing a gross payable of £782 million offset by a £16 million receivable). The acquisition of Skandia UK Limited (see Note 2 above) in January 2018 reduced this payable by £566 million to £200 million; the remaining £200 million net liability to Old Mutual plc was settled from the new financing arrangements obtained in February 2018 and from existing cash resources.

The Company also expects to receive a further approximately £570 million of additional funds on completion of the disposal of the Single Strategy Business. The New Term Loan will be repaid in full using proceeds from the sale of the Single Strategy Business following the completion of the OMGI Transaction. The Company will consider the use of any surplus proceeds later in 2018, taking into account the costs associated with the sale of the Single Strategy Business, the costs associated with the establishment of the Multi-Asset Business and ongoing business requirements and its dividend policy as described in *Part VI – "Business Description"*.

6.4.4 *Own Risk and Solvency Assessment*

The Solvency II directive introduced a requirement for undertakings to conduct an ORSA. The Group defines its ORSA as a series of inter-related activities by which it establishes the quantity and quality of the risks which it seeks to assume; the level and quality of capital required to support those risks; and the actions it will take to achieve and maintain the desired levels of risk and capital.

The assessment considers both the current position and the positions that may arise during the planning horizon of the Group (typically the next three years). It looks at both the expected outcome and the outcome arising when the plan assumptions do not materialise as expected.

The assessments of how much risk to assume and how much capital to hold are inextricably linked. In some situations, it may be desirable to increase the amount of risk assumed or retained in order to make the most efficient use of capital available or else to return excess capital to capital providers. In other situations, where the risks assumed give rise to a capital requirement that is greater than the capital immediately available to support those risks, it will be necessary either to reduce the risk assumed or to obtain additional capital.

The assessment of risk and solvency needs is in principle carried out continuously. In practice, the assessment consists of a range of specific activities and decisions carried out at different times of the year as part of an annual cycle, supplemented as necessary by ad hoc assessments of the impact of external events and developments and of internal business proposals.

Papers are presented to the Board throughout the year dealing with individual elements that make up the ORSA. The information contained in those papers and the associated decisions taken are summarised in an annual ORSA report, which is submitted to the Group's regulators as part of the normal supervisory process. Given its current regulatory permissions and waivers position, the Group currently produces individual ORSAs and capital calculations for each entity in the Group which is required to do so. In December 2017, the Group produced and submitted a Group-level ORSA report for the Company, which incorporated the ORSA entities and the ICAAP group. The Group will produce a Group-level ORSA in the second half of 2018.

7. Contractual Obligations and Commitments

The principal contractual obligations that the Group incurs in the ordinary course of business, are in relation to investment contract liabilities and expected claim dates for insurance contracts. Investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, and are therefore included in the contractual maturity analysis as due in less than three months and more than three months and less than one year, the Group does not expect all these amounts to be paid out within one year of the reporting date.

The following table is a maturity analysis of liability cash flows based on contractual maturity dates for investment contract liabilities and expected claim dates for insurance contracts. The undiscounted cash flows of discretionary participating investment contracts only include amount vested or to be vested, while their carrying amount include reserves that are payable at the discretion of the Group.

	As at 31 December 2017					
		Undiscounted cash flows				
	Carrying amount	**Up to three months**	**Three months to one year**	**Between one and five years**	**More than five years**	**Total**
			(£ millions)			
Life assurance policyholder liabilities						
Insurance contracts	**489**	**15**	**8**	**34**	**855**	**912**
Life assurance policyholder liabilities	480	6	8	34	855	903
Outstanding claims	9	9	–	–	–	9
Investment contracts						
Unit-linked investment contracts and similar contracts	59,139	59,139	–	–	–	59,139
Total policyholder liabilities	**59,628**	**59,154**	**8**	**34**	**855**	**60,051**

8. **Contingent Liabilities**

For a discussion of the Group's contingent liabilities, see Note 39 of the Group's historical financial information included in *Part XII – "Historical Financial Information"*.

9. **Market Risk Disclosure**

Market risk is the risk of a financial impact arising from the changes in values of financial assets or financial liabilities from changes in equity, bond and property prices, interest rates and foreign exchange rates. Market risk arises differently across the Group's businesses depending on the types of financial assets and liabilities held.

The Group has developed market risk policies which set 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 which are used to monitor and manage market risk. These policies are cascaded to business units across the Group. Each of the Group's business units has their own established set of policies, principles and governance processes to monitor and manage market risk within their individual businesses and in accordance with their local regulatory requirements. Group-level governance and monitoring processes provide oversight of these individual approaches to the management of market risk.

The financial impact of extensive movements in market risk other than those that could be reasonably 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. The sensitivity of the Group's earnings, capital position and embedded value to market risk is monitored through the Group's embedded value and risk appetite reporting processes.

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

9.1 ***Insurance operations***

For the Group's insurance operations, equity, property, volatility and interest rate risk exposure to capital and to earnings are quantified in accordance with the Group's risk appetite framework.

For the Group's unit-linked assurance operations, policyholders carry the full market risk, with the only risk to the Group being asset-based fee risk from charges on policyholder funds. In respect of the Group's shareholders' funds, market risk is addressed in the Group's investment policy, which provides for very limited opportunity for entities to invest their shareholder capital in equities and other volatile assets.

9.2 ***Equity and property price risk***

In accordance with the market risk policy, the Group 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. 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 Group 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.

	As at 31 December		
	2015	**2016**	**2017**
		(£ millions)	
Impact on profit after tax			
Impact of 10% increase in equity and property prices	29	30	32
Impact of 10% decrease in equity and property prices	(29)	(31)	(31)

9.3 ***Interest rate risk***

Interest rate risk arises primarily from investment in fixed interest government securities, which are exposed to fluctuations in interest rates and bank balances held with financial institutions.

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.

9.3.1 *Interest rate sensitivity testing*

The impact of an increase or 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 profit to interest rates is presented below.

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. In previous years, gilts backing free capital and sterling reserves were held for regulatory purposes (£76 million in the year ended 31 December 2015) and these were subject to market movements, although the sterling reserves themselves were not included in the IFRS financial statements. These gilts are no longer required due to regulatory changes effective from 2016.

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

	As at 31 December		
	2015	**2016**	**2017**
		(£ millions)	
Impact on profit after tax			
Impact of 1% increase in interest rates	12	16	20
Impact of 1% decrease in interest rates	(13)	(12)	(10)

9.4 *Currency translation risk*

The Group is exposed to movements in exchange rates from changes in the Sterling value of surplus assets and earnings on underlying invested funds denominated in foreign currencies. From a capital perspective, the Group's capital is held where its risks are located and currency translation risk would only be realised if the Group were to require a transfer of surplus capital between regions during a period of stress. The functional currencies of the Group's principal overseas operations are euros and Hong Kong dollars.

Certain of the Groups' business operations may undertake activities that are not in their functional currencies. These activities are economically hedged by numerous activities such as the use of currency swaps, currency borrowings and forward foreign exchange contracts.

The foreign currency translation table below has been prepared on the basis that the values of the economic hedging instruments are reflected at their carrying value as opposed to their notional amounts. The tables are therefore a reflection of the foreign currency exposures in their respective currencies. Each currency is actively managed and compared with appropriate limits. The Group does not have significant concentrations of foreign currency risk exposure.

At the dates indicated below, the Group's total shareholders' equity deployed by currency was:

	As at 31 December					
			(£ millions)			
	GBP	**EUR**	**USD**	**SEK**	**Other**	**Total**
Shareholders' equity at 31 December 2017	891	7	173	21	7	1,099
Shareholders' equity at 31 December 2016	779	179	12	19	3	992
Shareholders' equity at 31 December 2015	764	148	(15)	10	6	913

9.5 *Liquidity risk*

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. Ultimate responsibility for liquidity risk management rests with the Board, which has built an appropriate liquidity risk management framework for the management of the Group's short-, medium- and long-term funding and liquidity requirements. The Group manages liquidity by maintaining adequate reserves and banking facilities, continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Individual businesses separately maintain and manage their local liquidity requirements according to their business needs, within the overall liquidity framework established by the Group.

The Group continues to meet Group and individual entity capital requirements, and day-to-day liquidity needs through the Group's available cash resources and, if necessary, available credit facilities. The Group's liquid resources are held in large portfolios of highly marketable securities, for example listed bonds, actively traded pooled investments and cash and cash equivalents. Whilst most of the Group's policyholder liabilities are generally repayable on demand, the Group's expectation is that policyholders will only require funds on an ongoing basis. However, cash resources and other liquid assets are maintained in the event of a need for additional liquidity. Information on the nature of the investments and securities held is given in Note 22 of the Group's historical financial information in *Part XII – "Historical Financial Information"*.

During the years ended 31 December 2016 and 2015, the Group had an implicit borrowing arrangement with its parent Old Mutual plc where it could receive funding for liquidity strains in stress scenarios should the need arise. No drawdown on this arrangement was made over the period. In January 2017, the Group established a new internal £200 million revolving credit facility with Old Mutual plc for a two year duration which was subsequently amended in May 2017 to £70 million over the same term. Further details, together with information on the Group's borrowed funds, are given in Note 34 of the Group's historical financial information in *Part XII – "Historical Financial Information"*.

The key information reviewed by the Group's Executive Directors and Executive Committee, together with the Group's Capital Management Forum, is a detailed management report on the Group's and holding company's current and planned capital and liquidity position, together with summary information on the current and planned liquidity positions of the Group's operating segments. Forecasts are updated regularly based on new information received and also as part of the Group's annual business planning cycle. The Group and holding company's liquidity and capital position and forecast are presented to the Group's Board of Directors on a regular basis. Additionally the Group conducts regular stress testing around liquidity requirements.

Group operating segments are required, both in terms of their local requirements and in accordance with direction from the holding company, to establish their own processes for managing their liquidity and capital needs and these are subject to review by their local oversight functions, with representation from the Group.

The Group does not have material liquidity exposure to special purpose entities or investment funds. The contractual maturities of the Group's financial liabilities are set out above in the section entitled *"— 8. Contractual Obligations and Commitments"*.

9.6 *Operational risk*

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

Operational risk includes all risks 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.

Operational risk includes the effects of failure of the administration processes, IT maintenance and development processes, investment processes (including settlements with fund managers, fund pricing and matching & dealing), product development and management processes, legal risks (e.g. risk of inadequate legal contract with third parties), risks relating to the relationship with third party suppliers, and the consequences of financial crime and business interruption events.

The management have primary responsibility for the identification, management and monitoring of risks, and escalation and reporting on issues to executive management and group management.

The company executive management have responsibility for implementing the Group risk management methodologies and framework and for development and implementation of action plans to manage risk levels within acceptable tolerances and resolve issues.

9.7 *Investment contract risk*

Investment contract risk arises through the exposure to unfavourable operating experience in respect of factors such as persistency levels and management expenses relative to the Group's expectations when pricing contracts, which may prevent the Group from achieving its profit objectives.

The financial impact of persistency and expense risks is examined through stress tests carried out within the ICAAP.

10. Critical Accounting Policies, Judgements and Key Sources of Estimation Uncertainty

The preparation of financial statements requires management to exercise judgement in applying accounting policies 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 Group Audit Committee reviews the reasonableness of judgements and assumptions applied and the appropriateness of significant accounting policies adopted in the preparation of these financial statements.

The significant accounting policies used in the preparation of the Group's consolidated financial statements are set out and described in Note 4 of the Group's historical financial information and have been applied consistently to the periods under review, unless otherwise stated. The Group has not made any significant changes to its accounting policies in the year ended 31 December 2017.

The areas where judgements, estimates and assumptions have the most significant effect on the amounts recognised in the consolidated financial statements are summarised below.

10.1 *Consolidation*

Assessment of whether the Group controls underlying entities (invested) including investment funds, based on whether the Group has power over the investee; exposure or rights to variable returns from its involvement with the investee; and, the ability to affect those returns through the power over the investee. For additional information on the Group's related accounting policies, see Note 4.1 to the Group's historical financial information in *Part XII – "Historical Financial Information"*.

10.2 *Insurance contracts – recognition and measurement*

The recognition and measurement of insurance contracts requires an assessment of the significance of insurance risk transferred to the Group 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. For additional information on the Group's related accounting policies, see Notes 4.3 and 4.9 to the Group's historical financial information in *Part XII – "Historical Financial Information"*.

10.3 *Provisions and contingent liabilities*

In assessing whether a provision should be recognised or a contingent liability disclosed, the Group 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 Group's estimation of the expenditure required to settle the obligation at the statement of financial position date. For additional information on the Group's related accounting policies, see Note 4.17 to the Group's historical financial information in *Part XII – "Historical Financial Information"*.

10.4 *Tax*

The calculation and recognition of temporary differences resulting in deferred tax balances includes judgement to the extent to which future taxable profits are available against which temporary differences can be utilised. The estimation of future taxable profits is performed as part of the annual business planning process, and is based on estimated levels of assets under management, which are subject to a large number of factors including worldwide stock market movements, related movements in foreign exchange rates and net client cash flow, together with estimates of expenses and other charges. For additional information on the Group's related accounting policies, see Note 4.14 to the Group's historical financial information in *Part XII – "Historical Financial Information"*.

10.5 *Goodwill and other intangible assets*

The valuation of intangible assets that are recognised as the result of a business combination involves the use of valuation models. In relation to goodwill impairment, the determination of a cash generating unit's recoverable value is based on the discounted value of the expected future profits of each business. Significant estimates include forecast cash flows, new business growth and discount rates. Other intangible assets are tested for impairment using an income approach method using estimates such as forecast cash flows and discount rate. For additional information on the Group's related accounting policies, see Note 4.15 to the Group's historical financial information in *Part XII – "Historical Financial Information"*.

11. Recent and Prospective Changes in Accounting Policies

Recent and prospective changes in accounting policies are also explained in Note 3 to the Group's historical financial information in *Part XII – "Historical Financial Information"*.

11.1 *IFRS 9 (Financial Instruments)*

IFRS 9: Financial Instruments was issued in July 2014 and will replace IAS 39: Financial Instruments: Recognition and Measurement. The standard is effective and will be implemented by the Group from 1 January 2018. The final version of this standard incorporates amendments to 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). IFRS 9's enhanced disclosure requirements will result in improved credit risk disclosures and increased transparency with respect to impairment judgements and estimates.

As permitted by the transitional provisions of IFRS 9, the Group has elected not to restate comparative figures. Any adjustments to the carrying amount of financial assets and financial liabilities at the date of transition will be recognised in the opening retained earnings and other reserves at 1 January 2018. The Group has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

11.1.1 *Classification and measurement of financial assets and liabilities*

Financial assets are classified based on (i) the business model within which the financial assets are held and managed and (ii) the contractual cash flow characteristics of the financial assets, whether the cash flows represent 'solely payments 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' business model).

Financial assets are measured at fair value through other comprehensive income ("**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' business model). 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.

The remaining financial assets are measured at fair value through profit or loss ("**FVTPL**"). All derivative instruments that are either financial assets or financial liabilities are held for trading and as such will continue to be measured at fair value through profit and loss.

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 Group's own credit risk are recognised in OCI. Where the financial liability 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.

For equity investments that are neither held for trading nor contingent consideration, the Group may irrevocably elect to present subsequent changes in fair value of these equity investments in OCI. 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. Alternatively where the Group does not make the aforementioned election, fair value changes are recognised in profit or loss. This election is made on an investment by investment basis.

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

11.1.2 *Impairment of financial assets*

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 Group 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 Group'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 are summarised below:

- *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 Group and credit risk is considered to be low.
- *Loans and advances* – methodology is based on 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 (trade receivables)* – 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 Group has estimated that the impact of adopting IFRS 9's ECL model has an immaterial transitional impact on the Group's opening retained earnings at 1 January 2018. These estimates are based on accounting policies, assumptions, judgements and estimation techniques which will be regularly reviewed and assessed during the year in preparation for the financial statements for the year ending 31 December 2018.

11.2 ***IFRS 15 (Revenue from Contracts with Customers) (endorsed by the European Union)***

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 Group 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 Group for the financial year commencing 1 January 2018. The Group 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 Group performed an assessment to determine the potential impact of the new standard on the Group's statement of financial position and performance. The Group 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 Group 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 Group.

An increased level of disclosure is required by IFRS 15 which will include qualitative and quantitative information about the Group's contracts with customers, significant judgements made and changes in those judgements. IFRS 15 also introduces standard definitions and will require additional information about contact 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).

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

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases and its related interpretations for reporting periods beginning on or after 1 January 2019.

The Group as lessee: IFRS 16 introduces a 'right of use' model whereby the lessee recognises a right-of-use asset and an associated financial obligation to make lease payments for all leases with a term of more than 12 months.

The asset will be amortised over the lease term and the financial liability measured at amortised cost with interest recognised in profit and loss using the effective interest rate method.

The Group as lessor: IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify and account for its leases as operating leases or finance leases.

The Group is in the process of assessing the impact of IFRS 16 and which transitional approach will be used. The Group's operating lease commitment note (Note 41) provides an indication of the impact on an undiscounted basis where the Group is the lessee.

11.4 *IFRS 17 (Insurance contracts) (yet to be endorsed by the European Union)*

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

The new IFRS 17 standard is effective for reporting periods beginning on or after 1 January 2021. 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 Group will commence assessing the impact of IFRS 17 in 2018.

There are no other new standards, interpretations and amendments to existing standards that have been published and are expected to have a significant impact on the consolidated financial statements of the Group.

PART XI
CAPITALISATION AND INDEBTEDNESS

The tables below set out the capitalisation and indebtedness of the Group, prepared under IFRS using policies which are consistent with those used in preparing the Group's historical financial information set out in Section B of *Part XII – "Historical Financial Information"*.

The capitalisation information has been extracted, without material adjustment, from the unaudited accounting records of the Group as at 28 February 2018.

You should read this table together with *Part X – "Operating and Financial Review"* and *Part XII – "Historical Financial Information"*.

	As at 28 February 2018
	(£ in millions)
Gross financial indebtedness	
Total current debt[1]	
Guaranteed	–
Secured	–
Unguaranteed/unsecured	300
	300
Total non-current debt[2]	
Guaranteed	–
Secured	–
Unguaranteed/unsecured	200
	200
Total	500

	As at 28 February 2018
	(£ in millions)
Shareholders' equity[3]	
Share capital	130
Share premium	58
Merger reserve	591
Other reserves	42
Total	821

(1) Current debt includes a £300 million senior unsecured term loan to be repaid in full using proceeds from the sale of the Single Strategy Business following the completion of the OMGI Transaction.

(2) Non-current debt includes a £200 million subordinated debt security in the form of a 10-year Tier 2 Bond with a one-time issuer call option after five years.

(3) Shareholders' equity does not include the profit and loss account reserve.

The Group has indirect or contingent liabilities relating to tax, implications of managed separation and consumer protection, as described in *Part XII – "Historical Financial Information"*.

At 31 December 2017 the Group had total gross indebtedness of £782 million and total shareholders' equity of £227 million (not including the profit and loss account reserve). The following material changes in the Group's capitalisation and indebtedness have taken place since 31 December 2017:

- As part of a series of internal transactions, £566 million of intercompany indebtedness to other companies within the Old Mutual plc group has been effectively equitised, with the indebtedness to other companies within the Old Mutual plc group being replaced with equity in the form of share capital and a merger reserve. This was associated with the acquisition of the Skandia UK Limited group of companies from Old Mutual plc on 31 January 2018, comprising seven Old Mutual plc group entities with net asset value of £591 million. The overall indebtedness also reduced by £16 million from ordinary course transactions. The remaining £200 million intercompany indebtedness was repaid in full from the new facilities referred to below and from existing cash resources on 28 February 2018.
- On 23 February 2018, the Group entered into, and fully drew down on 28 February 2018, the New Term Loan, a £300 million senior unsecured term loan with a number of relationship banks with an opening interest rate of 45 basis points above LIBOR subject to a margin ratchet linked to the Company's credit rating. The New Term Loan will be repaid in full using proceeds from the sale of the Single Strategy Business following the completion of the OMGI Transaction.
- On 28 February 2018, the Group issued a £200 million subordinated debt security in the form of a 10-year Tier 2 Bond with a one-time issuer call option after five years to J.P. Morgan Securities plc, paying a semi-annual coupon of 4.478%.
- In addition, the Group entered into the New Revolving Facility, a £125 million revolving credit facility which is currently undrawn and is expected to remain undrawn during 2018. On the same date, the £70 million revolving credit facility with Old Mutual plc was cancelled.

All the above transactions were completed on or before 28 February 2018 and there have been no material changes in the Group's capitalisation and indebtedness since this date.

PART XII
HISTORICAL FINANCIAL INFORMATION

SECTION A – ACCOUNTANTS' REPORT ON THE GROUP'S HISTORICAL FINANCIAL INFORMATION

The Directors

Quilter plc
Millennium Bridge House
2 Lambeth Hill
London
EC4V 4AJ
20 April 2018
Ladies and Gentlemen

Quilter plc

We report on the financial information set out on pages 183 to 299 for the three years ended 31 December 2017. This financial information has been prepared for inclusion in the prospectus dated 20 April 2018 of Quilter plc on the basis of the accounting policies set out in Note 4. This report is required by paragraph 20.1 of Annex I of the Prospectus Directive Regulation and is given for the purpose of complying with that paragraph and for no other purpose.

Responsibilities

The Directors of Quilter plc are responsible for preparing the financial information on the basis of preparation set out in Note 1 to the financial information and in accordance with International Financial Reporting Standards as adopted by the European Union.

It is our responsibility to form an opinion on the financial information and to report our opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with paragraph 23.1 of Annex I of the Prospectus Directive Regulation, consenting to its inclusion in the prospectus.

Basis of opinion

We conducted our work in accordance with Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the financial information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the financial information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial information is free from material misstatement whether caused by fraud or other irregularity or error.

Opinion on financial information

In our opinion, the financial information gives, for the purposes of the prospectus dated 20 April 2018, a true and fair view of the state of affairs of Quilter plc as at 31 December 2015, 2016 and 2017 and of its profits, cash flows, recognised gains and losses and changes in equity for the years ended 31 December 2015, 2016 and 2017 in accordance with the basis of preparation set out in Note 1 and in accordance with International Financial Reporting Standards as adopted by the European Union as described in Note 1 and Note 4.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the prospectus in compliance with paragraph 1.2 of Annex I of the Prospectus Directive Regulation.

Yours faithfully

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
20 April 2018

CONSOLIDATED HISTORICAL FINANCIAL INFORMATION AS AT AND FOR THE THREE YEARS ENDED 31 DECEMBER 2015, 2016 AND 2017

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2017

£m

	Notes	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
Revenue				
Gross earned premiums		**148**	141	135
Premiums ceded to reinsurers		**(88)**	(84)	(81)
Net earned premiums		**60**	57	54
Fee and commission income, and income from service activities	8(a)	**895**	803	816
Net investment income	8(b)	**5,195**	6,310	1,166
Other income		**13**	17	2
Total revenue		**6,163**	7,187	2,038
Expenses				
Claims and benefits paid		**(76)**	(72)	(77)
Reinsurance recoveries		**54**	51	56
Net insurance claims and benefits incurred		**(22)**	(21)	(21)
Change in reinsurance assets and liabilities	25(c)	**85**	119	40
Change in insurance contract liabilities		**(78)**	(125)	(32)
Change in investment contract liabilities		**(4,308)**	(5,522)	(949)
Fee and commission expenses, and other acquisition costs	9(a)	**(320)**	(299)	(362)
Change in third party interest in consolidated funds		**(673)**	(575)	(76)
Other operating and administrative expenses	9(b)	**(816)**	(654)	(565)
Finance costs	10	**(39)**	(43)	(32)
Total expenses		**(6,171)**	(7,120)	(1,997)
Profit on the acquisition and re-measurement of subsidiaries	7(c)	**3**	–	–
(Loss)/Profit before tax		**(5)**	67	41
Tax expense attributable to policyholders' funds		**(49)**	(102)	7
(Loss)/Profit before tax attributable to shareholders' profits		**(54)**	(35)	48
Income tax expense	13(a)	**(41)**	(94)	16
Less: tax attributable to policyholders' funds		**49**	102	(7)
Tax attributable to shareholders' funds		**8**	8	9
(Loss)/Profit after tax from continuing operations		**(46)**	(27)	57
Profit after tax from discontinued operations	5(d)	**203**	62	28
Profit for the year after tax		**157**	35	85

				£m
	Notes	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
Attributable to:				
Equity holders of the Parent Company		**157**	35	85
Earnings per ordinary share on profit attributable to ordinary shareholders of the Parent Company				
Basic				
From continuing operations (pence)		**(35.4)**	(20.8)	43.9
From discontinued operations (pence)	5(d)	**156.2**	47.7	21.5
	14(a)	**120.8**	26.9	65.4
Diluted				
From continuing operations (pence)		**(35.4)**	(20.8)	43.9
From discontinued operations (pence)	5(d)	**156.2**	47.7	21.5
	14(b)	**120.8**	26.9	65.4

The attached notes on pages 192 to 299 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
				£m
Profit for the year		**157**	**35**	85
Other comprehensive income:				
Items that may be reclassified subsequently to income statement				
Exchange gains/(losses) on translation of foreign operations		**–**	23	(8)
Other comprehensive income/(expenses) for the year		**3**	(2)	–
		3	21	(8)
Items that will not be reclassified subsequently to income statement				
Measurement movements on defined benefit plans		**–**	(1)	(1)
		–	(1)	(1)
Total other comprehensive income, net of tax	16	**3**	**20**	**(9)**
Total comprehensive income for the year		**160**	**55**	**76**
Attributable to:				
Equity holders of the Parent Company		**160**	**55**	**76**

The attached notes on pages 192 to 299 form an integral part of these consolidated financial statements.

RECONCILIATION OF GROUP OPERATING PROFIT TO PROFIT AFTER TAX

				£m
	Notes	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
Operating profit before tax attributable to shareholders' profits				
Advice and Wealth Management		**82**	55	54
Wealth Platforms		**158**	140	181
Head Office		**(31)**	(18)	(14)
Operating profit before tax attributable to shareholders' profits	6(b)	**209**	177	221
Reconciliation of Group operating profit to profit after tax				
Adjusting for the following:				
Impairment of goodwill and impact of acquisition accounting[1]		**(54)**	(52)	(57)
Profit on the acquisition and re-measurement of subsidiaries		**3**	–	–
Business transformation costs		**(89)**	(102)	(96)
Managed separation costs		**(32)**	(7)	–
Group debt costs and other interest		**(39)**	(43)	(32)
Policyholder tax adjustments		**17**	(8)	12
Voluntary customer remediation provision		**(69)**	–	–
Total non-operating adjusting items before tax	7(a)	**(263)**	(212)	(173)
(Loss)/Profit before tax attributable to shareholders' profits		**(54)**	(35)	48
Income tax attributable to policyholder returns		**49**	102	(7)
(Loss)/Profit before tax		**(5)**	67	41
Income tax expense on continuing business	13(b)	**(41)**	(94)	16
(Loss)/Profit after tax from continuing operations		**(46)**	(27)	57
Profit after tax from discontinued operations	5(d)	**203**	62	28
Profit for the year after tax		**157**	35	85

Operating profit after tax attributable to ordinary equity holders of the parent company

				£m
	Notes	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
Operating profit before shareholder tax		**209**	177	221
Shareholder tax on operating profit	13(c)	**(14)**	(28)	(24)
Operating profit after tax attributable to ordinary equity holders of the Parent Company	14(c)	**195**	149	197
Adjusted weighted average number of ordinary shares used to calculate operating earnings per share (millions)	14(c)	**130**	130	130
Operating earnings per share (pence)	14(c)	**150.0**	114.6	151.5

(1) Impairment of goodwill and impact of acquisition accounting represents acquisition costs less the amortisation of intangible assets acquired by the Group, in relation to policies sold by acquired businesses pre-acquisition.

BASIS OF PREPARATION OF OPERATING PROFIT

Operating profit reflects the directors' view of the underlying performance of the Group and is used for management decision making and internal performance management. It is the profit measure presented in the Group's segmental reporting. Operating profit is a non-GAAP measure which adjusts the IFRS profit for specific agreed items as detailed in note 7(a): Operating profit adjusting items.

Operating profit excludes the impairment of goodwill; amortisation and impairment of other intangibles acquired in business combinations; the profit or loss on disposal and re-measurement of subsidiaries, joint ventures and associates; integration and restructuring costs; costs related to business transformation, in particular the development of our new platform capability and outsourcing of UK business administration; policyholder tax adjustments on non-operating items; and customer remediation provisions.

Execution of the Group's strategy of managed separation from Old Mutual plc is expected to entail a number of significant costs that may be regarded as non-operating, or one-off in nature. These costs are recognised within IFRS profit and excluded from operating profit.

Operating earnings applied in the calculation of operating earnings per share is calculated based on operating profit after tax. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds.

The attached notes on pages 192 to 299 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

£m

For the year ended 31 December 2017	Notes	Share capital	Share premium	Share-based payments reserve	Other reserves	Foreign currency translation reserve	Retained earnings	Total shareholders' equity
Balance at 1 January 2017		**130**	**–**	**75**	**3**	**2**	**782**	**992**
Total comprehensive income								
Profit for the year		**–**	**–**	**–**	**–**	**–**	**157**	**157**
Other comprehensive income/(expense)	16	**–**	**–**	**–**	**–**	**–**	**3**	**3**
		–	**–**	**–**	**–**	**–**	**160**	**160**
Transactions with the owners of the Company								
Dividends	15	**–**	**–**	**–**	**–**	**–**	**(210)**	**(210)**
Issue of share capital	29	**200**	**58**	**–**	**–**	**–**	**–**	**258**
Reduction of share capital	29	**(200)**	**–**	**–**	**–**	**–**	**200**	**–**
Movement in treasury shares[1]		**–**	**–**	**–**	**–**	**–**	**(99)**	**(99)**
Equity share-based payment transactions[2]		**–**	**–**	**(36)**	**–**	**–**	**31**	**(5)**
Total contributions and distributions		**–**	**58**	**(36)**	**–**	**–**	**(78)**	**(56)**
Changes in shareholders' interests in subsidiaries		**–**	**–**	**(1)**	**(2)**	**(2)**	**8**	**3**
Total transactions with the owners of the Company		**–**	**58**	**(37)**	**(2)**	**(2)**	**(70)**	**(53)**
Balance at 31 December 2017		**130**	**58**	**38**	**1**	**–**	**872**	**1,099**

[1] Movement in treasury shares includes £99m of treasury shares within the JSOP Trust that transferred from Old Mutual plc to the Company during 2017. See note 30(e) for further details.

[2] Equity shares-based payment transactions include a £31 million transfer to retained earnings representing share-based payment schemes that have fully vested.

£m

For the year ended 31 December 2016	Notes	Share capital	Share premium	Share-based payments reserve	Other reserves	Foreign currency translation reserve	Retained earnings	Total shareholders' equity
Balance at 1 January 2016		130	–	51	10	(1)	723	913
Total comprehensive income								
Profit for the year		–	–	–	–	–	35	35
Other comprehensive income/(expense)	16	–	–	–	–	3	17	20
		–	–	–	–	3	52	55
Transactions with the owners of the Company								
Equity share-based payment transactions		–	–	24	–	–	–	24
Total contributions and distributions		–	–	24	–	–	–	24
Changes in shareholders' interests in subsidiaries		–	–	–	(7)	–	7	–
Total transactions with the owners of the Company		–	–	24	(7)	–	7	24
Balance at 31 December 2016		130	–	75	3	2	782	992

£m

For the year ended 31 December 2015	Notes	Share capital	Share premium	Share-based payments reserve	Other reserves	Foreign currency translation reserve	Retained earnings	Total shareholders' equity
Balance at 1 January 2015		130	–	28	10	(1)	713	880
Total comprehensive income								
Profit for the year		–	–	–	–	–	85	85
Other comprehensive income/(expense)	16	–	–	–	–	–	(9)	(9)
		–	–	–	–	–	76	76
Transactions with the owners of the Company								
Dividends	15	–	–	–	–	–	(24)	(24)
Equity costs associated with the acquisition of Quilter Cheviot Limited		–	–	–	–	–	(42)	(42)
Equity share-based payment transactions		–	–	23	–	–	–	23
Total contributions and distributions		–	–	23	–	–	(66)	(43)
Total transactions with the owners of the Company		–	–	23	–	–	(66)	(43)
Balance at 31 December 2015		130	–	51	10	(1)	723	913

The attached notes on pages 192 to 299 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	**At 31 December 2017**	At 31 December 2016	At 31 December 2015
				£m
Assets				
Goodwill and other intangible assets	17	**574**	654	670
Property, plant and equipment	18	**18**	18	19
Investments in associated undertakings		**3**	1	1
Loans and advances	19	**199**	220	190
Financial investments	20	**64,248**	52,235	49,294
Reinsurers' share of policyholder liabilities	25	**2,908**	2,863	2,507
Deferred tax assets	33	**22**	8	8
Current tax receivable		**–**	20	27
Trade, other receivables and other assets	26	**497**	794	716
Deferred acquisition costs	27	**611**	655	768
Derivative assets	21	**87**	26	971
Cash and cash equivalents	28	**2,360**	1,595	1,601
Assets of operations classified as held for sale	5(g)	**446**	6,396	–
Total assets		**71,973**	65,485	56,772
Equity and liabilities				
Equity				
Ordinary share capital	29	**130**	130	130
Ordinary share premium reserve	29	**58**	–	–
Other reserves		**39**	80	60
Retained earnings		**872**	782	723
Total equity		**1,099**	992	913
Liabilities				
Long-term business insurance policyholder liabilities	31	**489**	417	293
Investment contract liabilities	31	**59,139**	51,265	49,041
Third party interests in consolidated funds		**7,905**	4,140	3,311
Provisions and accruals	32	**104**	29	35
Deferred tax liabilities	33	**190**	179	152
Current tax payable		**38**	20	13
Borrowings	34	**782**	839	786
Trade, other payables and other liabilities	35	**1,331**	1,024	938
Deferred revenue	36	**244**	261	312
Derivative liabilities	21	**433**	56	978
Liabilities of operations classified as held for sale	5(g)	**219**	6,263	–
Total liabilities		**70,874**	64,493	55,859
Total equity and liabilities		**71,973**	65,485	56,772

The attached notes on pages 192 to 299 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
				£m
Cash flows from operating activities	28			
Profit before tax		**227**	149	84
Non-cash movements in profit before tax		**4,061**	2,552	2,878
Net changes in working capital		**1,134**	229	(190)
Taxation paid		**(9)**	(59)	(40)
Total net cash flows from operating activities		**5,413**	2,871	2,732
Cash flows from investing activities				
Net acquisitions of financial investments		**(4,760)**	(2,810)	(2,430)
Acquisition of property, plant and equipment		**(8)**	(4)	(5)
Acquisition of intangible assets		**(9)**	(9)	(14)
Acquisition of interests in subsidiaries and associated undertakings joint ventures		**(33)**	(16)	(567)
Proceeds from the disposal of interests in subsidiaries		**208**	–	(4)
Total net cash used in investing activities		**(4,602)**	(2,839)	(3,020)
Cash flows from financing activities				
Dividends paid to ordinary equity holders of the Company		**(210)**	–	(24)
Interest paid		**(39)**	(43)	(32)
Proceeds from issue of ordinary shares		**258**	–	–
Loan to Employee Benefit Trust		**–**	(43)	(54)
Proceeds from issue of subordinated and other debt		**–**	53	614
Subordinated and other debt repaid		**(57)**	–	–
Total net cash (used in)/from financing activities		**(48)**	(33)	504
Net increase/(decrease) in cash and cash equivalents		**763**	(1)	216
Cash and cash equivalents at beginning of the year		**1,595**	1,601	1,386
Effects of exchange rate changes on cash and cash equivalents		**2**	(5)	(1)
Cash and cash equivalents at end of the year	28	**2,360**	1,595	1,601

Cash flows include both continuing and discontinued operations.

The attached notes on pages 192 to 299 form an integral part of these consolidated financial statements.

BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

For the year ended 31 December 2017

General Information

These financial statements are the consolidated financial statements for the Group, consisting of Quilter plc, formerly known as Old Mutual Wealth Management Limited, and its subsidiaries. Quilter plc (the 'Company'), a public limited company incorporated and domiciled in the United Kingdom (UK), together with its subsidiaries (collectively, the 'Group') offers investment and wealth management services, life assurance and long-term savings, and financial advice through its subsidiaries and associates primarily in the UK with a presence in a number of cross-border markets.

The address of the registered office is Millennium Bridge House, 2 Lambeth Hill, London EC4V 4AJ, England.

The Company is a wholly-owned subsidiary of Old Mutual plc, a FTSE 100 listed group. The Company forms part of the Old Mutual Wealth division of Old Mutual plc, for which it acts as holding company and delivers strategic and governance oversight. The address of the registered office of Old Mutual plc is Millennium Bridge House, 2 Lambeth Hill, London EC4V 4GG.

1: Basis of preparation

The consolidated financial statements have been prepared in accordance with the requirements of the Prospectus Directive regulation and the Listing Rules. These consolidated financial statements for all periods have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), as endorsed by the European Union (EU), with interpretations issued by the IFRS Interpretations Committee (IFRICs), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements do not constitute statutory accounts.

The principal accounting policies adopted in the preparation of these financial statements are set out in note 4. Less material accounting policies are included in Appendix A. These policies have been consistently applied to all years presented, unless otherwise stated. Judgements made by the directors in the application of these accounting policies that have a significant effect on the financial statements, and estimates with a significant risk of material adjustment in the next year, are also discussed in this section.

The Group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). These consolidated financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Group operates and are rounded to the nearest million (£m).

The consolidated financial statements are prepared under the historical cost convention, except for certain financial assets and financial liabilities (including derivative instruments) that are measured at fair value through profit or loss (FVTPL) at the end of each reporting period and defined benefit assets and liabilities, measured at the fair value of plan assets less the present value of the defined benefit obligation. Assets and disposal groups held for sale are stated at the lower of the previous carrying amount and fair value less costs to sell.

Pursuant to section 435 of the Companies Act, this historical financial information does not constitute the company's statutory accounts for the years ended 31 December 2017, 2016 or 2015. Up until now, the Group has previously taken advantage of section 400 of the Companies Act not to prepare consolidated statutory financial statements as it previously formed part of a larger group, being Old Mutual plc, for which consolidated accounts are prepared. Old Mutual plc is the ultimate parent company of the group, and is incorporated in England and Wales. Non-statutory accounts were prepared by the Group for the year ended 31 December 2016 in accordance with EU-IFRS. The company-only accounts of Old Mutual Wealth Management Limited for years ended 31 December 2017, 2016 and 2015 have been reported on by the company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

On publishing these Group financial statements, the Group has made available to Old Mutual plc, IFRS compliant consolidated financial statements in the preceding year and therefore IFRS 1 First-time Adoption of International Financial Reporting Standards does not apply.

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

Basis of consolidation

The consolidated financial statements incorporate the assets, liabilities and the results of the Company and its subsidiary undertakings (investees). Subsidiary undertakings are those entities, including structured entities, controlled by the Group. More information on how the Group assesses whether it has control (and as a result consolidates an investee) is provided in accounting policy 4.1. Subsidiaries are consolidated from the date the Group obtains control and are excluded form consolidation from the date the Group loses control.

Where necessary, adjustments are made to financial statements of subsidiaries to bring the accounting policies used in line with Group policies. All intercompany transactions, balances and unrealised surpluses and deficits on transactions between Group companies are eliminated on consolidation.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated financial statements.

A list of major subsidiaries is included in note 46.

Liquidity analysis of the statement of financial position

The Group's statement of financial position is in order of liquidity as is permitted by IAS 1 Presentation of Financial Statements. For each asset and liability line item, those amounts, expected to be recovered or settled after more than twelve months after the reporting date are disclosed separately in the notes to the financial statements.

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 Group Audit Committee 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 consolidated financial statements are summarised below:

Area	Critical accounting judgement or assumption/estimate	Accounting Policy	Note
Consolidation	Assessment of whether the Group controls underlying entities (investees), including investment funds, based on whether the Group has (1) power over the investee, (2) exposure or rights to variable returns from its involvement with the investee and (3) the ability to affect those returns through its power over the investee.	4.1	24 & 46
Insurance contracts – classification and measurement	Assessment of the significance of insurance risk transferred to the Group 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.	4.3 & 4.9	31
Provisions and contingent liabilities	In assessing whether a provision should be recognised or a contingent liability disclosed, the Group 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 Group's estimation of the expenditure required to settle the obligation at the statement of financial position date.	4.17	32 & 39
Deferred tax	The calculation and recognition of temporary differences resulting in deferred tax balances includes judgement to the extent to which future taxable profits are available against which temporary differences can be utilised. The estimation of future taxable profits is performed as part of the annual business planning process, and is based on estimated levels of assets under management, which are subject to a large number of factors including worldwide stock market movements, related movements in foreign exchange rates and net client cash flow, together with estimates of expenses and other charges.	4.14	33

Area	Critical accounting judgement or assumption/estimate	Accounting Policy	Note
Goodwill and intangible assets	The valuation of intangible assets that are recognised as the result of a business combination involves the use of valuation models. In relation to goodwill impairment, the determination of a cash generating unit's (CGU's) recoverable value is based on the discounted value of the expected future profits of each business. Significant estimates include forecast cash flows, new business growth and discount rates. Intangible assets are tested for impairment using an income approach method using estimates such as forecast cash flows and discount rate.	4.15	17

2: New standards, amendments to standards, and interpretations adopted in the 2017 annual financial statements

There are a small number of narrow scope amendments arising from annual improvements to standards that are applicable to the Group for the first time in 2017, none of which have had a significant impact on the consolidated financial statements.

3: 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, which are relevant to the Group, have been issued by the International Accounting Standards Board (IASB).

IFRS 9 *Financial Instruments*

IFRS 9: *Financial Instruments* was issued in July 2014 and will replace IAS 39: Financial Instruments: Recognition and Measurement. The standard is effective and will be implemented by the Group from 1 January 2018. The final version of this standard incorporates amendments to 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). IFRS 9's enhanced disclosure requirements will result in improved credit risk disclosures and increased transparency with respect to impairment judgements and estimates.

As permitted by the transitional provisions of IFRS 9, the Group has elected not to restate comparative figures. Any adjustments to the carrying amount of financial assets and financial liabilities at the date of transition will be recognised in the opening retained earnings and other reserves at 1 January 2018. The Group has elected to continue to apply the hedge accounting requirements of IAS 39 on adoption of IFRS 9.

Classification and measurement of financial assets and liabilities

Financial assets are classified based on (i) the business model within which the financial assets are held and managed and (ii) the contractual cash flow characteristics of the financial assets, whether the cash flows represent 'solely payments 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' business model).

Financial assets are measured at fair value through other comprehensive income (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' business model). 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.

The remaining financial assets are measured at fair value through profit or loss (FVTPL). All derivative instruments that are either financial assets or financial liabilities are held for trading and as such will continue to be measured at fair value through profit and loss.

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 Group's own credit risk are recognised in OCI. Where the financial liability 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.

For equity investments that are neither held for trading nor contingent consideration, the Group may irrevocably elect to present subsequent changes in fair value of these equity investments in other comprehensive income (OCI). 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. Alternatively where the Group does not make the aforementioned election, fair value changes are recognised in profit or loss. This election is made on an investment by investment basis.

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

Impairment of financial assets

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 Group 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 Group'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 are summarised below:

- 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 Group and credit risk is considered to be low.
- Loans and advances – methodology is based on 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 (trade receivables) – 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 Group has estimated that the impact of adopting IFRS 9's ECL model has an immaterial transitional impact on the Group's opening retained earnings at 1 January 2018. These estimates are based on accounting policies, assumptions, judgements and estimation techniques which will be regularly reviewed and assessed during the year in preparation for the financial statements for the year ending 31 December 2018.

IFRS 15 *Revenue from Contracts with Customers (endorsed by the European Union)*

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 Group 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 Group for the financial year commencing 1 January 2018. The Group 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 Group performed an assessment to determine the potential impact of the new standard on the Group's statement of financial position and performance. The Group 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 Group 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 Group.

An increased level of disclosure is required by IFRS 15 which will include qualitative and quantitative information about the Group's contracts with customers, significant judgements made and changes in those judgements. IFRS 15 also introduces standard definitions and will require additional information about contact 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 16 *Leases (endorsed by the European Union)*

IFRS 16 was issued in January 2016 and replaces IAS 17 Leases and its related interpretations for reporting periods beginning on or after 1 January 2019.

The Group as lessee: IFRS 16 introduces a 'right of use' model whereby the lessee recognises a right-of-use asset and an associated financial obligation to make lease payments for all leases with a term of more than 12 months. The asset will be amortised over the lease term and the financial liability measured at amortised cost with interest recognised in profit and loss using the effective interest rate method.

The Group as lessor: IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify and account for its leases as operating leases or finance leases.

The Group is in the process of assessing the impact of IFRS 16 and which transitional approach will be used. The Group's operating lease commitment note (note 41) provides an indication of the impact on an undiscounted basis where the Group is the lessee.

IFRS 17 *Insurance contracts (yet to be endorsed by the European Union)*

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

The new IFRS 17 standard is effective for reporting periods beginning on or after 1 January 2021. 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 Group will commence assessing the impact of IFRS 17 in 2018.

There are no other new standards, interpretations and amendments to existing standards that have been published and are expected to have a significant impact on the consolidated financial statements of the Group.

4: Significant accounting policies

The significant accounting policies used in the preparation of these consolidated financial statements, as set out below, have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise stated. The Group has not made any significant changes to its accounting policies during 2017.

4(a) *Group accounting*

Subsidiaries

Subsidiary undertakings are those entities (investees) controlled by the Group. The Group controls an investee if, and only if, the Group has all of the following three elements of control:

- power over the investee;
- exposure or rights to variable returns from its involvement with the investee; and
- the ability to affect those returns through its power over the investee.

For operating entities this usually arises with a shareholding in the entity of 50% or more. The Group also consolidates certain of its interests in open-ended investment companies, unit trusts, mutual funds and similar investment vehicles (collectively 'investment funds'). Where, as is often the case with investment funds, voting or similar rights are not the dominant factor in deciding who controls the investee, other factors are considered in the control assessment. These are looked at in more detail below.

The Group continually assesses any changes to facts and circumstances to determine, in the context of the three elements of control listed above, whether it still controls investees and is required to consolidate them.

Investment funds

The Group invests in a wide range of investment funds such as Open-Ended Investment Companies ('OEICs') and unit trusts generally in respect of its unit linked investment contracts where investments are made to match clients' investment choices. For some of these funds it also acts as fund manager. These funds invest predominantly in equities, bonds, cash and cash equivalents. The Group holds interests in these investment funds mainly through the receipt of fund management fees, in the case where the Group acts as fund manager, which provide a variable return based on the value of the funds under management and other criteria, and in the case of third party funds where fund performance has an impact on fund-based fees within unit linked investment contracts and other similar client investment products. Where the Group acts as fund manager it may also hold investments in the underlying funds, through acquiring units or shares. Where these investments are held in unit-linked funds, the Group has a secondary exposure to variable returns through the management fees that it deducts from unit-linked policyholders' account balances. The Group's percentage ownership can fluctuate from day to day according to the Group's participation in them as clients' underlying investment choices change.

When assessing control of investment funds, the Group considers the purpose and design of the fund, scope of its decision making authority, including its ability to direct relevant activities and to govern the operations of a fund so as to obtain variable returns from that fund and its ability to use its power to affect these returns, both from the perspective of an investor and an asset manager. In addition, the Group assesses rights held by other parties including substantive removal ('kick-out' rights) that may affect the Group's ability to direct relevant activities.

On consolidation, the interests of parties other than the Group are assessed to determine whether they should be classified as liabilities or as non-controlling interests ('NCIs') on the statement of financial position. The amounts are reported as a liability and described as 'Third party interests in consolidated funds'. Such interests are not recorded as non-controlling interests as they meet the liability classification requirement set out in IAS 32, *Financial Instruments: Presentation*. These liabilities are regarded as current, as they are repayable on demand, although it is not expected that they will be settled in a short time period.

Business combinations

The Group is required to use the acquisition method of accounting for business combinations. Business combinations are accounted for at the date that control is achieved (the acquisition date). The cost of a business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair value at the acquisition date.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts. Where provisional amounts are reported these are adjusted during the measurement period which extends up to a maximum of 12 months from the acquisition date. Additional assets or liabilities may also be recognised during this period, to reflect any new information obtained about the facts and circumstances that existed as of the date of acquisition date that, if known, would have affected the amounts recognised as on that date.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired entity at the date of acquisition. Acquisition related costs are expensed as incurred.

NCI's in the net assets of consolidated subsidiary undertakings are identified and recorded separately from the Group's equity. The interest of non-controlling shareholders is initially measured either at fair value or at the NCI's proportionate share of the acquiree's identifiable net assets. The choice of measurement basis for the initial measurement of the NCI is made on an acquisition-by-acquisition basis. Subsequent to acquisition, NCI's comprise the amount attributed to such interests at initial recognition together with the NCI's share of changes in equity since the date of acquisition. Transactions with NCI's that lead to changes in the ownership interests of a subsidiary but do not result in the loss of control are treated as equity transactions.

The difference between the proceeds from the disposal of a subsidiary undertaking and its carrying amount as at the date of disposal, including the cumulative amount of any related exchange differences that are recognised in the foreign currency translation reserve equity, is recognised in the consolidated income statement as the gain or loss on disposal of the subsidiary undertaking.

4(b) *Fair value measurement*

The Group uses fair value to measure the majority of its assets and liabilities. Fair value is a market based measure and is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For a financial instrument, the best evidence of fair value at initial recognition is normally the transaction price, which represents the fair value of the consideration given or received.

Where observable market prices in an active market, such as bid or offer (ask) prices are unavailable, fair value is measured using valuation techniques based on the assumptions that market participants would use when pricing the asset or liability. If an asset or a liability measured at fair value has a bid or an offer price, the price within the bid-offer spread that is most representative of fair value is used as the basis of the fair value measurement.

The quality of the fair value measurement for financial instruments is disclosed by way of the fair value hierarchy, whereby level 1 represents a quoted market price for identical financial assets and liabilities, level 2 financial assets and liabilities are valued using inputs other than quoted prices in active markets included in level 1, either directly or indirectly and level 3 whereby financial assets and liabilities are valued using valuation techniques where one or more significant inputs are unobservable.

Classifying financial instruments into the three levels outlined above provides an indication about the reliability of inputs used in determining fair value.

4(c) *Product classification*

The Group's life assurance contracts are categorised as either insurance contracts or investment contracts, in accordance with the classification criteria set out in the paragraphs below.

Insurance contracts

The Group's insurance contracts include traditional life and health insurance contracts including for the latter stand-alone critical illness and long term care policies, as well as the unbundled insurance component of unit-linked contracts. Life assurance contracts are categorised as insurance contracts at the inception of the contract only if the contract transfers significant insurance risk. Insurance risk is significant if, and only if, an insured event could cause the Group to make significant additional payments in any scenario, excluding scenarios that lack commercial substance. Such contracts remain insurance contracts until all rights and obligations are extinguished or expire. It is possible to reclassify contracts as insurance contracts after inception if insurance risk becomes significant.

IFRS accounting for insurance contracts in UK companies was 'grandfathered' at the date of transition to IFRS and determined in accordance with the Statement of Recommended Practice on Accounting for Insurance Business (issued by the Association of British Insurers and subsequently withdrawn from 1 January 2015), adjusted to remove certain regulatory reserves and margins in assumptions.

Investment contracts

Investment contracts do not meet the definition of an insurance contract as they do not transfer significant insurance risk from the policyholder to the insurer. Unit linked investment contracts are separated into two components being an investment management services component and a financial liability. The financial liability component is designated at FVTPL as it is managed on a fair value basis, and its value is directly linked to the market value of the underlying portfolio of assets. The Group does not share in the explicit returns of the assets held by the policyholder, apart from secondary exposure to future annual management fees that the Group expects to receive over the life of the policy.

'Hybrid' Insurance and investment contracts – unbundling

Generally, life and pensions contracts allow for a single classification at product class level. For those contracts containing both an insurance component and an investment component, the Group has elected to unbundle these contracts and account for each component separately. This approach has been applied to a number of the Group's unit-linked assurance business contract types where a significant component of insurance risk exists.

4(d) *Fee and commission income*

Fee and commission income represents the fair value of services provided, net of value-added tax and consists predominantly of fees charged to clients for plan and policy administration, investment management, surrenders and other contract services in relation to the Group's unit linked business. The fees may be for fixed amounts or vary with the amounts being managed, and will generally be charged as an adjustment to the policyholder's balance. Fee income and commission income is recognised as revenue as investment management services are provided to policyholders. Where fees, such as initiation and advice fees, are received upfront, either at inception or over an initial period for services not yet provided, the income is deferred and recognised as a deferred fee income ("DFI") liability on the statement of financial position and released to the income statement as services are provided over the lifetime of the contract. In addition, this also includes advice income from Quilter Financial Planning.

Performance-based incentive fees are charged for managing certain investment funds outside of the Group's core unit-linked business. These fees are based on the fund's performance, relative to a benchmark. These services are deemed to be provided (and revenue recognised) only when the performance of the fund for the period is known and has crystallised, usually bi-annually. These fees are borne in our Single Strategy asset management business which is included within Discontinued Operations.

4(e) *Investment return*

Investment return comprises two elements (a) investment income and (b) realised and unrealised gains and losses on investments held at FVTPL.

Investment income

Investment income includes dividends on equity securities which are recorded as revenue on the ex-dividend date and interest income which is recognised using the effective interest rate method which allocates interest and other finance costs at a constant rate over the expected life of the financial instrument.

Realised and unrealised gains and losses

A gain or loss on a financial investment is only realised on disposal or transfer and represents the difference between the proceeds received, net of transaction costs, and its original cost (or amortised cost). Unrealised gains or losses, arising on investments which have not been disposed or transferred, represent the difference between carrying value at the year end and the carrying value at the previous year end or purchase value (if this occurs during the year), less the reversal of previously recognised unrealised gains or losses in respect of disposals made during the year.

Gains and losses resulting from changes in both market value and foreign exchange on investments classified at FVTPL are recognised in the consolidated income statement in the period in which they occur.

4(f) *Premiums*

Premiums receivable under insurance contracts are shown in the income statement gross of commission and exclude sales-based taxes and levies. For regular (and recurring) premium contracts, receivables are recognised when payments are due. Premiums in respect of other insurance contracts are recognised in the income statement when receivable, apart from premiums received in respect of unit-linked insurance contracts (see below). Where policies lapse due to non-receipt of premiums, then all the related premium income accrued but not received from the date they are deemed to have lapsed is offset against premiums.

Premiums received in respect of unit-linked insurance contracts are recognised when the corresponding liability to the policyholder is established. For single premium business, this is the date from which the policy is effective.

4(g) *Deferred acquisition costs*

Investment contracts

Incremental costs, including fee and commission expenses, that are directly attributable to securing either unit linked investment contracts or other asset management services are deferred and recognised as a 'deferred acquisition cost' (DAC) asset if they can be identified separately and measured reliably and it is probable that the costs will be recovered. Because such deferred acquisition costs are linked to the contractual right to benefit from providing investment management services, they are amortised through the income statement as the related revenue is recognised.

After initial recognition, deferred acquisition costs are reviewed by category of business and are impaired to the extent that they are no longer considered to be recoverable. All other costs are recognised as expenses when incurred.

Insurance contracts

Incremental costs directly attributable to securing an insurance contract, such as initial commission and the costs of obtaining and processing such business are deferred and a DAC asset recognised, to the extent that they are expected to be recovered out of future margins.

Long-term business deferred acquisition costs are amortised as an expense on a straight line basis, adjusted for expected persistency, over the expected life of the contract, as the services are provided (equal service provision assumed) and no longer than the period in which such costs are expected to be recoverable out of future margins.

At the end of each reporting period, deferred acquisition costs are reviewed for recoverability, by category of business, against future margins from the related contracts. They are impaired in the income statement where they are no longer considered to be recoverable.

4(h) ***Investment contracts***

Investment contracts are those contracts not classified as insurance contracts because they do not transfer significant insurance risk. The majority of the Group's investment contracts are unit-linked contracts. At inception, investment contract liabilities for unit linked business are designated as financial liabilities and measured at FVTPL. For these contracts, the fair value liability is equal to the total value of units allocated to the policyholders, based on the bid price of the underlying assets in the fund. The FVTPL classification reflects the fact that the matching investment portfolio, that backs the unit-linked liabilities, is managed, and its performance evaluated, on a fair value basis.

Contributions received on investment contracts are treated as policyholder deposits and credited directly to investment contract liabilities on the statement of financial position, as opposed to being reported as revenue in the consolidated income statement. This practise is known as deposit accounting. Withdrawals paid out to policyholders on investment contracts are treated as a reduction to policyholder deposits, reducing the investment contract liabilities on the statement of financial position, as opposed to being recognised as expenses in the consolidated income statement.

4(i) ***Insurance contract liabilities***

Claims

Long-term business claims reflect the cost of all claims arising during the year and include payments for maturities, annuities, surrender, death and disability claims, as well as claims handling costs, incurred in connection with the negotiation and settlement of claims. They are recognised as expenses in the income statement. Maturity and annuity claims are recorded as they fall due for payment. Death and disability claims and surrenders are accounted for when notified. Reinsurance recoveries are accounted for in the same period as the related claim.

Long-term business liabilities

The Group calculates its long term business liabilities separately for each life operation, based on local regulatory requirements and actuarial principles consistent with those applied in each local market. For UK business this is in accordance with UK regulatory requirements (the Modified Statutory Solvency Basis), in place before the introduction of Solvency II, adjusted to remove certain regulatory reserves and margins in assumptions. Liabilities are calculated using the gross premium valuation method, which is based on the amount of contractual premiums receivable and includes explicit assumptions for interest and discount rates, as well as for mortality, morbidity, persistency and future expenses. These assumptions are set on a prudent basis and can vary by contract type and reflect current and expected future experience. The liability for contractual benefits that are expected to be paid 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, direct expenses, commissions and reinsurance premiums. Future expected income includes premiums payable 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 life business 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 as at the reporting period end is reported within the long term insurance liabilities. The change in insurance contract liabilities, comprising the full movement in the corresponding liabilities during the period, is recognised in the income statement.

Liability adequacy test

At each reporting date, the Group assesses whether the recognised insurance contract liabilities are adequate in light of current estimates of future cash flows. This liability adequacy test is performed by comparing the carrying value of the insurance contract liabilities and the discounted projections of future cash flows. If the carrying value is less than the future expected cash flows, the deficiency is initially recognised by writing down the DAC asset. The recoverability of the DAC asset is tested against present value of in-force (PVIF) 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 asset is recognised in the income statement with a corresponding additional provision in the statement of financial position.

4(j) *Reinsurance*

Long-term insurance business

The Group cedes reinsurance in the normal course of business for the purpose of limiting its claims costs. Ceded reinsurance contracts include arrangements where regular risk premiums are paid by the Group to the reinsurer and an agreed share of claims are paid by the reinsurer to the Group. These arrangements are in respect of underlying policies that are classified as insurance contracts. Accordingly, contracts with reinsurers are assessed to establish whether they contain significant insurance risk to justify such a classification. Only rights under contracts that give rise to a transfer of significant insurance risk are accounted for as long term insurance business reinsurance assets.

Reinsurance premiums for ceded reinsurance are recognised as an expense on a basis that is consistent with the recognition basis for the premiums on the related insurance contracts. The un-expensed portion of ceded reinsurance premiums is included in reinsurance assets. Reinsurance recoveries are recognised in the income statement in the same period as the related claim.

Reinsurance recoveries due from reinsurers and reinsurance premiums due to reinsurers under reinsurance contracts that are contractually due at the reporting date are separately recognised in other receivables and other payables respectively unless a right of offset exists, in which case the net amount is reported on the consolidated statement of financial position. Assets, liabilities and income and expenses arising from ceded reinsurance contracts are presented separately from the related assets, liabilities, income and expense from the underlying insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

The value of the benefits that the Group is entitled to under the ceded reinsurance arrangements are reported as "reinsurers' share of policyholder liabilities" in the statement of financial position. 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.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due to it under the terms of the contract and that the event has an impact that can be measured reliably on the amounts that the Group will receive from the reinsurer. The reinsurers' share of policyholder liabilities is updated for any impairment. Any resulting movement in the reinsurers' share of policyholder liabilities is recognised in the income statement.

Investment contracts

Policyholder investments recognised by the Group 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.

4(k) *Financial instruments (other than derivatives)*

Financial instruments cover a wide range of financial assets, including financial investments, trade receivables and cash and cash equivalents and financial liabilities, including investment contract liabilities, trade payables, and borrowings. Derivatives, which are also financial instruments, are covered by accounting policy 4.12. Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes party to the contractual provisions of the instrument. The Group derecognises a financial asset when the contractual rights to receive cash flows have expired or been forfeited by the Group. A financial liability is derecognised when, and only when the liability is extinguished.

Management determines the classification of financial investments at initial recognition depending on the purpose for which they were acquired. This classification determines the subsequent measurement basis. Financial investments which are not derivatives and are not designated at FVTPL are classified as loans and receivables. Management also determines the classification of financial liabilities at initial recognition.

Financial investments

The Group's interests in pooled investment funds, equity securities and debt securities are designated at FVTPL, as they are part of groups of financial assets which are managed and whose performance is evaluated on a fair value basis. These investments are recognised at fair value initially and subsequently, with changes in fair value recognised in investment return in the consolidated income statement.

The fair value of quoted financial investments, which represents the vast majority of the Group's investments, are based on the value within the bid-ask spread that is most representative of fair value. If the market for a financial investment is not active, the Group establishes fair value by using valuation techniques such as recent arm's length transactions, reference to similar listed investments, discounted cash flow or option pricing models.

The Group recognises purchases and sales of financial investments on trade date, which is the date that the Group commits to purchase or sell the assets. The costs associated with investment transactions are included within expenses in the statement of comprehensive income.

Loans and advances

Loans with fixed maturities, including policyholder loans, are recognised when cash is advanced to borrowers or policyholders. Policyholder loans are interest free and are designated at FVTPL since they are taken from the policyholder's account and thereby linked to underlying investments held at FVTPL. Other loans and advances are carried at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are made and recognised in the income statement when there is objective evidence that the asset is impaired.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits that are readily convertible to a known amount of cash. Cash and cash equivalents held within consolidated unit trust funds are classified as FVTPL. All other cash and cash equivalents are classified as loans and receivables which means they are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. The carrying amount of these assets is approximately equal to their fair value.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. At inception, investment contract liabilities for unit linked business are designated as financial liabilities and measured at FVTPL. For unit-linked contracts, the fair value liability is equal to the total value of units allocated to the policyholders, based on the bid price of the underlying assets in the fund. The FVTPL classification reflects the fact that the matching investment portfolio, that mirrors the unit-linked liabilities, is managed, and its performance evaluated, on a fair value basis. Other financial liabilities are measured at amortised cost using the effective interest method.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Trade payables and receivables

Due to the short term nature of trade payables and receivables, their carrying amount is considered to be the same as their fair value.

4(l) ***Derivatives and hedge accounting***

Derivative financial instruments are generally used to reduce the risk from possible movements in foreign exchange rates, equity indices, and interest rates and to reduce credit risk or to achieve efficient portfolio management. Derivative instruments include foreign exchange contracts, interest rate futures, currency and interest rate swaps, currency and interest rate options (both written and purchased). Management determines the classification of derivatives at initial recognition. All derivatives instruments are classified as held for trading except those designated as part of a hedge accounting relationship, which is addressed below. Held for trading derivatives are measured at fair value with changes in fair value recognised in the income statement. All derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Using derivatives to manage a particular exposure is referred to as hedging. Hedge accounting is a technique that modifies the normal basis for recognising gains and losses (or revenues and expenses) on associated hedging instruments and hedged items so that both are recognised in profit or loss or OCI in the same accounting period. This is a matching concept that eliminates or reduces the volatility in the statement of comprehensive income that otherwise would arise if the hedged item and the hedging instrument were accounted for separately under IFRS. If the hedging relationship meets the IAS 39 criteria for hedge accounting, then the two sides of the relationship are treated as a single transaction within the financial statements. For a derivative to be considered as part of a hedging relationship its purpose must be formally documented up front. In addition, the effectiveness of the hedge must be initially high and be able to be reliably measured regularly. If a derivative ceases to meet the relevant hedging criteria, hedge accounting is discontinued.

Derivatives used to hedge the fair value of a recognised asset or liability, are designated as fair value hedges. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the income statement. The gain or loss on the hedged item is also recognised in the income statement. Derivatives used to hedge the variability in future cash flows are designated as cash flow hedges, while derivatives used to hedge currency risk on investments in foreign operations are designated as net investment hedges. For a derivative that qualifies as a cash flow or net investment hedge, the effective part of any gain or loss resulting from the change in fair value is recognised in OCI and in the cash flow or net investment hedge reserve in equity. Gains and losses accumulated in this reserve are included in the income statement on disposal of the relevant occurrence of cash flow or investment, as appropriate. Any ineffective part is recognised immediately in the income statement.

4(m) ***Employee benefits***

Pension obligations

The Group operates two types of pension plans which have been established for eligible employees of the Group:

- Defined contribution schemes where the Group makes contributions to members' pension plans but has no further payment obligations once the contributions have been paid.
- Defined benefit plans which provide pension payments upon retirement to members as defined by the plan rules. The Group has funded these liabilities by ring-fencing assets in trustee-administered funds.

Defined contribution pension obligation

Under a defined contribution plan, the Group's legal or constructive obligation is limited to the amount it agrees to contribute to a pension fund and there is no obligation to pay further contributions if the fund does not hold sufficient assets to pay benefits. Contributions in respect of defined contribution schemes for current service are expensed in the income statement as staff costs and other employee-related costs when incurred.

Defined benefit pension obligation

A defined benefit pension plan typically defines the amount of pension benefit that an employee will receive on retirement. For these plans, the Group's defined benefit obligation is calculated by independent actuaries using the projected unit credit method, which measures the pension obligation as the present value of estimated future cash outflows. The discount rate used is determined based on the yields for investment grade corporate bonds that have maturity dates approximating to the terms of the Group's obligations. Plan assets are measured at their fair value at the reporting date. The net surplus or deficit of the defined benefit plan is recognised as an asset or liability in the statement of financial position and represents the present value of the defined benefit obligation at the end of the reporting period less the fair value of the plan assets.

The value of any asset recognised is restricted to the sum of any unrecognised past service costs plus the present value of available funds and reductions in future contributions to the plan.

The current service cost and any past service costs together with the expected return on plan assets less the unwinding of the discount on the plan liabilities is charged to 'other expenses' in the income statement.

Re-measurements which comprise gains and losses as a result of experience adjustments and changes in actuarial assumptions, the actual return on plan assets (excluding interest) and the effect of the asset ceiling are recognised immediately in OCI in the period in which they occur. Re-measurements are not reclassified to the income statement in subsequent periods. Administration costs (other than the costs of managing plan assets) are recognised in the income statement when the service is provided.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in the income statement when the plan amendment or curtailment occurs.

Employee share-based payments

The Group operates a number of share incentive plans for its employees. These generally involve an award of shares or options in the Group (equity-settled share based payments), but may also take the form of a cash award based on the share price of the Group (cash-settled share based payments).

The Group's incentive plans have conditions attached before the employee becomes entitled to the award. These can be performance and/or service conditions (vesting conditions) or conditions that are often wholly within the control of the employee, for example where the employee has to provide funding during the vesting period, which is then used to exercise share options (non-vesting condition).

Performance conditions may be market based or non-market based. Market performance conditions are those related to an entity's equity, such as achieving a specified share price or target based on a comparison of the entity's share price with an index of share prices. Non-market performance conditions are those related to an entity's profit or revenue targets, an example of which would be Earnings per Share (EPS). Market based performance conditions and non-vesting conditions are taken into account when estimating the fair value of the share or option awards at the measurement date. The fair value of the share awards or options is not adjusted to take into account non-market performance features. These are taken into consideration by adjusting the number of equity instruments in the share-based payment measurement and this adjustment is made each period until the equity instruments vest.

The fair value of share-based payment awards granted is recognised as an expense in the income statement over the vesting period which accords with the period for which related services are provided by the employee. A corresponding increase in equity is recognised for equity settled plans and a corresponding financial liability for cash settled plans.

For equity-settled plans, the fair value is determined at grant date and not subsequently re-measured. For cash settled plans, the fair value is re-measured at each reporting date and the date of settlement, with any changes in fair value recognised in the statement of comprehensive income for the period and the liability adjusted accordingly

At each period end the Group reassesses the number of equity instruments expected to vest and recognises any difference between the revised and original estimate in the income statement with a corresponding adjustment to the share-based payments reserve in equity.

At the time the equity instruments vest, the amount recognised in the share-based payments reserve in respect of those equity instruments is transferred to retained earnings.

4(n) ***Tax***

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. 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 consolidated 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. In certain circumstances, as permitted by accounting guidance, deferred tax balances are not recognised. In particular, where the liability relates to the initial recognition of goodwill, or transactions that are not a business combination and at the time of their occurrence affect neither accounting nor taxable profit. Note 33(b) includes further detail of circumstances in which the Group does not recognise temporary differences.

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.

4(o) ***Goodwill and intangible assets***

The recognition of goodwill arises on the acquisition of a business and represents the premium paid over the fair value of the Group's share of the identifiable asset and liabilities acquired at the date of acquisition. Intangible assets include both purchased intangible assets initially recognised as part of a business combination and internally generated assets, such as software development costs related to amounts recognised for in-house systems development.

Goodwill and goodwill impairment

Goodwill arising on the Group's investments in subsidiaries is shown as a separate asset, while that on associates where it arises is included within the carrying value of those investments. Goodwill is recognised as an asset at cost at the date that control is achieved (the acquisition date) and is subsequently measured at cost less any accumulated impairment losses. Goodwill is not amortised but is subject to annual impairment reviews.

Goodwill is allocated to one or more cash-generating units (CGUs) expected to benefit from the synergies of the combination, where the CGU represents the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. Goodwill is reviewed for impairment at least once annually, as a matter of course even if there is no indication of impairment, and whenever an event or change in circumstances occurs which indicates a potential impairment. For impairment testing, the carrying value of goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs of disposal. Any impairment loss is recognised immediately in profit or loss and is not subsequently reversed.

On disposal of an operation within a group of CGUs to which goodwill has been allocated, the goodwill associated with that operation is included in the carrying amount of the operation when determining the gain or loss on disposal. It is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Intangible assets acquired as part of a business combination

Intangible assets acquired as part of a business combination are recognised where they are separable and can be measured reliably. Acquired intangible assets consist primarily of contractual relationships such as customer relationships and distribution channels. Such items are capitalised at their fair value, represented by the estimated net present value of the future cash flows from the relevant relationships acquired at the date of acquisition. Brands and similar items acquired as part of a business combination are capitalised at their fair value based on a 'relief from royalty' valuation methodology.

Subsequent to initial recognition acquired intangible assets are measured at cost less amortisation and any recognised impairment losses. Amortisation is provided at rates calculated to write off the cost or valuation less estimated residual value, using a straight-line method over their estimated useful lives as set out below:

• Distribution channels	10 years
• Customer relationships	10 years
• Brand	15 – 20 years

The economic lives are determined by considering relevant factors such as usage of the asset, product life cycles, potential obsolescence, competitive position and stability of the industry. The amortisation period is re-evaluated at least at the end of each financial year end.

Internally developed software

There are a number of factors taken into account when considering whether internally developed software meets the recognition criteria in IAS 38 *Intangible assets*. Where for example a third party provider retains ownership of the software, this will not meet the control criterion in the standard (i.e. the power to obtain benefits from the asset) and the costs will be expensed as incurred.

Where it is capitalised, internally developed software is held at cost less accumulated amortisation and impairment losses. Such software is recognised in the statement of financial position if, and only if, it is probable that the relevant future economic benefits attributable to the software will flow to the Group and its cost can be measured reliably.

Costs incurred in the research phase are expensed, whereas costs incurred in the development phase are capitalised, subject to meeting specific criteria, as set out in the relevant accounting guidance, the main one being that future economic benefits can be identified as a result of the development expenditure. Amortisation is charged to profit or loss on a straight-line basis over the estimated useful lives of the relevant software, which range between three and five years, depending on the nature and use of the software.

Subsequent expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Impairment testing for intangible assets

For intangible assets with finite lives, impairment charges are recognised where evidence of impairment is observed. If an indication of impairment exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). The recoverable amount is calculated as the higher of fair value less costs to sell and value-in-use. If the recoverable amount of an intangible asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense in the income statement immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

4(p) *Assets and liabilities held for sale and discontinued operations*

Assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sales transaction rather than through continuing use. This condition is regarded as having been met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year of the date of classification. Assets and liabilities held for sale are presented separately in the consolidated statement of financial position.

Assets and liabilities (and disposal groups) classified as held for sale are measured at the lower of their carrying amount and their fair value less costs to sell. No depreciation or amortisation is charged on a non-current asset while classified as held for sale or while part of a disposal group once it has been classified as held for sale.

The Group classifies as discontinued operations areas of the business which have been disposed of, or are classified as held for sale at the year end and which either represent a separate major line of business or geographical area, or are part of a plan to dispose of one, or are subsidiaries acquired exclusively with a view to resale.

When an asset (or disposal group) ceases to be classified as held for sale, the individual assets and liabilities cease to be shown separately in the statement of financial position at the end of the year in which the classification changes. Comparatives are not restated. If the line of business was previously presented as a discontinued operation and subsequently ceases to be classified as held for sale, profit and loss and cash flows of the comparative period are restated to show that line of business as a continuing operation.

Further information can be found in note 5.

4(q) *Provisions and contingent liabilities*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more probable than not that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Provisions are measured at management's best estimate of the expenditure required to settle the obligation at the reporting date. Where the effect of the time value of money is material, provisions are discounted and represent the present value of the expected expenditure.

The Group recognises specific provisions where they arise for the situations outlined below:

- Onerous contracts when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting the obligations under the contract.
- Corporate restructuring only if the Group has approved a detailed formal plan and raised a valid expectation among those parties directly affected, that the plan will be carried out either by having commenced implementation or by publicly announcing the plan's main features. Such provisions include the direct expenditure arising from the restructuring, such as employee termination payments but not those costs associated with the ongoing activities of the Group.

Provisions are not recognised for future operating costs or losses.

Contingent liabilities are possible obligations of the Group of which the timing and amount are subject to significant uncertainty. Contingent liabilities are not recognised in the consolidated statement of financial position, unless they are assumed by the Group as part of a business combination. They are however disclosed, unless they are considered to be remote. If a contingent liability becomes probable and the amount can be reliably measured it is no longer treated as contingent and recognised as a liability.

Contingent assets which are possible benefits to the Group are only disclosed if it is probable that the Group will receive the benefit. If such a benefit becomes virtually certain, it is no longer considered contingent and is recognised on the consolidated statement of financial position as an asset.

5: Acquisitions, discontinued operations and disposal groups held for sale

This note provides details of the acquisitions and disposals of subsidiaries the Group has made during the three-year period, together with details of businesses held for sale during that same period.

5(a) *Business acquisitions completed during the three-year period*

Business acquisitions completed during 2017

Caerus Capital Group Limited (Caerus)

On 1 June 2017, the Group completed the acquisition of 100% of the share capital of Caerus, a UK based adviser network that operates in a similar manner to Intrinsic and which has approximately £4 billion of funds under advice and 300 advisers.

The total consideration of £24 million includes £15 million cash consideration and up to £3 million that has been deferred for two years and £6 million that has been deferred for three years. The deferred consideration has been included as part of the cost of the acquisition as there is no continuing employment condition applying to the sellers of the business. The deferred consideration payable is dependent on turnover targets post acquisition and is potentially reduced by the amount of any relevant claims arising from in-force business existing prior to the payment dates.

The purchase price has been allocated based on a provisional estimate of the fair value of assets acquired and liabilities assumed at the date of acquisition determined in accordance to IFRS 3 'Business Combinations'. The provisional allocation required significant assumptions and it is possible that the preliminary estimates may change materially as the purchase price allocations are finalised. The accounting must be finalised within 12 months of the acquisition date.

The carrying value of assets and liabilities in Caerus's consolidated statement of financial position on acquisition date approximates the fair value of these items determined by the Group. In addition, the Group recognised identified intangible assets of £10 million relating to customer distribution channels. The value of the intangible assets was determined by applying cash flows to standard industry valuations models. Goodwill of £10 million was recognised on the acquisition and is attributable to the delivery of significant cost and revenue synergies that cannot be linked to identifiable intangible assets.

Transaction costs incurred of £1 million relating to the acquisition have been recognised within other operating expenses in the consolidated income statement, but not included within adjusted operating profit.

Old Mutual Wealth Private Client Advisers (PCA)

During 2017, the Group completed the acquisition of eight adviser businesses as part of the expansion of its PCA business that was launched in October 2015. The aim is to develop a Quilter branded, employed adviser business focused upon servicing upper affluent and high net worth clients, offering a centrally-defined restricted advice proposition focused upon Group's investment solutions and platform.

The purchase price for each acquisition has been allocated based on a provisional estimate of the fair value of assets acquired and liabilities assumed at the dates of acquisition determined in accordance to IFRS 3 'Business Combinations'. The provisional allocations required significant assumptions and it is possible that the preliminary estimates may change materially as the purchase price allocations are finalised. The accounting must be finalised within 12 months of the acquisition dates.

The estimated consideration payable is £20 million, of which £10 million was cash consideration and up to £10 million in relation to deferred payments. The amount of deferred consideration is dependent upon the meeting certain performance targets, generally relating to the value of funds under management and levels of on-going fee income. The deferred consideration has been included as part of the cost of the acquisition. Total other intangible assets of £10 million in respect of customer relationships were recognised as a result of the acquisitions, together with goodwill of £5 million.

Transaction costs incurred of £1 million relating to the acquisitions have been recognised within other operating expenses in the consolidated income statement, but not included within adjusted operating profit.

Attivo Investment Management Limited (AIM)

On 29 March 2017, the Group completed the acquisition of 100% of the share capital of AIM, a UK based investment management business offering a comprehensive investment management service.

The fair value of the total estimated consideration was £8 million, of which £4 million was cash consideration and £4 million was deferred for two years. The deferred consideration is included within the cost of the acquisition because it is dependent on levels of assets under management being maintained, with no requirement for continuing employment applied to the sellers of the business.

The book value of total assets and total net assets of the acquired business were both less than £1m.

The purchase price has been allocated based on a provisional estimate of the fair value of assets acquired and liabilities assumed at the date of acquisition determined in accordance to IFRS 3 'Business Combinations'. The provisional allocation required significant assumptions and it is possible that the preliminary estimates may change materially as the purchase price allocations are finalised. The accounting must be finalised within 12 months of the acquisition date.

The carrying value of assets and liabilities in AIM's statement of financial position on acquisition date approximates the fair value of these items determined by the Group. Other intangible assets of £7 million, relating to customer relationships, were recognised as a result of the acquisition. No goodwill was recognised on this transaction.

Transaction costs incurred of £0.5m relating to the acquisition have been recognised within other operating expenses in the consolidated income statement, but not included within adjusted operating profit.

Commsale 2000 Limited

On 29 September 2017, the Group acquired Commsale 2000 Limited (Commsale) from Old Mutual plc. Commsale is a UK based service company that runs the lease for the Old Mutual head office building and is responsible for the payment of rent, rates and service charges relating to the building and recharging the costs to all tenants through a service charge.

This represents a business combination involving entities or businesses under common control because the combining businesses are ultimately controlled by the same party or parties before and after the business combination.

The total consideration was for £0.29m. The Net Asset Value (NAV) at the date of acquisition was £0.45m, with a gain on purchase of £0.16m being recognised, representing assets not valued within the agreed consideration.

Global Edge Technology Ltd (GET)

On 30 November 2017, the Group acquired 100% of the issued share capital of Global Edge Technology Ltd (GET) from Old Mutual plc. GET is a service company incorporated in South Africa, with a branch in the UK that provides IT support for the Group's Platform business services.

This represents a business combination involving entities or businesses under common control because the combining businesses are ultimately controlled by the same party or parties before and after the business combination.

The total consideration was for £0.8m. The Net Asset Value (NAV) at the date of acquisition was £4.1m, with a gain on purchase of £3.3m being recognised. We determined that the excess of book value over consideration paid was attributable to potential future integration costs which, if incurred, would be expensed in future periods. As potential future integrating activities do not qualify to be recognised as a liability in the application of the acquisition method of accounting, no such liability was recognised, and we recorded the excess as a bargain purchase gain.

Business acquisitions completed during 2016

Acquisition of AAM Advisory Pte Ltd (AAM)

On 16 March 2016, the Group completed the acquisition of 100% of AAM, a Singapore financial advisory business. The cash consideration paid was £7 million (Singapore Dollars 'SGD': 14 million) with additional potential deferred consideration of £13 million (SGD 26 million), which is subject to AAM meeting certain performance targets for the period from 2016 to 2018. Deferred consideration is not included in the cost of acquisition due to the requirement for the sellers to remain within the business. The book value of total net assets of the acquired business was less than £1m.

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

Old Mutual Wealth Private Client Advisers (OMWPCA)

During the second half of 2016, the Group completed the acquisition of a number of PCA advisory businesses and client books as part of the expansion of the PCA business that was launched in October 2015, with the aim of developing a Quilter branded, employed adviser business focused upon servicing upper affluent and high-net worth clients, offering a centrally-defined restricted advice proposition focused upon the Group's investment solutions and platform. The total cash consideration paid was an initial £8 million with additional potential deferred consideration of £8 million, dependent upon meeting certain performance targets, generally relating to funds under management.

Goodwill of £8 million and other intangible assets of £3 million were recognised as a result of the transaction. The deferred consideration was capitalised in the calculation of goodwill recognised.

Business acquisitions completed during 2015

Acquisition of Quilter Cheviot Limited

On 25 February 2015, the Group completed the acquisition of 100% of Quilter Cheviot Limited, a leading UK-based discretionary investment manager, for a total consideration of £585 million, comprising of £543 million cash and £42 million of deferred consideration to be settled in Old Mutual plc shares. Deferred consideration is not included in the cost of acquisition due to the requirement for the sellers to remain within the business. An additional £23 million was paid to the seller to compensate for the increase in the net asset value of Quilter Cheviot Limited between the date at which the acquisition was agreed and the completion of the transaction. The purchase consideration for the acquisition of Quilter Cheviot was the total cash paid of £566 million.

Goodwill of £292 million and other intangible assets of £288 million (£273 million customer relationships and £15 million brand) were recognised as a result of the transaction.

The table below sets out the consolidated assets and liabilities acquired as a result of the acquisition of Quilter Cheviot Limited:

		£m
	Acquiree's carrying amount	**Fair value**
Assets		
Intangible assets	–	288
Property, plant and equipment	8	8
Deferred tax asset	1	1
Current tax receivable	3	3
Cash and cash equivalents	69	69
Trade, other receivables and other assets	128	128
Total assets	**209**	**497**
Liabilities		
Deferred tax liabilities	–	(58)
Provisions and accruals	(50)	(53)
Current tax payable	(5)	(5)
Trade, other payables and other liabilities	(107)	(107)
Total liabilities	**(162)**	**(223)**
Total net assets acquired	**47**	**274**
Fair value of net assets at acquisition date		543
Increase in fair value of net assets to completion date		23
Total cash consideration paid		**566**
Goodwill recognised		**292**

The table below represents the financial results of Quilter Cheviot Limited for the period from 1 January 2015 to 28 February 2015 (the period before acquisition) and for the period 26 February 2015 to 31 December 2015.

			£m
	1 January 2015 to 25 February 2015	26 February 2015 to 31 December 2015	**Combined year ended 31 December 2015**
Revenue			
Fee and commission income, and income from service activities	21	117	**138**
Net investment income	1	3	**4**
Total revenue	22	120	**142**
Expenses			
Other operating and administrative expenses	(25)	(106)	**(131)**
Total expenses	(25)	(106)	**(131)**
Profit before tax	(3)	14	**11**
Income tax expense	(2)	(4)	**(6)**
Profit for the period after tax	(5)	10	**5**

The acquired business contributed revenues of £120 million and net profit of £10 million to the Group for the period from 26 February 2015 to 31 December 2015. If the acquisition had occurred on 1 January 2015, the Group consolidated revenue and profit for the year ended 31 December 2015 would have been £2,060 million and £80 million respectively. These amounts have been calculated using the subsidiary's results and adjusting them for: (i) differences in the accounting policies between the group and subsidiary and (ii) the additional amortisation that would have been charged, assuming the fair value adjustments to intangible assets had been applied from 1 January 2015, together with tax effects.

5(b) *Disposal of subsidiaries, associated undertakings and strategic investments*

Year ended 31 December 2017

In August 2016, the Group announced that it has agreed to sell Old Mutual Wealth Italy S.p.A. to Ergo Previdenza S.p.A. ("Ergo"), a member of the Flavia insurance group). The sale completed on 9 January 2017. The consideration for the transaction was £221 million (€278 million) in cash, plus interest to completion recognising a profit on disposal of £80 million.

Year ended 31 December 2016

There were no disposals of subsidiaries, associated undertakings or strategic investments during the year ended 31 December 2016.

Year ended 31 December 2015

On 2 February 2015, the Group completed the sale of its interest in Luxembourg subsidiary Skandia Life S.A. (Skandia Luxembourg and Skandia France) for a cash consideration of £9 million recognising a loss on disposal of £28 million.

5(c) *Discontinued operations*

The Group's Discontinued Operations include the Single Strategy Business, Old Mutual Wealth Italy S.p.A. (up to the date its sale completed on 9 January 2017) and Skandia Life S.A. (Skandia Luxembourg and Skandia France) (up to the date of its sale completed on 2 February 2015).

In December 2017, the Group announced that it had entered into an agreement to sell its Single Strategy asset management business ("Single Strategy business") to a special purpose vehicle ultimately owned by funds managed by TA Associates and certain members of the Single Strategy management team (together "the Acquirer"), for an expected total consideration of c.£600 million, comprising cash consideration of £570 million payable on or before completion, with approximately £30 million anticipated to be payable thereafter, paid primarily in 2019 to 2021 as surplus capital associated with the separation from Quilter is released in the business. These values are subject to a number of potential price adjustments depending on the net asset value of the business and a number of other factors at the disposal date. The deferred consideration is not subject to performance conditions. Once the transaction completes, economic ownership of the Single Strategy business will pass to the Acquirer effective from 1 January 2018 with all profits and performance fees generated up until 31 December 2017 for the account of Quilter.

		£m
	Year ended 31 December 2017	Year ended 31 December 2015
	Old Mutual Wealth Italy S.p.A.	Skandia Life S.A.
Consideration received	**221**	9
Less: transaction costs	**(4)**	(11)
Net proceeds from sale	**217**	(2)
Carrying value of net assets disposed of	**(137)**	(26)
Profit/(Loss) on sales of operations before tax	**80**	(28)
Profit/(Loss)on sales of operations after tax	**80**	(28)

5(d) ***Discontinued income statement***

The table below sets out the combined trading results of the Group's discontinued operations and also any profit/(loss) on the sale of discontinued operations during the three-year period:

				£m
	Note	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
Revenue				
Net earned premiums		**–**	1	13
Fee and commission income, and income from service activities		**389**	354	301
Net investment income		**7**	141	164
Other income		**3**	2	6
Total revenue		**399**	498	484
Expenses				
Net insurance claims and benefits incurred		**–**	–	(10)
Change in insurance contract liabilities		**–**	(1)	(51)
Change in investment contract liabilities		**–**	(133)	(107)
Fee and commission expenses, and other acquisition costs		**(62)**	(140)	(126)
Other operating and administrative expenses		**(185)**	(142)	(119)
Total expenses		**(247)**	(416)	(413)
Profit/(Loss) on disposal of subsidiaries	5(c)	**80**	–	(28)
Profit before tax from discontinued operations		**232**	82	43
Tax attributable to shareholders' funds		**(29)**	(20)	(15)
Profit for the year after tax from discontinued operations		**203**	62	28
Attributable to:				
Equity holders of the Parent Company		**203**	62	28
Earnings per ordinary share on profit attributable to ordinary shareholders of the Parent Company				
Basic – from discontinued operations (pence)		**156.2**	47.7	21.5
Diluted – from discontinued operations (pence)		**156.2**	47.7	21.5

5(e) ***Statement of comprehensive income from Discontinued Operations***

	Note	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
				£m
Profit for the year		**203**	**62**	28
Other comprehensive income from discontinued operations:				
Items that may be reclassified subsequently to income statement				
Exchange gains/(losses) on translation of foreign operations		**4**	18	(8)
Other comprehensive income/(expenses) for the year		**3**	6	–
Total other comprehensive income from discontinued operations, net of tax		**7**	24	(8)
Total comprehensive income for the year from discontinued operations		**210**	86	20

5(f) ***Net cash flows from discontinued operations***

	Note	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
				£m
Net cash flows from operating activities		**(22)**	398	596
Net cash outflow from investing activities		**137**	(362)	(558)
Total net cash flows from discontinued operations		**115**	36	38

5(g) ***Assets and liabilities held for sale***

Assets and liabilities held for sale during 2017

Assets and liabilities of operations classified as held for sale at 31 December 2017 relate to the Single Strategy asset management business. The operation has been classified as held for sale from December 2017 and the transaction is expected to complete during 2018. The assets and liabilities held for sale are disclosed in the table below.

Assets and liabilities held for sale during 2016

Assets and liabilities of operations classified as held for sale at 31 December 2016 relate to Old Mutual Wealth Italy S.p.A. The operations had been classified as held for sale from August 2016 and the transaction was completed on 9 January 2017. The principal financial assets and liabilities included as held for sale are investments and securities of £6,189 million and investment contract liabilities of £6,155 million, both of which are classified as Level 1 in terms of the fair value hierarchy.

The table below represents assets and liabilities held for sale:

			£m
	Note	**At 31 December 2017**	At 31 December 2016
Assets classified as held for sale			
Goodwill and other intangible assets	17(a)	**82**	–
Financial investments	20	**–**	6,189
Deferred tax assets	33	**9**	3
Trade, other receivables and other assets	26	**204**	127
Deferred acquisition costs	27	**4**	63
Cash and cash equivalents	28	**147**	14
Assets of operations classified as held for sale		**446**	6,396
Liabilities directly associated with assets classified as held for sale			
Long-term business insurance policyholder liabilities		**–**	10
Investment contract liabilities		**–**	6,155
Provisions and accruals	32	**–**	3
Deferred tax liabilities	33	**–**	20
Current tax payable		**33**	–
Trade, other payables and other liabilities	35	**186**	70
Deferred revenue	36	**–**	5
Liabilities of operations classified as held for sale		**219**	6,263
Net assets of operations classified as held for sale		**227**	133

6: Segmental information

6(a) *Segmental presentation*

There have been no changes to the presentation of segment information for the three-year period in the historical financial information. All three years have been segmented based on our agreed segmentation post-separation from Old Mutual plc.

The Group's operating segments comprise Advice and Wealth Management and Wealth Platforms. Head Office expenses are also included within our continuing business and this segmentation is consistent with how the Group is managed. For all reporting periods, these businesses have been classified as continuing operations in the IFRS income statement and as core operations in determining the Group's Operating profit. The Head Office function includes certain central costs that are not allocated to a specific business unit.

For the year ended 31 December 2017, 31 December 2016 and 31 December 2015, the Group has classified the European operations and the Single Strategy asset management business as discontinued because they have either been sold or held for sale. Further detail is included in note 5(c).

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

Operating profit is one of the key measures reported to the Group's management and Board of directors for their consideration in the allocation of resources to, and the review of the performance, of the segments. As appropriate to the business line, the Board reviews additional measures to assess the performance of each of the segments. These typically include sales, net client cash flows, assets under management and advice, and revenue and operating margins.

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

The revenues generated in each reported segment is provided in the analysis of profits and losses in note 6. The segmental information in this note reflects the Operating and IFRS measures of profit or loss and the assets and liabilities for each operating segment as provided to management and the Board of directors. There are no differences between the measurement of the assets and liabilities reflected in the primary statements and that reported for the segments.

The Group is primarily engaged in the following business activities from which it generates revenue: asset management business (fee and commission income), life assurance (premium income) and financial advice (management fees). Other revenue includes gains and losses on investment securities.

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

Advice and Wealth Management

This segment comprises Old Mutual Global Investors, Quilter Cheviot Limited and Advice, including Old Mutual Wealth Private Client Advisers (OMWPCA).

Old Mutual Global Investors is a leading provider of investment solutions in the UK multi-asset market. It develops and manages investment solutions in the form of funds for the Group and third party clients. It has several fund ranges which vary on breadth of underlying asset class. The business has primarily been accumulation-focused, with recent development of decumulation solutions.

Quilter Cheviot Limited provides discretionary investment management in the United Kingdom with bespoke investment portfolios tailored to the individual needs of affluent and high-net worth customers, charities, companies and institutions through a network of branches in London and the regions. Investment management services are also provided by branches in Jersey, Channel Islands and the Republic of Ireland.

Advice is a restricted financial adviser network (including OMWPCA) providing mortgage and financial planning advice and financial solutions for both individuals and businesses through a network of intermediaries. They operate across all markets, from wealth management and retirement planning advice through to dealing with property wealth and personal and business protection needs.

Wealth Platforms

This segment comprises UK Platforms and Heritage, and International cross border businesses.

UK Platform and Heritage provides advice-based wealth management products and services in the UK, which serves a largely affluent customer base through advised multi-channel distribution. The Heritage business is predominantly closed book, made up of legacy products. Protection products are also part of the business.

International is a cross-border business, focusing on high net worth and affluent local customers and expatriates in Asia, the Middle East, Europe, South Africa and Latin America. Heritage is the book of legacy life and pensions business, the majority of which is closed to new business and in steady, managed run-off. This also includes the open books of protection business and Institutional business.

In addition to the two operating segments, the Group's Head Office comprises the investment return on centrally held assets, which was less than £1m in the three-year historical period, head office expenses, such as Group treasury and finance functions, together with certain taxes and financing costs arising on central borrowings, along with central core structural borrowings and certain tax balances in the segmental statement of financial position.

6(b)(i) *Operating profit statement – segmental information for the year ended 31 December 2017*

£m

		Operating profit – Continuing business				Reconciliation to IFRS		
		Operating segments						
	Notes	**Advice and Wealth Management**	**Wealth Platforms**	**Head Office**	**Operating Profit**	**Consolidation Adjustments[1]**	**Adjusting items (Note 7(a))**	**IFRS Income Statement**
Revenue								
Gross earned premiums		–	148	–	**148**	–	–	**148**
Premiums ceded to reinsurers		–	(88)	–	**(88)**	–	–	**(88)**
Net earned premiums		–	60	–	**60**	–	–	**60**
Fee and commission income, and income from service activities	8(a)	382	526	–	**908**	(13)	–	**895**
Net investment income	8(b)	3	4,412	1	**4,416**	779	–	**5,195**
Other income		2	83	3	**88**	(75)	–	**13**
Segmental revenue		387	5,081	4	**5,472**	691	–	**6,163**
Expenses								
Claims and benefits paid		–	(76)	–	**(76)**	–	–	**(76)**
Reinsurance recoveries		–	54	–	**54**	–	–	**54**
Net insurance claims and benefits incurred		–	(22)	–	**(22)**	–	–	**(22)**
Change in reinsurance assets and liabilities		–	85	–	**85**	–	–	**85**
Change in insurance contract liabilities		–	(78)	–	**(78)**	–	–	**(78)**
Change in investment contract liabilities		–	(4,308)	–	**(4,308)**	–	–	**(4,308)**
Fee and commission expenses, and other acquisition costs	9(a)	(52)	(198)	–	**(250)**	(70)	–	**(320)**
Change in third party interest in consolidated funds		–	–	–	**–**	(673)	–	**(673)**
Other operating and administrative expenses	9(b)	(253)	(336)	(35)	**(624)**	52	(244)	**(816)**
Finance costs	10	–	–	–	**–**	–	(39)	(39)
Segmental expenses		(305)	(4,857)	(35)	**(5,197)**	(691)	(283)	**(6,171)**
Profit on the acquisition and re-measurement of subsidiaries	7(c)	–	–	–	**–**	–	3	3
Operating profit/(loss) before all tax		82	224	(31)	**275**	–	(280)	(5)
Tax attributable to policyholders' funds		–	(66)	–	**(66)**	–	17	(49)
Operating profit/(loss) before tax attributable to shareholders' funds		82	158	(31)	**209**	–	(263)	**(54)**

		Operating profit – Continuing business				Reconciliation to IFRS		£m
		Operating segments						
	Notes	Advice and Wealth Management	Wealth Platforms	Head Office	Operating Profit	Consolidation Adjustments[1]	Adjusting items (Note 7(a))	IFRS Income Statement
Reconciliation to IFRS:								
Adjusted for non-operating items:	7(a)							
Impairment of goodwill and impact of acquisition costs		(53)	–	(1)	**(54)**	–	54	–
Profit on the acquisition and re-measurement of subsidiaries		–	–	3	**3**	–	(3)	–
Business transformation costs		–	(89)	–	**(89)**	–	89	–
Managed separation costs		–	–	(32)	**(32)**	–	32	–
Finance costs		–	(1)	(38)	**(39)**	–	39	–
Policyholder tax adjustments		–	17	–	**17**	–	(17)	–
Voluntary customer remediation provision		–	–	(69)	**(69)**	–	69	–
Adjusting items before tax		(53)	(73)	(137)	**(263)**	–	263	–
IFRS profit before tax attributable to shareholders' funds		29	85	(168)	**(54)**	–	–	**(54)**

[1] Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.

6(b)(ii) *Operating profit statement – segmental information for the year ended 31 December 2016*

£m

		Operating profit – Continuing business				Reconciliation to IFRS		
		Operating segments						
	Notes	Advice and Wealth Management	Wealth Platforms	Head Office	Operating Profit	Consolidation Adjustments[1]	Adjusting items (Note 7(a))	IFRS Income Statement
Revenue								
Gross earned premiums		–	141	–	**141**	–	–	**141**
Premiums ceded to reinsurers		–	(84)	–	**(84)**	–	–	**(84)**
Net earned premiums		–	57	–	**57**	–	–	**57**
Fee and commission income, and income from service activities	8(a)	324	497	–	**821**	(18)	–	**803**
Net investment income	8(b)	6	5,706	–	**5,712**	598	–	**6,310**
Other income		–	–	–	**–**	17	–	**17**
Total revenue		330	6,260	–	**6,590**	597	–	**7,187**
Expenses								
Claims and benefits paid		–	(72)	–	**(72)**	–	–	**(72)**
Reinsurance recoveries		–	51	–	**51**	–	–	**51**
Net insurance claims and benefits incurred		–	(21)	–	**(21)**	–	–	**(21)**
Change in reinsurance assets and liabilities		–	119	–	**119**	–	–	**119**
Change in insurance contract liabilities		–	(125)	–	**(125)**	–	–	**(125)**
Change in investment contract liabilities		–	(5,522)	–	**(5,522)**	–	–	**(5,522)**
Fee and commission expenses, and other acquisition costs	9(a)	(56)	(215)	–	**(271)**	(28)	–	**(299)**
Change in third party interest in consolidated funds		–	–	–	**–**	(575)	–	**(575)**
Other operating and administrative expenses	9(b)	(219)	(262)	(18)	**(499)**	6	(161)	**(654)**
Finance costs	10	–	–	–	**–**	–	(43)	**(43)**
Total expenses		(275)	(6,026)	(18)	**(6,319)**	(597)	(204)	**(7,120)**
Operating profit/(loss) before all tax		55	234	(18)	**271**	–	(204)	**67**
Tax attributable to policyholders' funds		–	(94)	–	**(94)**	–	(8)	**(102)**
Operating profit/(loss) before tax attributable to shareholders' funds		55	140	(18)	**177**	–	(212)	**(35)**
Reconciliation to IFRS:								
Adjusted for non-operating items:	7(a)							
Impairment of goodwill and impact of acquisition costs		(51)	(1)	–	**(52)**	–	52	**–**
Business transformation costs		–	(102)	–	**(102)**	–	102	**–**
Managed separation costs		–	–	(7)	**(7)**	–	7	**–**
Finance costs		–	–	(43)	**(43)**	–	43	**–**
Policyholder tax adjustments		–	(8)	–	**(8)**	–	8	**–**
Adjusting items before tax		(51)	(111)	(50)	**(212)**	–	212	**–**
IFRS profit before tax attributable to shareholders' funds		4	29	(68)	**(35)**	–	–	**(35)**

[1] Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.

6(b)(iii) ***Operating profit statement – segmental information for the year ended 31 December 2015***

£m

		Operating profit – Continuing business				Reconciliation to IFRS		
		Operating segments						
	Notes	Advice and Wealth Management	Wealth Platforms	Head Office	Operating Profit	Consolidation Adjustments[1]	Adjusting items (Note 7(a))	IFRS Income Statement
Revenue								
Gross earned premiums		–	135	–	**135**	–	–	**135**
Premiums ceded to reinsurers		–	(81)	–	**(81)**	–	–	**(81)**
Net earned premiums		–	54	–	**54**	–	–	**54**
Fee and commission income, and income from service activities	8(a)	288	552	–	**840**	(24)	–	**816**
Net investment income	8(b)	3	985	–	**988**	178	–	**1,166**
Other income		2	39	–	**41**	(39)	–	**2**
Total revenue		293	1,630	–	**1,923**	115	–	**2,038**
Expenses								
Claims and benefits paid		–	(77)	–	**(77)**	–	–	**(77)**
Reinsurance recoveries		–	56	–	**56**	–	–	**56**
Net insurance claims and benefits incurred		–	(21)	–	**(21)**	–	–	**(21)**
Change in reinsurance assets and liabilities		–	40	–	**40**	–	–	**40**
Change in insurance contract liabilities		–	(32)	–	**(32)**	–	–	**(32)**
Change in investment contract liabilities		–	(949)	–	**(949)**	–	–	**(949)**
Fee and commission expenses, and other acquisition costs	9(a)	(62)	(246)	–	**(308)**	(54)	–	**(362)**
Change in third party interest in consolidated funds		–	–	–	**–**	(76)	–	**(76)**
Other operating and administrative expenses	9(b)	(177)	(236)	(14)	**(427)**	15	(153)	**(565)**
Finance costs	10	–	–	–	**–**	–	(32)	**(32)**
Total expenses		(239)	(1,444)	(14)	**(1,697)**	(115)	(185)	**(1,997)**
Operating profit/(loss) before all tax		54	186	(14)	**226**	–	(185)	**41**
Tax attributable to policyholders' funds		–	(5)	–	**(5)**	–	12	**7**
Operating profit/(loss) before tax attributable to shareholders' funds		54	181	(14)	**221**	–	(173)	**48**
Reconciliation to IFRS:								
Adjusted for non-operating items:	7(a)							
Impairment of goodwill and impact of acquisition costs		(47)	–	(10)	**(57)**	–	57	**–**
Business transformation costs		–	(96)	–	**(96)**	–	96	**–**
Managed separation costs		–	–	–	**–**	–	–	**–**
Finance costs		–	–	(32)	**(32)**	–	32	**–**
Policyholder tax adjustments		–	12	–	**12**	–	(12)	**–**
Adjusting items before tax		(47)	(84)	(42)	**(173)**	–	173	**–**
IFRS profit before tax attributable to shareholders' funds		7	97	(56)	**48**	–	–	**48**

(1) Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.

6(c)(i) *Statement of financial position – segmental information at 31 December 2017*

	Notes	Advice & Wealth Management	Wealth Platforms	Head Office	Consolidation Adjustments[1]	Total Continuing Operations	Discontinued Operations[2]	Total
								£m
Assets								
Goodwill and other intangible assets	17	412	162	–	–	**574**	–	**574**
Property, plant and equipment	18	9	9	–	–	**18**	–	**18**
Investments in associated undertakings		2	–	1	–	**3**	–	**3**
Loans and advances	19	18	180	1	–	**199**	–	**199**
Financial investments	20	–	56,562	1	7,685	**64,248**	–	**64,248**
Reinsurers' share of policyholder liabilities	25	–	2,908	–	–	**2,908**	–	**2,908**
Deferred tax assets	33	6	15	1	–	**22**	–	**22**
Current tax receivable		–	–	–	–	**–**	–	**–**
Trade, other receivables and other assets	26	208	202	18	69	**497**	–	**497**
Deferred acquisition costs	27	–	611	–	–	**611**	–	**611**
Derivative assets	21	–	1	–	86	**87**	–	**87**
Cash and cash equivalents	28	303	1,062	82	913	**2,360**	–	**2,360**
Assets of operations classified as held for sale	5(g)	–	–	–	–	**–**	446	**446**
Inter-segment funding – assets		4	–	124	(128)	**–**	–	**–**
Total assets		962	61,712	228	8,625	**71,527**	446	**71,973**
Liabilities								
Long-term business insurance policyholder liabilities	31	–	489	–	–	**489**	–	**489**
Investment contract liabilities	31	–	59,139	–	–	**59,139**	–	**59,139**
Third party interests in consolidated funds		–	–	–	7,905	**7,905**	–	**7,905**
Provisions and accruals	32	10	89	5	–	**104**	–	**104**
Deferred tax liabilities	33	40	150	–	–	**190**	–	**190**
Current tax payable		21	38	(21)	–	**38**	–	**38**
Borrowings	34	–	–	782	–	**782**	–	**782**
Trade, other payables and other liabilities	35	275	607	35	414	**1,331**	–	**1,331**
Deferred revenue	36	1	243	–	–	**244**	–	**244**
Derivative liabilities	21	–	–	–	433	**433**	–	**433**
Liabilities of operations classified as held for sale	5(g)	–	–	–	–	**–**	219	**219**
Inter-segment funding – liabilities		–	123	4	(127)	**–**	–	**–**
Total liabilities		347	60,878	805	8,625	**70,655**	219	**70,874**
Total equity								**1,099**
Total equity and liabilities								**71,973**

(1) Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.

(2) Discontinued operations includes the results of the Group's Single Strategy business.

6(c)(ii) *Statement of financial position – segmental information at 31 December 2016*

								£m
	Notes	**Advice & Wealth Management**	**Wealth Platforms**	**Head Office**	**Consolidation Adjustments[1]**	**Total Continuing Operations**	**Discontinued Operations[2]**	**Total**
Assets								
Goodwill and other intangible assets	17	415	157	–	–	**572**	82	**654**
Property, plant and equipment	18	9	9	–	–	**18**	–	**18**
Investments in associated undertakings		–	–	1	–	**1**	–	**1**
Loans and advances	19	11	207	2	–	**220**	–	**220**
Financial investments	20	–	48,614	1	3,620	**52,235**	–	**52,235**
Reinsurers' share of policyholder liabilities	25	–	2,863	–	–	**2,863**	–	**2,863**
Deferred tax assets	33	4	–	–	–	**4**	4	**8**
Current tax receivable		–	20	–	–	**20**	–	**20**
Trade, other receivables and other assets	26	195	261	103	122	**681**	113	**794**
Deferred acquisition costs	27	–	655	–	–	**655**	–	**655**
Derivative assets	21	–	–	–	26	**26**	–	**26**
Cash and cash equivalents	28	161	736	88	533	**1,518**	77	**1,595**
Assets of operations classified as held for sale	5(g)	–	–	–	–	**–**	6,396	**6,396**
Inter-segment funding – assets		4	38	23	(65)	**–**	–	**–**
Total assets		799	53,560	218	4,236	**58,813**	6,672	**65,485**
Liabilities								
Long-term business insurance policyholder liabilities	31	–	417	–	–	**417**	–	**417**
Investment contract liabilities	31	–	51,265	–	–	**51,265**	–	**51,265**
Third party interests in consolidated funds		–	–	–	4,140	**4,140**	–	**4,140**
Provisions and accruals	32	10	18	1	–	**29**	–	**29**
Deferred tax liabilities	33	48	131	–	–	**179**	–	**179**
Current tax payable		19	13	(17)	–	**15**	5	**20**
Borrowings	34	–	–	839	–	**839**	–	**839**
Trade, other payables and other liabilities	35	261	527	13	107	**908**	116	**1,024**
Deferred revenue	36	–	261	–	–	**261**	–	**261**
Derivative liabilities	21	–	1	–	55	**56**	–	**56**
Liabilities of operations classified as held for sale	5(g)	–	–	–	–	**–**	6,263	**6,263**
Inter-segment funding – liabilities		8	15	43	(66)	**–**	–	**–**
Total liabilities		346	52,648	879	4,236	**58,109**	6,384	**64,493**
Total equity								**992**
Total equity and liabilities								**65,485**

(1) Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.

(2) Discontinued operations includes the results of Old Mutual Wealth Italy S.p.A. and the Group's Single Strategy businesses.

6(c)(iii) *Statement of financial position – segmental information at 31 December 2015*

								£m
	Notes	Advice & Wealth Management	Wealth Platforms	Head Office	Consolidation Adjustments[1]	Total Continuing Operations	Discontinued Operations[2]	Total
Assets								
Goodwill and other intangible assets	17	442	151	–	–	**593**	77	**670**
Property, plant and equipment	18	7	12	–	–	**19**	–	**19**
Investments in associated undertakings		–	–	1	–	**1**	–	**1**
Loans and advances	19	9	181	–	–	**190**	–	**190**
Financial investments	20	–	41,547	–	2,611	**44,158**	5,136	**49,294**
Reinsurers' share of policyholder liabilities	25	–	2,507	–	–	**2,507**	–	**2,507**
Deferred tax assets	33	2	–	–	–	**2**	6	**8**
Current tax receivable		–	27	–	–	**27**	–	**27**
Trade, other receivables and other assets	26	147	254	55	54	**510**	206	**716**
Deferred acquisition costs	27	–	710	–	–	**710**	58	**768**
Derivative assets	21	–	–	–	971	**971**	–	**971**
Cash and cash equivalents	28	119	595	81	709	**1,504**	97	**1,601**
Inter-segment funding – assets		4	38	8	(50)	**–**	–	**–**
Total assets		730	46,022	145	4,295	**51,192**	5,580	**56,772**
Liabilities								
Long-term business insurance policyholder liabilities	31	–	286	–	–	**286**	7	**293**
Investment contract liabilities	31	–	43,945	–	–	**43,945**	5,096	**49,041**
Third party interests in consolidated funds		–	–	–	3,311	**3,311**	–	**3,311**
Provisions and accruals	32	11	19	2	–	**32**	3	**35**
Deferred tax liabilities	33	56	77	–	–	**133**	19	**152**
Current tax payable		10	(2)	(9)	–	**(1)**	14	**13**
Borrowings	34	–	–	786	–	**786**	–	**786**
Trade, other payables and other liabilities	35	196	500	12	57	**765**	173	**938**
Deferred revenue	36	–	307	–	–	**307**	5	**312**
Derivative liabilities	21	–	–	–	978	**978**	–	**978**
Inter-segment funding – liabilities		–	8	43	(51)	**–**	–	**–**
Total liabilities		273	45,140	834	4,295	**50,542**	5,317	**55,859**
Total equity								**913**
Total equity and liabilities								**56,772**

[1] Consolidation adjustments comprise the elimination of inter-segment transactions and the consolidation of investment funds.

[2] Discontinued operations includes the results of Old Mutual Wealth Italy S.p.A and the Group's Single Strategy businesses.

6(d)(i) *Geographical segmental information*

In presenting geographical segment information, revenue is based on the geographical location of our businesses. The Group has defined two geographical areas: UK and International.

						£m
For the year ended 31 December 2017	Notes	**UK**	**International**	**Total continuing operations**	**Discontinued operations**	**Total Group**
Revenue						
Gross earned premiums		**147**	**1**	**148**	**–**	**148**
Premiums ceded to reinsurers		**(87)**	**(1)**	**(88)**	**–**	**(88)**
Net earned premiums		**60**	**–**	**60**	**–**	**60**
Fee and commission income, and income from service activities	8(a)	**662**	**233**	**895**	**389**	**1,284**
Net investment income	8(b)	**4,149**	**1,046**	**5,195**	**7**	**5,202**
Other income		**11**	**2**	**13**	**3**	**16**
Total revenue		**4,882**	**1,281**	**6,163**	**399**	**6,562**
For the year ended 31 December 2016						
Revenue						
Gross earned premiums		140	1	141	1	142
Premiums ceded to reinsurers		(83)	(1)	(84)	–	(84)
Net earned premiums		57	–	57	1	58
Fee and commission income, and income from service activities	8(a)	579	224	803	354	1,157
Net investment income	8(b)	4,302	2,008	6,310	141	6,451
Other income		17	–	17	2	19
Total revenue		4,955	2,232	7,187	498	7,685
For the year ended 31 December 2015						
Revenue						
Gross earned premiums		134	1	135	13	148
Premiums ceded to reinsurers		(80)	(1)	(81)	–	(81)
Net earned premiums		54	–	54	13	67
Fee and commission income, and income from service activities	8(a)	599	217	816	301	1,117
Net investment income	8(b)	1,108	58	1,166	164	1,330
Other income		2	–	2	6	8
Total revenue		1,763	275	2,038	484	2,522

7: Other key performance information

7(a) *Operating profit adjusting items*

Summary of adjusting items for determination of operating profit

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

	Notes	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
				£m
Expense/(income)				
Goodwill impairment and impact of acquisition accounting	7(b)	**54**	52	57
Profit on the acquisition and re-measurement of subsidiaries	7(c)	**(3)**	–	–
Business transformation costs	7(d)	**89**	102	96
Managed separation costs	7(e)	**32**	7	–
Finance costs	10	**39**	43	32
Policyholder tax adjustments on non-operating items	7(f)	**(17)**	8	(12)
Voluntary customer remediation provision	7(g)	**69**	–	–
Total non-operating adjusting items		**263**	212	173
Tax on non-operating adjusting items	13(c)	**(39)**	(28)	(45)
Less policyholder tax adjustments on non-operating items		**17**	(8)	12
Total non-operating adjusting items after tax		**241**	176	140

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

When applying acquisition accounting, deferred acquisition costs and deferred revenue existing at the point of acquisition are not recognised under IFRS. These are reversed on acquisition in the statement of financial position and replaced by goodwill and other intangible assets. In determining operating profit, the Group recognises acquisition costs and deferred revenue in relation to policies sold by acquired businesses pre-acquisition. The Group excludes the impairment of goodwill, the amortisation and impairment of acquired other intangible assets as well as the movements in certain acquisition date provisions. Costs incurred on completed acquisitions are also excluded from operating profit.

The effect of these adjustments to determine operating profit are summarised below:

For the year ended 31 December 2017

				£m
	Advice and Wealth Management	**Wealth Platforms**	**Head office**	**Total Group**
Amortisation of other acquired intangible assets	**39**	**–**	**–**	**39**
Change in acquisition date provisions	**–**	**–**	**1**	**1**
Acquisition costs	**13**	**–**	**–**	**13**
Impairment on disposals	**1**	**–**	**–**	**1**
	53	**–**	**1**	**54**

For the year ended 31 December 2016

				£m
	Advice and Wealth Management	Wealth Platforms	Head office	Total Group
Amortisation of other acquired intangible assets	36	–	–	36
Change in acquisition date provisions	–	1	–	1
Acquisition costs	15	–	–	15
	51	1	–	52

For the year ended 31 December 2015

				£m
	Advice and Wealth Management	Wealth Platforms	Head office	Total Group
Amortisation of other acquired intangible assets	31	–	–	31
Acquisition costs	16	–	10	26
	47	–	10	57

7(c) *Profit on the acquisition and re-measurement of subsidiaries*

As part of the managed separation, on 30 November 2017, the Company acquired 100% of the whole of the issued share capital of Global Edge Technologies (Pty) Ltd ("GET"), a company incorporated in South Africa, from OM Group (UK) Limited (part of the Old Mutual plc group) for £0.8 million.

Along with recording the book values of the assets acquired and liabilities assumed of £4 million, the Company recognised a bargain purchase gain of £3.2 million.

We determined that the excess of book value over consideration paid was attributable to potential future integration costs which, if incurred, would be expensed in future periods. As potential future integrating activities do not qualify to be recorded as a liability in the application of the acquisition method of accounting, none was recorded, and we recorded the excess as a bargain purchase gain.

7(d) ***Business transformation costs***

In 2013, the Group UK business embarked on a significant programme to develop new platform capabilities and to outsource UK business administration. This involved replacing many aspects of the existing UK platform, and on completion certain elements of service provision would be migrated to International Financial Data Services (IFDS) under a long-term outsourcing agreement. The cost of developing the new technology did not meet the criteria for capitalisation, hence these costs and the costs of decommissioning existing technology and migrating of services to IFDS are excluded from Operating profit. Only costs that are directly attributable to the programme have been excluded from Operating Profit as management is of the view that this long-term investment in operational capability is a non-operating item. For the year ended 31 December 2017, these costs totalled £53 million (2016: £102 million), (2015: £96 million).

The contracts with International Financial Data Services related to the UK Platform Transformation came to an end by mutual agreement effective as of 2 May 2017.

The Group conducted a comprehensive review of the options available to the UK Platform business and entered into a new contract with FNZ, having concluded that FNZ's scale, market-proven and functionally rich offering was the most suitable to meet the current and anticipated needs of the business.

In partnership with FNZ, the Group expects to deliver all the existing functionality of the platform with increased levels of straight-through processing and enhanced functionality by late 2018/early 2019, with migration of the in-force book to follow shortly thereafter. For the year ended 31 December 2017, these costs totalled £21 million (2016: £nil), (2015: £nil).

The Group has historically had a number of arrangements with the wider Old Mutual plc group's South African businesses. As a consequence of Managed Separation these arrangements have been severed and, as a result, deferred acquisition cost balances totalling £10 million have been written off (included within fee and commission expenses in the income statement), together with a loss incurred of £5 million on the cancellation of reinsurance arrangements (included within other costs within the income statement). The £15 million of charges are regarded as one-off and related to the transformation of the business to a stand-alone group.

7(e) ***Managed separation costs***

One-off costs related to the implementation of managed separation recognised in the IFRS income statement have been excluded from Operating Profit on the basis that they are not representative of the operating activity of the Group. These costs relate to the capacitation of the businesses in readiness to operate as standalone businesses and the execution of various transactions required to implement our managed separation strategy. They are not expected to persist in the long term as they relate to a fundamental restructuring of the Group, which is not operational in nature, rather than more routine restructuring activity which would be seen as part of the usual course of business. The treatment and the disclosure of these costs as an adjusting item are also intended to make these costs more visible to the readers of the financial statements in the context of publicly disclosed estimates previously given in relation to these items. For the year ended 31 December 2017, these costs totalled £32 million (2016: £7 million), (2015: £nil).

7(f) ***Policyholder tax adjustments***

Adjustments to policyholder tax are made to remove distortions arising from market volatility that can, in turn, lead to volatility in the policyholder tax charge between periods. In addition, adjustments are made to remove distortions to policyholder tax arising from the utilisation of tax allowances from elsewhere in the Quilter group (e.g. capital losses) which are regarded economically as impacting shareholder tax, and from distortions arising from other non-operating adjusting items. For the year ended 31 December 2017, this adjustment to operating profit totalled £17 million, (2016: £(8) million), (2015: £12 million).

7(g) ***Voluntary Customer Remediation Provision***

As detailed in note 32 *Provisions and Accruals*, the Group has provided £69 million (2016: £nil; 2015: £nil) in respect of voluntary customer remediation following the recommendations of a thematic review by the Financial Conduct Authority (FCA).

The provision has been recognised in the IFRS income statement but has been excluded from operating profit on the basis that it is not representative of the current year operating performance of the business.

8: Details of income

This note gives further detail on the items appearing in the income section of the consolidated income statement.

8(a) *Fee and commission income, and income from service activities*

This note analyses the fees and commission earned by the Group from negotiating, or participating in the negotiation of a transaction for third parties, transaction and performance fees earned and movements in deferred origination fees.

			£m
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Fee and commission income, and income from service activities			
Premium-based fees	**114**	101	85
Change in fee income receivable	**32**	24	41
Fund-based fees	**698**	605	616
Fixed fees	**31**	33	41
Surrender charges	**21**	22	16
Change in deferred Income	**(11)**	14	14
Other fee and commission income	**10**	4	3
Fee and commission income, and income from service activities			
– continuing operations	**895**	803	816
Fee and commission income, and income from service activities			
– discontinued operations	**389**	354	301
Total fee and commission income, and income from service activities	**1,284**	1,157	1,117

Income from fiduciary activities is included within fund-based fees.

8(b) *Net investment income*

This note analyses the investment return from the Group's investing activities.

			£m
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Net investment income			
Interest and similar income			
Investments and securities	**53**	26	22
Cash and cash equivalents	**10**	20	17
Total interest and similar income	**63**	46	39
Dividend income	**83**	58	41
Gains on financial instruments at fair value through income statement	**5,046**	6,206	1,087
Foreign currency gains and losses	**3**	–	(1)
Net investment income – continuing operations	**5,195**	6,310	1,166
Net investment income – discontinued operations	**7**	141	164
Total net investment income	**5,202**	6,451	1,330

9: Details of expenses

This note gives further detail on the items appearing in the income section of the consolidated income statement.

9(a) *Fee and commission expenses*

This note analyses the fee and commission expenses and other acquisition costs.

£m

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Fee and commission expenses			
Fee and commission expense	**92**	50	81
Acquisition commission costs – investment contracts	**80**	73	84
Acquisition commission costs – insurance business	**12**	10	9
Renewal commission – investment contracts	**84**	81	103
Renewal commission – insurance contracts	**–**	3	3
Retrocessions paid	**16**	23	26
Changes in deferred acquisition costs	**36**	59	56
Fee and commission expenses – continuing operations	**320**	299	362
Fee and commission expenses – discontinued operations	**62**	140	126
Total fee and commission expenses	382	439	488

9(b) *Other operating and administrative expenses*

This note gives further detail on the items included within other operating and administrative expenses section of the consolidated income statement.

£m

	Note	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
Other operating and administrative expenses				
Staff costs	11	**379**	288	216
Depreciation		**8**	7	7
Operating lease rental		**8**	7	2
Amortisation of intangibles		**2**	4	4
Amortisation of other acquired intangibles		**39**	36	31
Administration and other expenses		**380**	312	305
Other operating and administrative expenses		**816**	654	565
Total expenses – discontinued operations		**184**	142	119
Total expenses		**1,000**	796	684

Operating lease payments principally represent rentals payable by the Group for the rental of buildings and equipment.

Administration and other expenses include business transformation costs for the year ended 31 December 2017 that totalled £74 million (2016: £102 million), (2015: £96 million) in relation to the Platform Transformation Programme and £69 million in relation to the voluntary customer remediation provision.

10: Finance costs

This note analyses the interest costs on our borrowings (which are described in note 34) and similar charges. Finance costs comprise:

			£m
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Interest payable on borrowed funds	**39**	43	32
Loans with Old Mutual plc	**39**	43	32
Total finance costs – continuing operations	**39**	43	32

Finance costs, which represent the cost of interest and finance charges on the Group's borrowings from Old Mutual plc, borrowed to primarily fund acquisitions, including Quilter Cheviot in 2015. More details regarding the borrowed funds, including the interest rates payable, are shown in note 34.

11: Staff costs and other employee-related costs

11(a) *Staff costs*

				£m
	Note	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
Wages and salaries		**235**	174	129
Bonus and incentive remuneration		**69**	50	32
Social security costs		**28**	23	19
Retirement obligations				
Defined contribution plans		**11**	11	9
Defined benefit plans	37(b)	**–**	(1)	–
Share-based payments				
Equity settled	30(d)	**9**	6	5
Other		**27**	25	22
Staff costs – continuing operations		**379**	288	216
Staff costs – discontinued operations		**142**	111	99
Total staff costs		**521**	399	315

11(b) *Employee numbers*

			£m
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
The average number of persons employed by the Group was:			
Advice and Wealth Management	**1,360**	1,162	1,005
Wealth Platforms	**2,514**	2,341	2,151
Head office	**66**	51	47
Continuing operations	**3,940**	3,554	3,203
Discontinued operations	**283**	380	343
Total average number of employees during the year	**4,223**	3,933	3,546

12: Auditors' remuneration

Included in other operating and administrative expenses are fees paid to the Group's auditors. These can be categorised as follows:

£m

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Fees for audit services			
Group	**0.4**	0.2	–
Subsidiaries	**2.6**	1.7	1.4
Total audit fees	**3.0**	1.9	1.4
Fees for non-audit services			
Other non-audit services	**1.1**	1.5	0.4
Total non-audit services	**1.1**	1.5	0.4
Total Group auditors' remuneration – continuing operations	**4.1**	3.4	1.8
Total Group auditors' remuneration – discontinued operations	**0.8**	0.4	0.3
Total Group auditors' remuneration	**4.9**	3.8	2.1

Non-recurring audit costs for the year include charges related to assurance and reporting accountant's work in respect of separation from Old Mutual plc group and listing, regulatory change including Solvency II, Platform transformation and strategic review costs.

13: Tax

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

13(a) *Tax charged to the income statement*

The total tax charge for the year comprises:

£m

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Current tax			
United Kingdom	**43**	47	45
International	**3**	5	3
Adjustments to current tax in respect of prior years	1	(2)	(13)
Total current tax	**47**	50	35
Deferred tax			
Origination and reversal of temporary differences	**2**	46	(44)
Effect on deferred tax of changes in tax rates	**(1)**	–	(6)
Adjustments to deferred tax in respect of prior years	**(7)**	(2)	(1)
Total deferred tax	**(6)**	44	(51)
Total tax charged/(credited) to income statement – continuing operations	**41**	94	(16)
Total tax charged/(credited) to income statement – discontinued operations	**29**	20	15
Total tax charged/(credited) to income statement	**70**	114	(1)

13(b) *Reconciliation of total income tax expense*

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

			£m
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
(Loss)/Profit before tax	**(5)**	67	41
Tax at UK standard rate of 19.25% (2016: 20%, 2015: 20.25%)	**(1)**	13	8
Different tax rate or basis on overseas operations	**(3)**	(5)	(6)
Untaxed and low taxed income	**(2)**	(3)	(3)
Disallowable expenses	**8**	4	(7)
Net movement on deferred tax assets not recognised	**(21)**	(1)	1
Effect on deferred tax of changes in tax rates	**(1)**	–	(6)
Income tax attributable to policyholder returns	**61**	86	(3)
Total tax charged/(credited) to income statement – continuing operations	**41**	94	(16)
Total tax charged/(credited) to income statement – discontinued operations	**29**	20	15
Total tax charged/(credited) to income statement	**70**	114	(1)

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

			£m
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Income tax expense	**41**	94	(16)
Tax on non-operating adjusting items			
Goodwill impairment and impact of acquisition accounting	**8**	8	10
Profit on the acquisition of subsidiaries, associates and strategic investments	**–**	–	1
Policyholder tax adjustment on non-operating items	**17**	(8)	12
Other shareholder tax on non-operating items	**(26)**	(1)	(4)
Business transformation costs	**14**	20	19
Managed separation costs	**4**	2	–
Group debt costs and other interest	**8**	7	7
Voluntary customer remediation provision	**14**	–	–
Total tax on non-operating adjusting items	**39**	28	45
Tax attributable to policyholders returns	**(66)**	(94)	(5)
Tax charged on operating profit – continuing operations	**14**	28	24
Tax charged on operating profit – discontinued operations	**29**	20	15
Tax charged on operating profit	**43**	48	39

14: **Earnings and earnings per share**

The Group calculates earnings per share (EPS) on a number of different bases as appropriate to prevailing international, UK and South African practices and guidance. IFRS requires the calculation of basic and diluted EPS. Operating EPS reflects earnings per share that is consistent with the Group's alternative profit measure. JSE Limited (JSE) listing requirements also require the Group to calculate headline EPS. The Group's EPS on these different bases are summarised below.

Earnings per share is disclosed as required by IAS33 "Earnings per Share". The ultimate share structure will change on initial public offering and, consequently, earnings per share for historical periods is not representative of the Group's future structure.

					Pence
	Source of guidance	Notes	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
Basic earnings per share	IFRS	14(a)	**120.8**	26.9	65.4
Diluted basic earnings per share	IFRS	14(b)	**120.8**	26.9	65.4
Operating earnings per share	Group policy	14(c)	**150.0**	114.6	151.5
Headline earning per share (Net of tax)	JSE Listing Requirements	14(d)	**69.2**	26.9	82.3
Diluted headline earning per share (Net of tax)	JSE Listing Requirements	14(d)	**69.2**	26.9	82.3

14(a) ***Basic earnings per share***

(i) The profit attributable to ordinary shareholders is:

			Pence
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
(Loss)/Profit for the financial year attributable to shareholders' of the Parent Company from continuing operations	**(46)**	(27)	57
Profit for the financial year attributable to shareholders' of the Parent Company from discontinued operations	**203**	62	28
Profit for the financial year attributable to shareholders' of the Parent Company	**157**	35	85
Profit for the calculation of earnings per share	**157**	35	85

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

			Millions
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Weighted average number of ordinary shares in issue	**130**	130	130
Adjusted weighted average number of ordinary shares used to calculate basic earnings per share	**130**	130	130
Basic earnings per ordinary share (pence)	**120.8**	26.9	65.4

Basic earnings per share is calculated by dividing the profit for the financial year attributable to ordinary equity shareholders of the parent by the weighted average number of ordinary shares in issue during the year excluding shares held within employee benefit trusts. Shares held within joint shares ownership plans (JSOP) have been excluded within the calculation of the number of shares as they are passed back to the Parent Company when the scheme vests. Although the weighted average number of shares has been adjusted for the JSOP shares, the time weighted calculation has reduced this impact to an insignificant amount within the above table.

14(b) *Diluted earnings per share*

Diluted earnings per share recognises the dilutive impact of shares and options held in trusts, to the extent they have value, in the calculation of the weighted average number of shares, as if the relevant shares were in issue for the full year. The table below reconciles the profit attributable to ordinary equity holders to diluted profit attributable to ordinary equity holders and summarises the calculation of weighted average number of shares for the purpose of calculating diluted earnings per share:

				£m
	Notes	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
Profit attributable to ordinary equity holders (£m)		**157**	35	85
Diluted profit attributable to ordinary equity holders (£m)		**157**	35	85
Weighted average number of ordinary shares (millions)	14(a)	**130**	130	130
Weighted average number of ordinary shares used to calculate diluted earnings per share (millions)		**130**	130	130
Diluted earnings per ordinary share (pence)		**120.8**	26.9	65.4

14(c) *Operating earnings per share*

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

				£m
	Notes	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
Profit for the financial year attributable to shareholders' of the Parent Company		**157**	35	85
Adjusting items	7	**263**	212	173
Income tax expense on adjusting items	13(c)	**(39)**	(28)	(45)
Profit after tax from discontinued operations	5(d)	**(203)**	(62)	(28)
Less policyholder tax adjustments on non-operating items	5(d)	**17**	(8)	12
Operating profit after tax attributable to ordinary shareholders' (£m)		**195**	149	197
Adjusted weighted average number of ordinary shares used to calculate adjusted operating earnings per share (millions)	14(a)	**130**	130	130
Operating earnings per share (pence)		**150.0**	114.6	151.5

14(d) ***Headline earnings per share***

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

The table below reconciles the profit for the financial year attributable to equity holders of the parent to headline earnings and summarises the calculation of basic HEPS:

£m

	Year ended 31 December 2017		Year ended 31 December 2016		Year ended 31 December 2015	
	Gross	**Net of tax**	Gross	Net of tax	Gross	Net of tax
Profit for the financial year attributable to shareholders' of the Parent Company		**157**		35		85
Adjusting items						
(Profit)/Loss on acquisitions and disposals of subsidiaries	**(83)**	**(67)**	–	–	28	22
Headline earnings	**(83)**	**90**	–	35	28	107
Diluted headline earnings		**90**		35		107
Weighted average number of ordinary shares (millions)		**130**		130		130
Diluted weighted average number of ordinary shares (millions)		**130**		130		130
Headline earnings per share (pence)		**69.2**		26.9		82.3
Adjusted headline earnings per share (pence)		**69.2**		26.9		82.3

15: **Dividends**

This note analyses the total dividends and other appropriations paid during the year. The final dividend to shareholders is recognised as a liability when approved at the Annual General Meeting.

£m

	Payment date	**Year ended 31 December 2017**	Year ended 31 December 2016	Year ended 31 December 2015
Ordinary dividends declared and charged to equity in the year				
2015 Interim dividend paid – 18.46p per ordinary share	21 December 2015	**–**	–	24
2017 Special dividend paid – 161.47p per ordinary share	9 January 2017	**210**	–	–
Dividends to ordinary shareholders		**210**	–	24

The total dividend paid to ordinary shareholders is calculated using the number of shares in issue at the record date less own shares held in certain Employee Benefit Trusts.

16: **Total other comprehensive income**

	Other reserves	**Foreign currency translation reserve**	**Retained earnings**	**Total shareholders' equity**
				£m
For the year ended 31 December 2017				
Other movements	**–**	**–**	**3**	**3**
Total Other comprehensive income/(expense) for the year	**–**	**–**	**3**	**3**
For the year ended 31 December 2016				
Fair value gains				
Measurement gains on defined benefit plans	–	–	(1)	(1)
Currency translation differences on translating foreign operations	(1)	3	21	23
Other movements	1	–	(3)	(2)
Total Other comprehensive income/(expense) for the year	–	3	17	20
For the year ended 31 December 2015				
Fair value gains				
Measurement gains on defined benefit plans	–	–	(1)	(1)
Currency translation differences on translating foreign operations	–	–	(8)	(8)
Total Other comprehensive income/(expense) for the year	–	–	(9)	(9)

17: **Goodwill and intangible assets**

17(a) ***Analysis of goodwill and intangible assets***

The table below shows the movements in cost, amortisation and impairment of goodwill and intangible assets for the years ended 31 December 2017, 31 December 2016 and 31 December 2015.

£m

	Goodwill	**Software development costs**	**Other intangible assets**	**Total**
Gross amount				
At 1 January 2015	62	81	41	184
Acquisitions through business combinations[1]	299	–	291	590
Additions	–	6	–	6
Disposals or retirements	–	(2)	–	(2)
Foreign exchange and other movements	–	1	–	1
At 31 December 2015	361	86	332	779
Acquisitions through business combinations[2]	12	–	6	18
Additions	–	3	7	10
Foreign exchange and other movements	–	5	5	10
At 31 December 2016	373	94	350	817
Acquisitions through business combinations[3]	**15**	**–**	**27**	**42**
Additions	**–**	**2**	**–**	**2**
Transfer to non-current assets held for sale[4]	**(82)**	**(2)**	**(3)**	**(87)**
Foreign exchange and other movements	**–**	**7**	**(7)**	**–**
At 31 December 2017	**306**	**101**	**367**	**774**
Amortisation and impairment losses				
At 1 January 2015	–	(76)	(2)	(78)
Amortisation charge for the year	–	(4)	(31)	(35)
Foreign exchange and other movements	–	3	1	4
At 31 December 2015	–	(77)	(32)	(109)
Amortisation charge for the year	–	(4)	(36)	(40)
Foreign exchange and other movements	–	(9)	(5)	(14)
At 31 December 2016	–	(90)	(73)	(163)
Acquisitions through business combinations	**–**	**–**	**(2)**	**(2)**
Amortisation charge for the year	**–**	**(2)**	**(39)**	**(41)**
Disposals or retirements	**–**	**–**	**2**	**2**
Transfer to non-current assets held for sale	**–**	**2**	**3**	**5**
Foreign exchange and other movements	**–**	**–**	**(1)**	**(1)**
At 31 December 2017	**–**	**(90)**	**(110)**	**(200)**
Carrying amount				
At 31 December 2015	361	9	300	670
At 31 December 2016	373	4	277	654
At 31 December 2017	**306**	**11**	**257**	**574**

(1) Goodwill acquired through business combinations for the year ended 31 December 2015 of £299 million relates to the acquisition of Quilter Cheviot Limited £292 million and the completion of the acquisitions of Intrinsic Financial Services Limited £7 million.

(2) Goodwill acquired through business combinations for the year ended 31 December 2016 of £12 million relates to the acquisition of AAM Advisory Pte Ltd (£4 million) and various acquisitions by the Old Mutual Wealth Private Client Advisers business (£8 million).

(3) Goodwill acquired through business combinations for the year ended 31 December 2017 of £15 million relates to the acquisition of Caerus Capital Group Limited (£10 million) and various acquisitions by the Old Mutual Wealth Private Client Advisers business (£5 million). Refer to note 5(a) for further information.

(4) Goodwill transferred to non-current assets held for sale relates to the Single Strategy asset management business (see note 5(f).

The net carrying amount of intangible assets at year-end principally comprises:

- £195 million (2016: £223 million, 2015: £249 million) relating to distribution channels in the Quilter Cheviot business (to be amortised over a further 7 years).
- £24 million (2016: £30 million, 2015: £35 million) relating to mutual fund and asset management relationship assets in the Intrinsic business (to be amortised over a further 5 years).
- £7 million (2016: £10 million, 2015: £13 million) relating to the Quilter Cheviot brand (to be amortised over a further 2 years).
- £3 million (2016: £3 million) relating to the acquisition of OMWPCA business (to be amortised over a further 8 years).
- £3 million (2016: £3 million) relating to the acquisition of AAM Advisory Pte Ltd (to be amortised over a further 8 years).
- £10 million relating to customer distribution channels of Caerus Capital Group Limited (to be amortised over a further 8 years).
- £10 million relating to customer relationships of the PCA business (to be amortised over 6 years).
- £7 million relating to customer relationships of Attivo Investment Management Limited (to be amortised over 6 years).

17(b) ***Allocation of goodwill to cash-generating unit (CGUs) and impairment testing***

Goodwill is allocated to the Group's CGUs, which are contained within the following operating segments as follows:

			£m
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Goodwill (net carrying amount)			
Advice and Wealth Management	**148**	141	137
Wealth Platforms	**158**	153	151
Discontinued Operations	**–**	79	73
Goodwill (as per the Statement of Financial Position)	**306**	373	361
Goodwill Held for Sale	**82**	–	–
Total goodwill	**388**	373	361

Goodwill in all business units is tested for impairment by comparing the carrying value of the cash generating unit to which the goodwill relates, to the recoverable value of that cash generating unit (CGU). In accordance with the requirements of IAS 36 "Impairment of Assets", goodwill is tested annually for impairment for each CGU, by comparing the carrying amount of each CGU to its recoverable amount, being the higher of that CGU's value-in-use or fair value less costs to sell. An impairment charge is recognised when the recoverable amount is less than the carrying value.

The cash flows attributable to the value of new business are determined with reference to latest approved three-year business plans. The three-year business plan takes into account the management strategy for the underlying businesses, the capital available for deployment, the underlying macro-economic factors which impact the business and the region in which it operates as well as socio-economic factors. Projections beyond the plan period are extrapolated using an inflation based growth assumption.

The value-in-use calculations for life assurance operations are determined as the sum of net tangible assets, the expected future profits arising from the in-force business (after allowing for the cost of capital needed to support the business) and the expected profits from future new business. In determining the expected future profits, the same set of best estimate assumptions for persistency, expense, mortality and morbidity are used as per the Solvency II calculation. The market share and market growth information are also used to inform the expected volumes of future new business.

The cash flows that have been used to determine the value-in-use of the cash generating units are based on the three-year business plans. These cash flows grow at different rates because of the different strategies of the CGUs generating units. In cases where the cash generating units have made significant acquisitions in the recent past, the profits are forecast to grow faster than the more mature businesses. Post the three-year growth forecast, the growth rate used to determine the terminal value of the CGUs approximates the long-term growth rate of the countries in which it operates.

The Group's CGUs generate revenues through their life assurance, asset management, long-term savings and advisery businesses. Goodwill is allocated to the Group's CGUs, which are contained within its distinct operating segments. On disposals of businesses, goodwill is allocated to them based on the relative value-in-use of the business from calculations used within the impairment reviews.

The pre-tax discount rate used for goodwill impairment testing, which reflect specific risks relating to the CGU at the date of evaluation and weighted average growth rate used in 2017 for the CGUs within each operating segment are shown below. The growth rates include improvements in trade performance, where these are forecast in the three-year operational plan for the CGU.

- Growth rate – the rate used was 10% (2016: 14%), (2015: 5.0%) for the three-year business plan period and the expected inflation rate for the period beyond this.
- Discount rate – the rate applied was 9.4% (2016:8.7%), (2015: 9.0%) and used the relevant 10-year government bond rate as a starting point, which was adjusted for an equity market risk premium and other relevant risk adjustments, which were determined using market valuation models and other observable references.

The directors are satisfied that a reasonable change in assumptions would not cause the recoverable amount of the goodwill to fall below the carrying amount.

18: **Property, plant and equipment**

The following table analyses property, plant and equipment.

			£m
	Leasehold improvements	**Plant and equipment**	**Total**
Cost			
At 1 January 2015	–	59	59
Additions	–	5	5
Additions from business combinations	9	11	20
Disposals	–	(2)	(2)
At 31 December 2015	9	73	82
Additions	1	3	4
Additions from business combinations	–	1	1
Disposals	–	(6)	(6)
Foreign exchange and other movements	2	4	6
At 31 December 2016	12	73	85
Additions	**1**	**7**	**8**
Additions from business combinations	**–**	**3**	**3**
Disposals	**–**	**(4)**	**(4)**
Foreign exchange and other movements	**–**	**(2)**	**(2)**
At 31 December 2017	**13**	**75**	**88**
Accumulated depreciation and impairment			
At 1 January 2015	–	(45)	(45)
Depreciation charge for the year	(1)	(6)	(7)
Disposals	–	2	2
Foreign exchange and other movements	(3)	(10)	(13)
At 31 December 2015	(4)	(59)	(63)
Depreciation charge for the year	(1)	(6)	(7)
Disposals	–	4	4
Foreign exchange and other movements	1	(4)	(3)
At 31 December 2016	(4)	(63)	(67)
Depreciation charge for the year	**(1)**	**(7)**	**(8)**
Disposals	**–**	**4**	**4**
Foreign exchange and other movements	**(2)**	**1**	**(1)**
At 31 December 2017	**(7)**	**(63)**	**(70)**
Carrying amount			
At 31 December 2015	5	14	19
At 31 December 2016	8	10	18
At 31 December 2017	**6**	**12**	**18**

19: **Loans and advances**

This note analyses the loans our Group companies have made.

(a) *Carrying amounts*

The carrying amounts of loans and advances were as follows:

			£m
	At 31 December 2017	At 31 December 2016	At 31 December 2015
Loans to policyholders	**181**	205	181
Loans to brokers and other loans to clients	**19**	15	9
Gross loans and advances	**200**	220	190
Provision for impairments	**(1)**	–	–
Total net loans and advances	**199**	220	190

The carrying amount of loans approximates to their fair value which is measured as the principal amounts receivable under the loan agreements.

Policyholder loans are taken from an individual policyholder's transaction account and loaned to the specific policyholder and are therefore considered risk free. Policyholder loans are interest free.

All loans, except broker loans which have a set repayment schedule, are repayable on demand. All broker loans and other loans to clients earn interest at a rate of between annual LIBOR plus 0.5% and 10%. There have been no non-performing loans, loans subject to renegotiations or material impairments on loans and advances recognised in the financial year.

The provision for impairments is a specific impairment relating to a financial advisor that is not expected to be recovered.

20: Financial investments

The table below analyses the investments and securities that the Group invests in, either for its own proprietary behalf (shareholder funds) or on behalf of third parties (policyholder funds).

				£m
	Notes	**At 31 December 2017**	At 31 December 2016	At 31 December 2015
Government and government-guaranteed securities		**2,427**	905	1,330
Other debt securities, preference shares and debentures		**2,401**	1,983	1,328
Listed		**2,220**	1,779	1,150
Unlisted		**181**	204	178
Equity securities		**12,554**	8,625	6,247
Listed		**11,448**	8,192	5,934
Unlisted		**1,106**	433	313
Pooled investments		**46,455**	46,888	40,335
Listed		**16,867**	14,848	13,479
Unlisted		**29,588**	32,040	26,856
Short-term funds and securities treated as investments		**15**	23	22
Other		**396**	–	32
Total financial investments		**64,248**	58,424	49,294
Less: financial investments classified as held for sale	5(g)	**–**	(6,189)	–
Total financial investments net of held for sale		**64,248**	52,235	49,294
To be recovered within 12 months		**64,072**	52,127	49,109
To be recovered after 12 months		**176**	108	185
		64,248	52,235	49,294

The financial investments contractual maturity profile is based on the intention with which the financial assets are held. These assets, together with the reinsurers' share of investment contract liabilities, are held to cover the liabilities for linked investment contracts (net of reinsurance).

20(a) *Debt instruments and similar securities*

All debt instruments and similar securities are neither past due nor impaired and are analysed in the table below. These debt instruments and similar securities are classified according to their local credit rating (Standard & Poor's or an equivalent), by investment grade.

Further information of the credit rating of debt instruments and similar securities is analysed in the table in note 42(c) Capital and financial risk management.

20(b) *Equity securities*

Equity securities are held to cover the liabilities for linked investment contracts. The majority of the listed securities are traded on the London Stock Exchange.

The Group's holdings of unlisted equity securities arise principally from private equity investments.

21: **Derivative financial instruments – assets and liabilities**

The Group has limited involvement with derivative instruments and does not use them for speculation purposes. Derivative instruments are used to manage well-defined foreign exchange risks arising out of the normal course of business. The Group enters into forward foreign exchange contracts to reduce currency risk on accounts receivable and future revenues denominated in United States dollars. The Group does not anticipate any material adverse effect on its financial position resulting from its involvement in these types of contracts, nor does it anticipate non-performance by counterparties. The Group only deals with highly rated counterparties.

All derivatives included within the statement of financial position relate to instruments included as a consequence of the consolidation of investment funds. This can be seen within the segmented statement of financial position (note 6(c)).

		£m
Derivatives included through consolidation of funds	**Assets**	**Liabilities**
As at 31 December 2017	**87**	**(433)**
As at 31 December 2016	26	(56)
As at 31 December 2015	971	(978)

22: **Categories of financial instruments**

The analysis of assets and liabilities into their categories as defined in IAS 39 "Financial Instruments: Recognition and Measurement" is set out in the following tables. Assets and liabilities of a non-financial nature, or financial assets and liabilities that are specifically excluded from the scope of IAS 39, are reflected in the non-financial assets and liabilities category.

All gains and losses on measuring the financial assets and liabilities at each reporting date are included in the determination of profit or loss for the year.

For information about the methods and assumptions used in determining fair value please refer to note 23. The Group's exposure to various risks associated with financial instruments is discussed in note 42(c).

At 31 December 2017

	Fair value		Amortised cost			£m
Measurement basis	**Held for trading**	**Designated at fair value through the profit or loss**	**Loans and receivables**	**Financial liabilities amortised cost**	**Non-financial assets and liabilities**	**Total**
Assets						
Investments in associated undertakings and joint ventures[1]	–	–	–	–	3	3
Reinsurers' share of policyholder liabilities	–	2,525	–	–	383	2,908
Loans and advances	–	180	19	–	–	199
Financial investments	–	64,248	–	–	–	64,248
Trade, other receivables and other assets	–	–	154	–	343	497
Derivative financial instruments	87	–	–	–	–	87
Cash and cash equivalents	–	–	2,360	–	–	2,360
Total assets that include financial instruments	87	66,953	2,533	–	729	70,302
Total other non-financial assets	–	–	–	–	1,225	1,225
Total assets net of held for sale	87	66,953	2,533	–	1,954	71,527
Total assets classified as held for sale	–	–	147	–	299	446
Total assets	87	66,953	2,680	–	2,253	71,973
Liabilities						
Long-term business insurance policyholder liabilities	–	–	–	–	489	489
Investment contract liabilities	–	59,139	–	–	–	59,139
Third party interest in consolidation of funds	–	7,905	–	–	–	7,905
Borrowings	–	–	–	782	–	782
Trade, other payables and other liabilities	–	–	–	505	826	1,331
Derivative financial instruments	433	–	–	–	–	433
Total liabilities that include financial instruments	433	67,044	–	1,287	1,315	70,079
Total other non-financial liabilities	–	–	–	–	576	576
Total liabilities net of held for sale	433	67,044	–	1,287	1,891	70,655
Total liabilities classified as held for sale	–	–	–	–	219	219
Total liabilities	433	67,044	–	1,287	2,110	70,874

(1) Investments in associated undertakings and joint ventures classified as non-financial assets and liabilities are equity accounted.

At 31 December 2016

	Fair value		Amortised cost			£m
Measurement basis	Held for trading	Designated at fair value through the profit or loss	Loans and receivables	Financial liabilities amortised cost	Non-financial assets and liabilities	Total
Assets						
Investments in associated undertakings and joint ventures[1]	–	–	–	–	1	1
Reinsurers' share of policyholder liabilities	–	2,560	–	–	303	2,863
Loans and advances	–	206	3	–	11	220
Financial investments	–	52,235	–	–	–	52,235
Trade, other receivables and other assets	–	–	181	–	613	794
Derivative financial instruments	26	–	–	–	–	26
Cash and cash equivalents	–	–	1,595	–	–	1,595
Total assets that include financial instruments	26	55,001	1,779	–	928	57,734
Total other non-financial assets	–	–	–	–	1,355	1,355
Total assets net of held for sale	26	55,001	1,779	–	2,283	59,089
Total assets classified as held for sale	–	6,189	14	–	193	6,396
Total assets	26	61,190	1,793	–	2,476	65,485
Liabilities						
Long-term business insurance policyholder liabilities	–	–	–	–	417	417
Investment contract liabilities	–	51,265	–	–	–	51,265
Third party interest in consolidation of funds	–	4,140	–	–	–	4,140
Borrowings	–	–	–	839	–	839
Trade, other payables and other liabilities	–	–	–	167	857	1,024
Derivative financial instruments	56	–	–	–	–	56
Total liabilities that include financial instruments	56	55,405	–	1,006	1,274	57,741
Total other non-financial liabilities	–	–	–	–	489	489
Total liabilities net of held for sale	56	55,405	–	1,006	1,763	58,230
Total liabilities classified as held for sale	–	6,155	–	–	108	6,263
Total liabilities	56	61,560	–	1,006	1,871	64,493

[1] Investments in associated undertakings and joint ventures classified as non-financial assets and liabilities are equity accounted.

At 31 December 2015

£m

	Fair value		Amortised cost			
Measurement basis	Held for trading	Designated at fair value through the profit or loss	Loans and receivables	Financial liabilities amortised cost	Non-financial assets and liabilities	Total
Assets						
Investments in associated undertakings and joint ventures[1]	–	–	–	–	1	1
Reinsurers' share of policyholder liabilities	–	2,328	–	–	179	2,507
Loans and advances	–	181	9	–	–	190
Financial investments	–	49,294	–	–	–	49,294
Trade, other receivables and other assets	–	–	129	–	587	716
Derivative financial instruments	971	–	–	–	–	971
Cash and cash equivalents	–	–	1,601	–	–	1,601
Total assets that include financial instruments	971	51,803	1,739	–	767	55,280
Total other non-financial assets	–	–	–	–	1,492	1,492
Total assets net of held for sale	971	51,803	1,739	–	2,259	56,772
Total assets classified as held for sale	–	–	–	–	–	–
Total assets	971	51,803	1,739	–	2,259	56,772
Liabilities						
Long-term business insurance policyholder liabilities	–	–	–	–	293	293
Investment contract liabilities	–	49,041	–	–	–	49,041
Third party interest in consolidation of funds	–	3,311	–	–	–	3,311
Borrowings	–	–	–	786	–	786
Trade, other payables and other liabilities	–	–	–	112	826	938
Derivative financial instruments	978	–	–	–	–	978
Total liabilities that include financial instruments	978	52,352	–	898	1,119	55,347
Total other non-financial liabilities	–	–	–	–	512	512
Total liabilities net of held for sale	978	52,352	–	898	1,631	55,859
Total liabilities classified as held for sale	–	–	–	–	–	–
Total liabilities	978	52,352	–	898	1,631	55,859

(1) Investments in associated undertakings and joint ventures classified as non-financial assets and liabilities are equity accounted.

23: Fair value methodology

This section explains the judgements and estimates made in determining the fair values of financial instruments that are recognised and measured at fair value in the financial statements. Classifying financial instruments into the three levels below, prescribed under the accounting standards, provides an indication about the reliability of inputs used in determining fair value.

23(a) *Determination of fair value*

The fair value of financial instruments that are actively traded in organised financial markets is determined by reference to quoted market exit prices for assets and offer prices for liabilities, at the close of business on the reporting date, without any deduction for transaction costs.

- For units in unit trusts and shares in open ended investment companies, fair value is determined by reference to published quoted prices representing exit values in an active market.
- For equity and debt securities not actively traded in organised markets and where the price cannot be retrieved, the fair value is determined by reference to similar instruments for which market observable prices exist.
- For assets that have been suspended from trading on an active market, the last published price is used. Many suspended assets are still regularly priced. At the reporting date all suspended assets are assessed for impairment.
- Where the assets are private company shares the valuation is based on the latest available set of audited financial statements where available, or if more recent, a statement of valuation provided by the private company's management.

There have been no significant changes in the valuation techniques applied when valuing financial instruments. The general principles applied to those instruments measured at fair value are outlined below:

Reinsurers' share of policyholder liabilities

Reinsurers' share of policyholder liabilities are measured on a basis that is consistent with the measurement of the provisions held in respect of the related insurance contracts. Reinsurance contracts which cover financial risk are measured at fair value of the underlying assets.

Loans and advances

Loans and advances include loans to policyholders, loans to brokers, and other secured and unsecured loans. Loans and advances to policyholders of investment linked contracts are measured at fair value. All other loans are stated at their amortised cost.

Financial investments

Financial investments include government and government-guaranteed securities, listed and unlisted debt securities, preference shares and debentures, listed and unlisted equity securities, listed and unlisted pooled investments (see below), short-term funds and securities treated as investments and certain other securities.

Pooled investments represent the Group's holdings of shares/units in open-ended investment companies, unit trusts, mutual funds and similar investment vehicles. Pooled investments are recognised at fair value. The fair values of pooled investments are based on widely published prices that are regularly updated.

Other financial investments that are measured at fair value are measured at observable market prices where available. In the absence of observable market prices, these investments and securities are fair valued utilising one or more of the following techniques: discounted cash flows, the application of an EBITDA multiple or any other relevant technique.

Derivatives

The fair value of derivatives is determined with reference to the exchange traded prices of the specific instruments. In situations where the derivatives are traded over the counter the fair value of the instruments is determined by the utilisation of option pricing models.

Investment contract liabilities

The fair value of the investment contract liabilities is determined with reference to the underlying funds that are held by the Group.

Third party interest in consolidation of funds

Third party interests in consolidation of funds are measured at the attributable net asset value of each fund.

Borrowed funds

Borrowed funds are stated at amortised cost.

23(b) *Fair value hierarchy*

Fair values are determined according to the following hierarchy.

Description of hierarchy	Types of instruments classified in the respective levels
Level 1 – quoted market prices: financial assets and liabilities with quoted prices for identical instruments in active markets.	Listed equity securities, government securities and other listed debt securities and similar instruments that are actively traded, actively traded pooled investments, certain quoted derivative assets and liabilities, reinsurers' share of investment contract liabilities and investment contract liabilities directly linked to other Level 1 financial assets.
Level 2 – valuation techniques using observable inputs: financial assets and liabilities with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial assets and liabilities valued using models where all significant inputs are observable.	Unlisted equity and debt securities where the valuation is based on models involving no significant unobservable data. OTC derivatives, certain privately placed debt instruments and third party interests in consolidated funds.
Level 3 – valuation techniques using significant unobservable inputs: financial assets and liabilities valued using valuation techniques where one or more significant inputs are unobservable.	Unlisted equity and securities with significant unobservable inputs, securities where the market is not considered sufficiently active, including certain inactive pooled investments.

The judgement as to whether a market is active may include, for example, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the asset or liability requires additional work during the valuation process.

The majority of valuation techniques employ only observable data and so the reliability of the fair value measurement is high. However, certain financial assets and liabilities are valued on the basis of valuation techniques that feature one or more significant inputs that are unobservable and, for them, the derivation of fair value is more judgemental. A financial asset or liability in its entirety is classified as valued using significant unobservable inputs if a significant proportion of that asset or liability's carrying amount is driven by unobservable inputs.

In this context, "unobservable" means that there is little or no current market data available for which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no market data available at all upon which to base a determination of fair value. Furthermore, in some cases the majority of the fair value derived from a valuation technique with significant unobservable data may be attributable to observable inputs. Consequently, the effect of uncertainty in determining unobservable inputs will generally be restricted to uncertainty about the overall fair value of the asset or liability being measured.

23(c) *Transfer between fair value hierarchies*

The Group deems a transfer to have occurred between Level 1 and Level 2 or Level 3 when an active, traded primary market ceases to exist for that financial instrument. A transfer between Level 2 and Level 3 occurs when the majority of the significant inputs used to determine fair value of the instrument become unobservable.

23(d) ***Financial assets and liabilities measured at fair value, classified according to fair value hierarchy***

The tables below presents a summary of the Group's financial assets and liabilities that are measured at fair value in the consolidated statement of financial position according to their IAS 39 classification, as set out in the accounting policies note 4.11 and in terms of the fair value hierarchy described in note 4.2. The majority of the Group's financial assets are measured utilising quoted market prices for identical instruments in active markets (Level 1) and there has been no significant change compared to the prior year.

The assets, together with the reinsurers' share of investment contract liabilities, are held to cover the liabilities for linked investment contracts (net of reinsurance). 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 Group's tax liabilities.

	At 31 December 2017		At 31 December 2016		At 31 December 2015	
	£m	**%**	£m	%	£m	%
Financial assets measured at fair value						
Level 1	**57,945**	**86.4%**	49,775	90.5%	46,556	88.2%
Level 2	**7,928**	**11.8%**	4,671	8.5%	5,716	10.8%
Level 3	**1,167**	**1.7%**	581	1.1%	502	1.0%
Total	**67,040**	**100.0%**	55,027	100.0%	52,774	100.0%
Financial liabilities measured at fair value						
Level 1	**57,399**	**85.1%**	50,206	90.5%	47,508	89.1%
Level 2	**8,911**	**13.2%**	4,674	8.4%	5,320	10.0%
Level 3	**1,167**	**1.7%**	581	1.1%	502	0.9%
Total	**67,477**	**100.0%**	55,461	100.0%	53,330	100.0%

				£m
At 31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets measured at fair value				
Held-for-trading (fair value through profit or loss)	**–**	**87**	**–**	**87**
Derivative assets	**–**	**87**	**–**	**87**
Designated (fair value through profit or loss)	**57,945**	**7,841**	**1,167**	**66,953**
Reinsurers' share of policyholder liabilities	**2,525**	**–**	**–**	**2,525**
Loans and advances	**180**	**–**	**–**	**180**
Financial investments	**55,240**	**7,841**	**1,167**	**64,248**
Total assets measured at fair value	**57,945**	**7,928**	**1,167**	**67,040**
Financial liabilities measured at fair value				
Held-for-trading (fair value through profit or loss)	**–**	**433**	**–**	**433**
Derivative financial instruments – liabilities	**–**	**433**	**–**	**433**
Designated (fair value through profit or loss)	**57,399**	**8,478**	**1,167**	**67,044**
Investment contract liabilities	**57,399**	**573**	**1,167**	**59,139**
Third party interests in consolidated funds	**–**	**7,905**	**–**	**7,905**
Total liabilities measured at fair value	**57,399**	**8,911**	**1,167**	**67,477**

				£m
At 31 December 2016	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Held-for-trading (fair value through profit or loss)	–	26	–	26
Derivative assets	–	26	–	26
Designated (fair value through profit or loss)	49,775	4,645	581	55,001
Reinsurers' share of policyholder liabilities	2,560	–	–	2,560
Loans and advances	206	–	–	206
Financial investments	47,009	4,645	581	52,235
Total assets measured at fair value	49,775	4,671	581	55,027
Financial liabilities measured at fair value				
Held-for-trading (fair value through profit or loss)	1	55	–	56
Derivative financial instruments – liabilities	1	55	–	56
Designated (fair value through profit or loss)	50,205	4,619	581	55,405
Investment contract liabilities	50,205	479	581	51,265
Third party interests in consolidated funds	–	4,140	–	4,140
Total liabilities measured at fair value	50,206	4,674	581	55,461

				£m
At 31 December 2015	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value				
Held-for-trading (fair value through profit or loss)	–	971	–	971
Derivative assets	–	971	–	971
Designated (fair value through profit or loss)	46,556	4,745	502	51,803
Reinsurers' share of policyholder liabilities	2,328	–	–	2,328
Loans and advances	181	–	–	181
Financial investments	44,047	4,745	502	49,294
Total assets measured at fair value	46,556	5,716	502	52,774
Financial liabilities measured at fair value				
Held-for-trading (fair value through profit or loss)	–	978	–	978
Derivative financial instruments – liabilities	–	978	–	978
Designated (fair value through profit or loss)	47,508	4,342	502	52,352
Investment contract liabilities	47,508	1,031	502	49,041
Third party interests in consolidated funds	–	3,311	–	3,311
Total liabilities measured at fair value	47,508	5,320	502	53,330

23(e) *Level 3 fair value hierarchy disclosure*

All of the assets that are classified as Level 3 are held within linked policyholder funds. This means that all of the investment risk associated with these assets is borne by policyholders and that the value of these assets is exactly matched by a corresponding liability due to policyholders. The Group bears no risk from a change in the market value of these assets except to the extent that it has an impact on management fees earned.

The table below reconciles the opening balances of Level 3 financial assets (and liabilities) to closing balances at the end of the period:

			£m
	At 31 December 2017	At 31 December 2016	At 31 December 2015
At beginning of the year	**581**	502	694
Total net fair value gains recognised in: profit or loss	**(23)**	13	(92)
Purchases	**618**	21	96
Sales	**(23)**	(115)	(193)
Transfers in	**167**	188	52
Transfers out	**(152)**	(31)	(55)
Foreign exchange and other	**1**	3	–
Total level 3 financial assets/liabilities	**1,169**	581	502

Amounts shown as sales and settlements arise principally from the sale of private company shares and unlisted pooled investments and from distributions received in respect of holdings in property funds.

Transfers into Level 3 assets for the current period comprise £167 million (2016: £188 million), (2015: £52 million) of private company shares that were previously shown within Level 2 and for which price updates have not been received for more than six months. Transfers out of Level 3 assets in the current period comprise £152 million (2016: £31 million), (2015: £55 million) of private company shares that were not being repriced and that have been transferred into Level 2 as they are now actively priced.

			£m
	At 31 December 2017	At 31 December 2016	At 31 December 2015
Pooled investments	**187**	229	191
Unlisted and stale price pooled investments	**186**	216	190
Suspended funds	**1**	13	1
Private equity investments	**982**	352	311
	1,169	581	502

23(f) ***Effect of changes in significant unobservable assumptions to reasonable possible alternatives***

Favourable and unfavourable changes are determined on the basis of changes in the value of the financial asset or liability as a result of varying the levels of the unobservable parameters using statistical techniques. When parameters are not amenable to statistical analysis, quantification of uncertainty is judgemental.

When the fair value of a financial asset or liability is affected by more than one unobservable assumption, the figures shown reflect the most favourable or most unfavourable change from varying the assumptions individually.

The valuations of the private equity investments are performed on an asset-by-asset basis using a valuation methodology appropriate to the specific investment and in line with industry guidelines. Private equity investments are valued at the value disclosed in the latest available set of audited financial statements or if more recent information is available from investment managers or professional valuation experts at the value of the underlying assets of the private equity investment.

Details of the valuation techniques applied to the different categories of financial instruments can be found in note 23(a) above.

Management believe that in aggregate, 10% (2016 and 2015: 10%) change in the value of the financial asset or liability represents a reasonable possible alternative judgement in the context of the current macro-economic environment in which the Group operates. It is therefore considered that the impact of alternative assumptions will be in the range of £117 million, both favourable and unfavourable (2016: £51 million; 2015: £70 million). As described in note 23(e) above, changes in the value of level 3 assets are exactly matched by corresponding changes in the value of liabilities due to policyholders and therefore have no impact on the Group's profit or loss or net asset value.

23(g) ***Fair value hierarchy for assets and liabilities not measured at fair value***

All of the Group's financial instruments are carried at fair value except for certain amounts included within "Trade, other receivables, and other assets" and "Trade, other payables, and other liabilities". The carrying values of these are considered reasonable approximations of their respective fair values, as they are either short term in nature or are repriced to current market rates at frequent intervals. These instruments would be classified as Level 3 in terms of the fair value hierarchy.

24: Structured entities

24(a) ***Group's involvement in structured entities***

Some investment vehicles are classified as structured entities because they have a narrow and well defined purpose. The table below summarises the types of structured entities the Group has an interest in. These entities are not consolidated where the Group determines that it does not have control.

Type of structured entity	Nature	Purpose	Interest held by the Group
• Investments in collective investment vehicles	• Manage shareholder funds through the investment in assets	• Generate fees from managing company assets	• Investment in units issued by the vehicles
• Investments held for the benefit of policyholders	• Manage client funds through the investment in assets	• Generate fees from managing assets on behalf of third party investors	• Investments in units issued by the fund

The Group's holdings in investment vehicles are subject to the terms and conditions of the respective investment vehicle's offering documentation and are susceptible to market price risk arising from uncertainties about future values of those investment vehicles. All of the investment vehicles in the investment portfolios are managed by portfolio managers who are compensated by the respective investment vehicles for their services. Such compensation generally consists of an asset-based fee and a performance based incentive fee, and is reflected in the valuation of the investment vehicles.

24(b) *Interests in unconsolidated structured entities*

The Group invests in unconsolidated structured entities as part of its normal investment and trading activities. The Group's total interest in unconsolidated structured entities is classified as investments and securities held at fair value through profit or loss. The Group does not sponsor any of the unconsolidated structured entities. The table below provides a summary of the carrying value of the Group's interest in unconsolidated structured entities:

			£m
	At 31 December 2017	At 31 December 2016	At 31 December 2015
Pooled investments			
Listed – non-managed funds	**885**	826	605
Unlisted – managed funds	**2,564**	2,382	3,203
Unlisted – non-managed funds	**40,811**	37,732	37,798
	44,260	40,940	41,606

The Group's maximum exposure to loss with regard to the interests presented above is the carrying amount of the Group's investments. Once the Group has disposed of its shares or units in a fund, it ceases to be exposed to any risk from that fund. The Group's holdings in the above unconsolidated structured entities are largely less than 50% and as such the net asset value of these structured entities are likely to be significantly higher than their carrying value.

24(c) *Consolidation considerations for structured entities*

In structured entities voting rights are not the predominant factor in deciding who controls the entity but rather it is the Group's exposure to the variability of returns from these entities. The Group acts as fund manager to a number of investment funds. Determining whether the Group controls such an investment fund usually focuses on the assessment of decision making rights as fund manager, the investor's rights to remove the fund manager and the aggregate economic interests of the Group in the fund in the form of interest held and exposure to variable returns.

In most instances the Group's decision-making authority, in its capacity as fund manager, with regard to these funds is regarded to be well-defined. Discretion is exercised when decisions regarding the relevant activities of these funds are being made. For funds managed by the Group where the investors have the right to remove the Group as fund manager without cause, the fees earned by the Group, are considered to be market related. These agreements include only terms, conditions or amounts that are customarily present in arrangements for similar services and level of skills negotiated on an arm's length basis. The Group has concluded that it acts as agent on behalf of the investors in all instances.

The Group is considered to be acting as principal where the Group is the fund manager and is able to make the investment decisions on behalf of the unit holders earn a variable fee, and there are no kick out rights that would remove the Group as fund manager.

There have been no changes in facts or circumstances which have changed the Group's conclusion on the consolidation of funds.

The Group has not provided any non-contractual support to any consolidated or unconsolidated structured entities.

Disclosure of consolidated securitisation vehicles, which are structured entities, is included in note 46.

24(d) *Other interests in unconsolidated structured entities*

The Group receives management fees and other fees in respect of its asset management businesses that manage investments in which the Group has no holding. These also represent interests in unconsolidated structured entities. As these investments are not held by the Group, the investment risk is borne by the external investors and therefore the Group's maximum exposure to loss relates to future management fees. The Group does not sponsor any of the funds or investment vehicles from which it receives fees.

The table below shows the assets under management of entities that the Group manages but does not have a holding in and the fees earned from those entities.

						£m
	At 31 December 2017		At 31 December 2016		At 31 December 2015	
	Assets under management	**Fees earned**	Assets under management	Fees earned	Assets under management	Fees earned
Pooled investments						
Open Ended Investment Company (OEIC)	**275**	**6**	224	3	294	5
	275	**6**	224	3	294	5

25: Reinsurers' share of policyholder liabilities

This note details the reinsurance recoverables on insurance and investment contract liabilities.

25(a) *Carrying amounts*

The reinsurance assets at 31 December 2017 comprised:

			£m
	At 31 December 2017	At 31 December 2016	At 31 December 2015
Reinsurers' share of policyholder liabilities			
Reinsurers' share of long-term business insurance policyholder liabilities	**383**	303	179
Life assurance policyholder liabilities	**375**	290	171
Outstanding claims	**8**	13	8
Reinsurers' share of investment contract liabilities			
Reinsurers' share of unit-linked investment contracts	**2,525**	2,560	2,328
Total reinsurers' share of policyholder liabilities	**2,908**	2,863	2,507

Of the total, £2,908 million (2016: £2,863 million), (2015: £2,507 million) is expected to be recovered in less than one year after the statement of position date.

The reinsurers' share of policyholder liabilities of £ 2,525 million (2016: £ 2,560 million), (2015: £ 2,328 million) relating to investment contracts is where the direct management of assets are ceded to a third party through a reinsurance arrangement. Due to the nature of the arrangement, there is no transfer of insurance risk.

25(b) ***Assumptions***

The assumptions, including discount rates, used for reinsurance of policyholder liabilities follow those used for the equivalent gross policyholder liabilities. Reinsurance assets are valued net of an allowance for their recoverability.

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.

25(c) ***Movements***

Movements in the amounts outstanding in respect of reinsurers' share of unit-linked investment contracts and policyholder liabilities, other than outstanding claims, are set out below:

			£m
Unit-linked investment contracts	**At 31 December 2017**	At 31 December 2016	At 31 December 2015
Carrying amount at 1 January	**2,560**	2,328	2,026
Net premium income	**(365)**	(138)	265
Fair value movements	**330**	370	37
Total reinsurers' share of unit-linked investment contract liabilities	**2,525**	2,560	2,328

			£m
Life assurance policyholder liabilities	**At 31 December 2017**	At 31 December 2016	At 31 December 2015
Carrying amount at 1 January	**290**	171	131
Impact of new business	**55**	33	32
Impact of experience effects	**23**	23	14
Impact of assumption changes	**7**	63	(6)
	85	119	40
Total reinsurers' share of life assurance policyholder liabilities	**375**	290	171

The impact of assumption changes in the above analysis shows the resulting movement in the carrying value of reinsurance assets with corresponding movements in gross insurance contract liabilities. For further information on the on credit rating and maturity of reinsurer's share of policyholder liabilities see note 42(c)(i).

26: **Trade, other receivables and other assets**

The note analyses total trade, other receivables and other assets.

	Notes	**At 31 December 2017** £m	At 31 December 2016	At 31 December 2015
Debtors arising from direct insurance operations				
Amounts owed by policyholders		**–**	–	6
Amounts owed by intermediaries		**2**	1	3
		2	1	9
Debtors arising from reinsurance operations		**8**	6	7
Outstanding settlements		**216**	244	161
Other receivables		**414**	456	380
Accrued interest		**3**	21	23
Prepayments and accrued income		**28**	27	18
Other assets		**30**	166	118
Total trade, other receivables and other assets		**701**	921	716
Less: trade, other receivables and other assets classified as held for sale	5(g)	**(204)**	(127)	**–**
Total trade, other receivables and other assets net of held for sale		**497**	794	716
To be settled within 12 months		**469**	678	581
To be settled after 12 months		**28**	116	135
		497	794	716

Other receivables mainly relate to fee and commission income, and income from service activities. Total other receivables of **£201 million** (2016: £121 million), (2015: £nil million) were transferred to held for sale during the year.

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 are current, short term and interest free with the carrying amount approximating to fair value.

27: **Deferred acquisition costs**

Deferred acquisition costs relate to costs that the Group incurred to obtain new business. These acquisition costs are capitalised in the statement of financial position and are amortised in profit or loss over the life of the contracts. The table below analyses the movements in deferred acquisition costs relating to insurance, investment and asset management contracts.

				£m
	Insurance contracts	**Investment contracts**	**Asset management**	**Total**
At 1 January 2015	27	761	41	829
New business	–	107	1	108
Amortisation	(6)	(140)	(20)	(166)
Foreign exchange and other movements	–	(3)	–	(3)
At 31 December 2015	21	725	22	768
New business	–	92	1	93
Amortisation	(4)	(138)	(14)	(156)
Foreign exchange and other movements	–	13	–	13
Transfer to non-current assets held for sale	–	(63)	–	(63)
At 31 December 2016	17	629	9	655
New business	**–**	**79**	**8**	**87**
Amortisation	**(3)**	**(108)**	**(8)**	**(119)**
Foreign exchange and other movements	**–**	**(8)**	**–**	**(8)**
Transfer to non-current assets held for sale	**–**	**–**	**(4)**	**(4)**
At 31 December 2017	**14**	**592**	**5**	**611**

28: **Statement of cash flows**

This note gives further detail behind the figures in the statement of cash flows.

(a) The reconciliation of profit before tax to the net cash inflow for operating activities is:

			£m
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Cash flows from operating activities			
Profit before tax	**227**	149	84
Adjustments for non-cash movements in net profit for the year			
Depreciation of property, plant and equipment	**8**	7	7
Amortisation and impairment of deferred acquisition costs	**81**	100	93
Amortisation and impairment of intangibles	**41**	40	35
Fair value movements on disposal of financial assets	**(3,513)**	(4,745)	(274)
Fair value movements in insurance and investment contract liabilities	**3,703**	4,895	171
Profit on sale of subsidiaries, associates and strategic investments	**(83)**	–	28
Change in insurance and investment contract liabilities	**4,194**	2,660	2,833
Reclassification interest paid to financing activities	**39**	43	32
Other movements	**(409)**	(448)	(47)
	4,061	2,552	2,878
Net changes in working capital			
Decrease/(increase) in reinsurance assets	**370**	127	(261)
Decrease in deferred acquisition costs	**(79)**	(93)	(110)
Decrease/(increase) in derivatives	**315**	23	(12)
Decrease/(increase) in deferred revenue	**14**	18	(1)
Decrease/(increase) in loans and advances	**23**	(31)	7
Increase/(decrease) in provisions	**75**	(2)	(9)
Decrease in other assets	**416**	187	196
	1,134	229	(190)
Taxation paid	**(9)**	(59)	(40)
Net cash flows from operating activities	**5,413**	2,871	2,732

(b) Cash and cash equivalents in the statement of cash flows at 31 December comprised:

Cash and cash equivalents for the Group	**1,595**	1,076	892
Cash and cash equivalents in Consolidated Funds	**912**	533	709
Less cash and cash equivalents included in assets held for sale	**(147)**	(14)	–
Total net of held for sale	**2,360**	1,595	1,601

Except for cash and cash equivalents subject to consolidation of funds of £912 million (2016: £533 million), (2015: £709 million), management do not consider that there are any material amounts of cash and cash equivalents which are not available for use in the Group's day-to-day operations.

29: **Share capital**

Share capital

Financial instruments issued are classified as equity when there is no contractual obligation to transfer cash, other financial assets or issue a variable number of own equity instruments. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. The Parent Company's equity capital currently comprises 130,000,257 ordinary shares of 100p each, (2016: 130,000,256), (2015: 130,000,256), of which 96% is held by its immediate parent, and the ultimate parent, Old Mutual plc, with the remainder held by an employee benefit trust for the benefit of group employees as described in note 30.

This note gives details of the Parent Company's ordinary share capital and shows the movements during the year.

		£m	**£m**
	Number of shares	**Nominal value**	**Share premium**
At 1 January 2015	130,000,256	130	–
At 1 January 2016	130,000,256	130	–
At 1 January 2017	130,000,256	130	–
Issue of share capital	200,000,001	200	58
Reduction of share capital	(200,000,000)	(200)	–
At 31 December 2017	**130,000,257**	**130**	**58**

On 3 May 2017 the Parent Company issued 200 million £1 ordinary shares, for a consideration of £200 million, to its parent Old Mutual plc, and on 27 November 2017 the Parent Company carried out a share capital reduction, which cancelled the 200 million £1 ordinary shares.

On 21 December 2017, Old Mutual plc contributed £58 million to the Parent Company in exchange for the issue of 1 share.

30: Share-based payments

During the years ended 31 December 2017, 31 December 2016 and 31 December 2015, the Group participated in a number of Old Mutual plc share-based payment arrangements. This note describes the nature of the plans and how the share options and awards are valued.

The Group had the following share-based payment arrangements:

	Description of award				Contractual life	Vesting conditions	
Scheme	**Restricted shares**	**Options**	**Dividend entitlement**	**Other[1]**	**Years**	**Service (years)**	**Performance (measure)**
UK Sharesave Scheme	–	✓	–	✓	3½ – 5½	3 & 5	–
UK Share Option and Deferred Delivery Plan	–	✓	✓	–	6	3	Target growth in EPS
UK Restricted Share Plan	✓	–	✓	–	3 – 5	3 & 5	–
Old Mutual plc Share Reward Plan – Share Options	–	✓	–	–	Up to 10 years	3	–
Old Mutual plc Share Reward Plan – Restricted Shares	✓	–	✓	–	Not less than 3 years	–	–
Old Mutual plc Performance Share Plan – Share Options	–	✓	–	–	Up to 10 years	3	–
Old Mutual plc Performance Share Plan – Restricted Shares	✓	–	✓	–	Not less than 3 years	Not less than 3 years	Target growth in EPS and ROE
Old Mutual plc 2008 Sharesave Plan	–	✓	–	✓	3½ – 5½	3 & 5	–

[1] Scheme is linked to a savings plan.

30(a) *Reconciliation of movements in options*

The movement in the options outstanding under these arrangements during the year is detailed below:

	Year ended 31 December 2017		Year ended 31 December 2016		Year ended 31 December 2015	
Options over shares in Old Mutual plc (London Stock Exchange)	**Number of options**	**Weighted average exercise price**	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at beginning of the year	**4,600,952**	**£1.60**	4,061,293	£1.69	3,966,671	£1.51
Granted during the year	**–**	**–**	2,316,591	£1.51	1,491,938	£1.87
Forfeited during the year	**(344,127)**	**£1.60**	(1,180,443)	£1.77	(357,771)	£1.65
Exercised during the year	**(1,194,526)**	**£1.61**	(610,104)	£1.52	(1,015,432)	£1.28
Expired during the year	**–**	**–**	–	–	(1,104)	£1.63
Other transfers during the year	**79,291**	**–**	13,615	–	(23,009)	–
Outstanding at end of the year	**3,141,590**	**£1.60**	4,600,952	£1.60	4,061,293	£1.69
Exercisable at 31 December	**148,449**	**£1.61**	21,755	£1.63	88,208	£1.58

The amount outstanding at the end of the year for 2017, 2016 and 2015 includes an amount for employees who have transferred into/out of Quilter from/to other Old Mutual divisions.

The following table summarises information about options outstanding at 31 December 2017, 31 December 2016 and 31 December 2015:

Year	Range of exercise price	Outstanding options	Weighted remaining contractual life Years	Weighted average exercise price
At 31 December 2017	**£1.28 to £1.87**	**3,141,590**	**1.1**	**£1.94**
At 31 December 2016	£1.28 to £1.87	4,600,952	1.6	£1.91
At 31 December 2015	£0.94 to £1.87	4,061,293	1.8	£2.16

30(b) ***Measurements and assumptions***

In determining the fair value of equity-settled share-based awards and the related charge to the income statement, the Group makes assumptions about future events and market conditions. Specifically, management makes estimates of the likely number of shares that will vest and the fair value of each award granted which is valued and "locked in" at the grant date.

The recognition and measurement principles in IFRS 2 – Share-based Payment have only been applied to equity settled share arrangements granted post November 2002 in accordance with the transitional provisions in IFRS 2. Any options forfeited, exercised or lapsed prior to the IFRS 2 implementation date of 1 January 2005 have not been included in the IFRS 2 valuation.

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of fair value of share options granted is measured using a Black-Scholes option pricing model.

Where share options are granted under a service and non-market based performance condition, such conditions are not taken into account in the grant date fair value measurement of the share options granted. There are no market conditions associated with the share option grants.

30(c) ***Forfeitable/Restricted share grants***

The following summarises the fair value of restricted shares granted by the Group during the year:

Instruments granted and purchased during the year		Number granted	Weighted average fair value
UK Share Reward Plan – restricted shares	**2017**	**–**	**–**
	2016	2,152,628	£1.87
	2015	849,933	£2.40

The share price at measurement date was used to determine the fair value of the restricted shares. Expected dividends were not incorporated into the measurement of fair value where the holder of the restricted share is entitled to dividends throughout the vesting period.

30(d) ***Financial impact***

The total expense recognised for the year arising from equity compensation plans was as follows:

	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
			£m
Expense arising from equity settled share and share option plans – continuing operations	**9**	6	5
Expense arising from equity settled share and share option plans – discontinued operations	**1**	1	1
Total expense arising from equity settled and share option plans	**10**	7	6

30(e) ***Joint share ownership plan (JSOP)***

During 2013, a share-based payment plan was implemented for certain key employees of Quilter. The plan is designed to reward participants for the achievement of strategic objectives, value creation and other metrics over a three-year period. The shares awarded in the parent Old Mutual Wealth Management Limited when vested have the option to be called by Old Mutual plc to be converted into Old Mutual plc listed shares. The awards are accounted for as an equity settled share-based payment scheme. The cumulative amount recognised in equity for this scheme is £3,155,098 (2016: £3,548,620), (2015: £1,993,044) and an expense of £393,522 (2016: £1,555,576), (2015: £1,121,036) has been recognised in the income statement during the year.

On 22 December 2017 the employee benefit trust (EBT) which was set up for the benefit of Quilter employees, and specifically for the purposes of the JSOP, was transferred to the Group from Old Mutual plc. The EBT holds £97 million of Old Mutual Wealth Management Limited shares. As a result of this transfer, on consolidation the Group's equity will reduce by this amount (£97 million), representing the Company shares held within the trust, which are recognised as treasury shares and deducted from equity.

31: Insurance and investment contract liabilities

The following is a summary of the Group's insurance and investment contract provisions and related reinsurance assets as at 31 December 2017.

£m

	At 31 December 2017			At 31 December 2016			At 31 December 2015		
	Gross	**Re-insurance**	**Net**	Gross	Re-insurance	Net	Gross	Re-insurance	Net
Life assurance policyholder liabilities									
Long-term business insurance policyholder liabilities	**489**	**(383)**	**106**	417	(303)	114	293	(179)	114
Life assurance policyholder liabilities	**480**	**(375)**	**105**	402	(290)	112	284	(171)	113
Outstanding claims	**9**	**(8)**	**1**	15	(13)	2	9	(8)	1
Investment contract liabilities									
Unit-linked investment contracts	**59,139**	**(2,525)**	**56,614**	51,265	(2,560)	48,705	49,041	(2,328)	46,713
Total life assurance policyholder liabilities	**59,628**	**(2,908)**	**56,720**	51,682	(2,863)	48,819	49,334	(2,507)	46,827

31(a) I*nsurance contract liabilities (gross of reinsurance)*

Movements in the amounts outstanding in respect of life assurance policyholder liabilities, other than outstanding claims, are set out below:

			£m
	At 31 December 2017	At 31 December 2016	At 31 December 2015
Carrying amount at 1 January	**402**	284	253
Impact of new business	**42**	25	24
Impact of experience effects	**30**	34	29
Impact of assumption changes	**7**	66	(10)
Currency translation loss	**–**	1	–
Disposal of interest in subsidiaries	**–**	–	(12)
Transfer to liabilities held for sale	**–**	(10)	–
Other movements	**(1)**	2	–
	78	118	31
Total insurance contract life assurance policyholder liabilities	**480**	402	284

31(b) ***Assumptions – life assurance***

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

Class of business	**Mortality/morbidity**	**Interest rates**
Non-linked protection business	Based on relevant risk reinsurance rates	1.610%
Non-linked protection business (BLAGAB)	Based on relevant risk reinsurance rates	1.287%
Pension annuity 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 (INSPRU) 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

			£m
2017	**Impact on IFRS reported profit (before reinsurance)**	**Impact of reinsurance**	**Impact on IFRS reported profit (after reinsurance)**
Assumption			
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 rates	**(15.1)**	**13.0**	**(2.1)**
Persistency rates	**(5.0)**	**4.8**	**(0.2)**
	(6.6)	**7.0**	**0.4**

			£m
2016	Impact on IFRS reported profit (before reinsurance)	Impact of reinsurance	Impact on IFRS reported profit (after reinsurance)
Assumption			
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 rates	(93.2)	77.1	(16.1)
Methodology changes	1.9	–	1.9
Persistency rates	(5.5)	3.7	(1.8)
	(66.3)	62.5	(3.8)

			£m
2015	Impact on IFRS reported profit (before reinsurance)	Impact of reinsurance	Impact on IFRS reported profit (after reinsurance)
Assumption			
Mortality/morbidity rates	(9.0)	8.6	(0.4)
Maintenance expense	(0.3)	–	(0.3)
Maintenance expense inflation	(0.6)	–	(0.6)
Interest rates	18.0	(14.6)	3.4
Methodology changes	2.3	–	2.3
Persistency rates	(0.4)	0.2	(0.2)
	10.0	(5.8)	4.2

31(c) ***Unit-linked investment contract liabilities***

Movements in the amounts outstanding in respect of unit-linked and other investment contracts are set out below:

			£m
	At 31 December 2017	At 31 December 2016	At 31 December 2015
Carrying amount at 1 January	**51,265**	49,041	46,294
Contributions received	**9,717**	7,587	7,704
Maturities	**(220)**	(226)	(222)
Withdrawals and surrenders	**(5,682)**	(5,229)	(4,951)
Fair value movements	**3,627**	4,731	337
Investment income	**681**	792	612
Claims and benefits	**(217)**	(295)	(290)
Impact of change in actuarial assumptions	**–**	–	3
Transfer to held for sale	**–**	(6,155)	–
Other movements	**(77)**	374	(202)
Change in liability	**7,829**	1,579	2,991
Currency translation loss/(gain)	**45**	645	(244)
Total unit-linked investment contract policyholder liabilities	**59,139**	51,265	49,041

For unit-linked investment contracts, movements in asset values are offset by corresponding changes in liabilities, limiting the net impact on profit.

The benefits offered under the unit-linked investment contracts are based on the risk appetite of policyholders and the return on their selected investments and 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 share of policyholder liabilities relating to investment contract liabilities of £2,908m (2016: £2,863m), (2015: £2,507m) were rated according to the table in note 42. None of these were past due as at 31 December 2017 (2016: £nil), (2015: £nil).

31(d) ***Methodology and assumptions – investment contracts***

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 deferred fee income (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.

32: **Provisions and accruals**

Year ended 31 December 2017	**Compensation provisions**	**Restructuring**	**Other**	**Total**
				£m
Balance at beginning of the year	**13**	**–**	**16**	**29**
Charge to income statement	**76**	**–**	**6**	**82**
Utilised during the year	**(5)**	**–**	**(5)**	**(10)**
Foreign exchange and other movements	**(2)**	**–**	**5**	**3**
Balance at 31 December 2017	**82**	**–**	**22**	**104**

Year ended 31 December 2016	Compensation provisions	Restructuring	Other	Total
				£m
Balance at beginning of the year	12	6	17	35
Charge to income statement	4	–	8	12
Utilised during the year	–	(3)	(1)	(4)
Unused amounts reversed	(2)	(3)	(6)	(11)
Transfer to liabilities of operations held for sale	(1)	–	(2)	(3)
Balance at 31 December 2016	13	–	16	29

Year ended 31 December 2015	Compensation provisions	Restructuring	Other	Total
				£m
Balance at beginning of the year	16	14	11	41
Additions from business combinations	–	3	–	3
Charge to income statement	–	–	6	6
Utilised during the year	(2)	(3)	1	(4)
Unused amounts reversed	(2)	(8)	(1)	(11)
Balance at 31 December 2015	12	6	17	35

Compensation provisions

Compensation provisions totalled £82 million (2016: £13 million), (2015: £12 million).

Voluntary client remediation provision

As part of its ongoing work to promote fair customer outcomes, the Group 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 Group has decided to commence voluntary remediation to customers in certain legacy products, resulting in an additional provision raised during the year of £69 million, including £7 million of programme cost and £13 million 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 (03/03/2016) 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 Group intends to substantially complete the review and 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 balance sheet 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.

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.

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

Assumption	**Change in assumption**	**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 reduced to 5 years	+£3.3m
Programme cost per case of conducting the review	Estimate based on bottom of range	+/- £1.4m

No provision has been recognised for any potential enforced redress and associated penalties that may be levied by the FCA, as explained in note 39 Contingent Liabilities.

Compensation provision (other)

The compensation provision also includes amounts relating to regulatory uncertainty and multiple causal events; on-going resolution of claims as a result of mis-selling guarantee contacts; and to the provision for claw-back of prescribed claims. This provision is held to allow for the possible future payment of claims that have been previously reversed. Due to the nature of the provision, the timing of the expected cash outflows is uncertain. Estimates are reviewed annually and adjusted as appropriate for new circumstances.

Restructuring provision

Restructuring provision of £nil million (2016: £nil million), (2015: £6 million), is primarily in respect of onerous costs of vacant properties leased by the Group. The restructuring provision has been utilised.

Other provisions

Other provisions also include long-term staff benefits and amounts for the resolution of legal uncertainties and the settlement of other claims raised by contracting parties.

Where material, provisions and accruals are discounted at discount rates specific to the risks inherent in the liability. The timing and final amounts of payments in respect of some of the provisions, particularly those in respect of litigation claims and similar actions against the Group, are uncertain and could result in adjustments to the amounts recorded.

Of the total provisions recorded above, £10 million (2016: £7 million), (2015: £13 million) is estimated to be payable after one year.

33: Deferred tax assets and liabilities

Deferred income taxes are calculated on all temporary differences at the tax rate applicable to the jurisdiction in which the timing differences arise.

Deferred tax summary

£m

	Notes	**At 31 December 2017**	At 31 December 2016	At 31 December 2015
Deferred tax assets				
Deferred tax asset		**31**	11	8
Less: amounts classified as held for sale	5(g)	**9**	3	–
		22	8	8
Deferred tax liabilities				
Deferred tax liabilities		**190**	199	152
Less: amounts classified as held for sale	5(g)	**–**	20	–
		190	179	152
Net deferred tax liability		**168**	171	144

33(a) *Deferred tax assets*

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable, being where on the basis of all available evidence it is considered more likely than not that there will be suitable taxable profits against which the reversal of the deferred tax asset can be deducted.

The movement on the recognised deferred tax assets account is as follows:

£m

Year ended 31 December 2017	**At beginning of the year**	**Income statement (charge)/ credit**	**Acquisition/ disposal of subsidiaries**	**Foreign exchange and other movements**	**At end of the year**
Tax losses carried forward	**6**	**–**	**–**	**–**	**6**
Netted against liabilities	**(11)**	**2**	**–**	**–**	**(9)**
Deferred fee income	**4**	**(2)**	**–**	**–**	**2**
Other temporary differences	**9**	**22**	**–**	**(8)**	**23**
Deferred tax assets at 31 December 2017	**8**	**22**	**–**	**(8)**	**22**

£m

Year ended 31 December 2016	At beginning of the year	Income statement (charge)/ credit	Acquisition/ disposal of subsidiaries	Foreign exchange and other movements	At end of the year
Tax losses carried forward	7	(1)	–	–	6
Netted against liabilities	(16)	5	–	–	(11)
Deferred fee income	10	(4)	–	(2)	4
Other temporary differences	7	3	–	(1)	9
Deferred tax assets at 31 December 2016	8	3	–	(3)	8

£m

Year ended 31 December 2015	At beginning of the year	Income statement (charge)/ credit	Acquisition/ disposal of subsidiaries	Foreign exchange and other movements	At end of the year
Tax losses carried forward	8	–	–	(1)	7
Netted against liabilities	(22)	5	–	1	(16)
Deferred fee income	16	(5)	–	(1)	10
Other temporary differences	4	–	3	–	7
Deferred tax assets at 31 December 2015	6	–	3	(1)	8

Unrecognised deferred tax assets

The amounts for which no deferred tax asset has been recognised comprise:

£m

	At 31 December 2017		At 31 December 2016		At 31 December 2015	
	Gross amount	**Tax**	Gross amount	Tax	Gross amount	Tax
Unrelieved tax losses						
Expiring in less than a year	**–**	**–**	–	–	4	1
Expiring between one and five years	**–**	**–**	21	4	6	1
Expiring after five years	**471**	**80**	362	62	336	66
	471	**80**	383	66	346	68
Accelerated capital allowances	**108**	**18**	167	28	159	29
Other timing differences	**269**	**46**	301	51	268	53
	848	**144**	851	145	773	150

33(b) ***Deferred tax liabilities***

The movement on the deferred tax liabilities account is as follows:

£m

Year ended 31 December 2017	**At beginning of the year**	**Income statement (credit)/ charge**	**Acquisition/ disposal of subsidiaries**	**Foreign exchange and other movements**	**At end of the year**
Deferred acquisition costs	**(7)**	**(2)**	**–**	**–**	**(9)**
Other acquired intangibles	**49**	**(8)**	**–**	**–**	**41**
Netted against assets	**(11)**	**2**	**–**	**–**	**(9)**
Other temporary differences	**148**	**19**	**–**	**–**	**167**
Deferred tax liabilities at 31 December 2017	**179**	**11**	**–**	**–**	**190**

£m

Year ended 31 December 2016	At beginning of the year	Income statement (credit)/ charge	Acquisition/ disposal of subsidiaries	Foreign exchange and other movements	At end of the year
Deferred acquisition costs	16	(6)	–	(17)	(7)
Other acquired intangibles	55	(7)	1	–	49
Netted against assets	(16)	5	–	–	(11)
Other temporary differences	97	52	–	(1)	148
Deferred tax liabilities at 31 December 2016	152	44	1	(18)	179

£m

Year ended 31 December 2015	At beginning of the year	Income statement (credit)/ charge	Acquisition/ disposal of subsidiaries	Foreign exchange and other movements	At end of the year
Deferred acquisition costs	27	(9)	–	(2)	16
Other acquired intangibles	8	(10)	57	–	55
Netted against assets	(22)	5	–	1	(16)
Other temporary differences	135	(41)	–	3	97
Deferred tax liabilities at 31 December 2015	148	(55)	57	2	152

34: **Borrowings**

The following table analyses the Group's borrowed funds, repayable on demand and categorised in terms of *IAS39 – Financial Instruments: Recognition and Measurement* as "liabilities held at amortised cost". All amounts are payable either to the Group's current ultimate Parent Company, Old Mutual plc, or to other related entities within the Old Mutual plc group. For further information on new financing arrangements post year end refer to note 45: Events after the reporting date.

£m

	At 31 December 2017	At 31 December 2016	At 31 December 2015
Loans from Old Mutual plc:			
Subordinated debt			
Fixed rate loan at 5.50%[1]	**566**	566	566
Other borrowed funds			
Fixed rate loan note at 10%[2]	**–**	51	46
Fixed rate loan at 0.63%[3]	**93**	92	91
Floating rate loan at 3 month LIBOR + 0.10%[4]	**80**	87	83
Fixed rate loan at 3.125%[5]	**43**	43	–
	782	839	786

(1) Commenced on 25 February 2015 and was used to finance the acquisition of the Quilter Cheviot group.

(2) Commenced on 25 February 2015 and was used to finance the acquisition of the Quilter Cheviot group.

(3) Commenced during 2014 and was used to finance the acquisition of Intrinsic Financial Services Limited.

(4) Commenced in 2011 and was used to finance other historical corporate activity.

(5) Commenced on 21 June 2016 was used to finance one of the Group's employee ownership trusts.

Amounts borrowed are unsecured and are repayable on demand. The carrying amount approximates to fair value which is valued as the principal amount repayable.

35: Trade, other payables and other liabilities

£m

	At 31 December 2017	At 31 December 2016	At 31 December 2015
Amounts payable on direct insurance business			
Funds held under reinsurance business ceded	**16**	14	12
Amounts owed to policyholders	**244**	170	147
Amounts owed to intermediaries	**50**	60	69
	310	244	228
Accounts payable on reinsurance business	**6**	10	11
Accruals and deferred income	**4**	–	–
Trade creditors	**36**	67	39
Outstanding settlements	**577**	281	191
Other liabilities	**584**	492	469
Total trade, other payables and other liabilities	**1,517**	1,094	938
Less: Trade, other payables and other liabilities classified as held for sale	**(186)**	(70)	–
Total trade, other payables and other liabilities net of held for sale	**1,331**	1,024	938
To be settled within 12 months	**1,295**	1,008	908
To be settled after 12 months	**36**	16	30
	1,331	1,024	938

36: Deferred revenue

Deferred revenue relates to 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 revenue is amortised on a linear basis over the expected life of the contract, adjusted for expected persistency. The deferred revenue principally comprises fee income already received in cash. The table below analyses the movements in deferred revenue.

£m

	Life and Savings			**Asset Management**			**Total**		
Year ended 31 December	**2017**	2016	2015	**2017**	2016	2015	**2017**	2016	2015
Balance at 1 January	**255**	294	329	**6**	18	36	**261**	312	365
Fees and commission income deferred	**16**	18	20	**1**	–	–	**17**	18	20
Amortisation	**(33)**	(45)	(56)	**(5)**	(12)	(18)	**(38)**	(57)	(74)
Foreign exchange and other movements	**4**	(7)	1	**–**	–	–	**4**	(7)	1
Transfer to held for sale	**–**	(5)	–	**–**	–	–	**–**	(5)	–
Balance at 31 December	**242**	255	294	**2**	6	18	**244**	261	312

37: Post-employment benefits

The Group operates a number of defined contribution and defined benefit pension schemes in the UK, the Channel Islands and Ireland.

Defined contribution pension schemes

The Group operates a number of defined contribution schemes. The Schemes require contributions to be made to funds held in trust, separate from the assets of the Group. Participants receive either a monthly pension supplement to their salaries or contributions to personal pension plans. For the defined contribution schemes, the Group pays contributions to separately administered pension schemes. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised in current service cost in the consolidated income statement as staff costs and other employee-related costs when they are due.

Defined benefit schemes

The Group operates two defined benefit schemes: The Quilter Cheviot Limited Retirement Benefits Scheme (the UK Scheme) and the Quilter Cheviot Channel Islands Retirement Benefits Scheme (the CI Scheme) which are both closed to new members. The assets of these Schemes are held in separate trustee administered funds. Pension costs and contributions relating to defined benefit schemes are assessed in accordance with the advice of qualified actuaries. Actuarial advice confirms that the current level of contributions payable to each pension scheme, together with existing assets, are adequate to secure members' benefits over the remaining service lives of participating employees. The Schemes are reviewed at least on a triennial basis or in accordance with local practice and regulations. In the intervening years the actuary reviews the continuing appropriateness of the assumptions applied.

IAS 19 disclosures

This note gives full IAS 19, Employee Benefits, disclosures for the above schemes.

37(a) *Liability for defined benefit obligations*

The IAS 19 value of the assets and the scheme obligations are as follows:

			£m
Year ended 31 December	**2017**	2016	2015
Changes in retirement benefit obligations			
Total IAS 19 retirement benefit obligation at 1 January	**52**	45	–
Acquisitions through business combinations	**–**	–	62
Interest cost on benefit obligation	**3**	2	2
Effect of changes in actuarial assumptions	**(1)**	(1)	(2)
Actuarial losses/(gains)	**–**	11	(1)
Benefits paid	**(6)**	(5)	(9)
Foreign exchange and other movements	**–**	–	(7)
Total IAS 19 retirement benefit obligations at 31 December	**48**	52	45
Change in plan assets			
Total IAS 19 fair value of scheme assets at 1 January	**62**	56	–
Acquisitions through business combinations	**–**	–	68
Actual return on plan assets	**4**	10	3
Company contributions	**1**	1	1
Benefits paid	**(6)**	(5)	(9)
Foreign exchange and other movements	**–**	–	(7)
Total IAS 19 fair value of scheme assets at 31 December	**61**	62	56
Net IAS 19 asset/(liability) recognised in statement of financial position			
Funded status of plan	**13**	10	11
Unrecognised assets	**(13)**	(10)	(11)
Net IAS 19 amount recognised in statement of financial position	**–**	–	–

37(b) ***(Income)/expense recognised in the income statement***

The total pension charge to staff costs for all of the Group's defined benefit schemes were:

			£m
Year ended 31 December	**2017**	2016	2015
Current service costs	**–**	(1)	–
Total charge for pension schemes (included in staff costs)	**–**	(1)	–

Actuarial gains and losses and the effect of the limit to the pension asset under IAS 19 *"Employee benefits"* paragraph 58 have been reported in other comprehensive income.

The cumulative amount of actuarial losses recognised in other comprehensive income is £25 million (2016: £25 million), (2015: £24 million).

Assumptions

The expected long-term rate of return on assets represents the Group's best estimate of the long-term return on the scheme assets and generally was estimated by computing a weighted average return of the underlying long-term expected returns on the different asset classes, based on the target asset allocations. The expected long-term return on assets is a long-term assumption that generally is expected to remain the same from one year to the next unless there is a significant change in the target asset allocation, the fees and expenses paid by the plan or market conditions.

The Group, in consultation with its independent investment consultants and actuaries, determined the asset allocation targets based on its assessment of business and financial conditions, demographic and actuarial data, funding characteristics and related risk factors. Other relevant factors, including industry practices, long-term historical and prospective capital market returns, were also considered.

The scheme return objectives provide long-term measures for monitoring the investment performance against growth in the pension obligations. The overall allocation is expected to help protect the plan's funded status while generating sufficiently stable real returns (net of inflation) to help cover current and future benefit payments.

Both the equity and fixed income portions of the asset allocation use a combination of active and passive investment strategies and different investment styles. The fixed income asset allocation consists of longer duration fixed income securities in order to help reduce plan exposure to interest rate variation and to better correlate assets with obligations. The longer duration fixed income allocation is expected to help stabilise plan contributions over the long run.

The following table presents the principal actuarial assumptions at the end of the reporting period:

			%
	2017	2016	2015
Discount rate	**2.5**	2.7	3.7
Rate of increase in defined benefit funds	**3.8**	3.8	3.6
Inflation	**3.2**	3.5	3.2

The mortality assumptions used give the following life expectancy at 65:

		Life expectancy at 65 for male member currently		**Life expectancy at 65 for female member currently**	
	Mortality table	**Aged 65**	**Aged 45**	**Aged 65**	**Aged 45**
31 December 2017	**S2PA Light**	**22.30**	**23.60**	**23.30**	**24.70**
31 December 2016	S2PA Light	22.40	24.00	23.50	25.30
31 December 2015	S2PA Light	22.10	23.50	23.10	24.60

Significant actuarial assumptions for the determination of the defined benefit obligation are discount rate, inflation rate and rate of mortality.

The sensitivities regarding the principal assumptions used to measure the defined benefit obligations are as follows:

	Changes in mortality	**Impact on scheme liabilities**
Discount rate	Increase/decrease by 0.1%	Decrease/increase by 2%
Inflation assumptions	Increase/decrease by 0.1%	Increase/decrease by 1%
Rate of mortality	Increase by 1 year	Increase by 4%

37(c) *Scheme assets allocation*

Scheme assets are stated at their fair values at 31 December 2017. Total scheme assets are comprised as follows:

			%			£m
At 31 December	**2017**	2016	2015	**2017**	2016	2015
Equity securities	**39.3**	38.7	37.5	**24**	24	21
Debt securities	**60.7**	59.7	60.7	**37**	37	34
Cash and other assets	**–**	1.6	1.8	**–**	1	1
Total IAS 19 fair value of scheme assets	**100.0**	100.0	100.0	**61**	62	56

38: Master netting or similar agreements

The Group 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 simultaneously.

The following tables present information on the potential effect of netting offset arrangements after taking into consideration these types of agreements:

						£m
				Related amounts available for future set off		
At 31 December 2017	**Gross amounts**	**Amounts offset in the statement of financial position**	**Net amounts reported in the statement of financial position**	**Master netting agreement**	**Collateral received/ pledged[1]**	**Net amount**
Financial assets						
Cash and cash equivalents	**2,415**	**(55)**	**2,360**	**–**	**–**	**2,360**
Financial liabilities						
Trade, other payables and other liabilities	**1,386**	**(55)**	**1,331**	**–**	**–**	**1,331**

						£m
				Related amounts available for future set off		
At 31 December 2016	Gross amounts	Amounts offset in the statement of financial position	Net amounts reported in the statement of financial position	Master netting agreement	Collateral received/ pledged[1]	Net amount
Financial assets						
Cash and cash equivalents	1,722	(127)	1,595	–	–	1,595
Financial liabilities						
Trade, other payables and other liabilities	1,151	(127)	1,024	–	–	1,024

£m

At 31 December 2015	Gross amounts	Amounts offset in the statement of financial position	Net amounts reported in the statement of financial position	Related amounts available for future set off Master netting agreement	Collateral received/ pledged[1]	Net amount
Financial assets						
Cash and cash equivalents	1,714	(113)	1,601	–	–	1,601
Financial liabilities						
Trade, other payables and other liabilities	1,051	(113)	938	–	–	938

(1) This represents the amounts that could be offset in the event of default. These arrangements are typically governed by master netting and collateral arrangements.

39: Contingent liabilities

The Group, in the ordinary course of business, enters into transactions that expose it to tax, legal and business risks. The Group recognises a provision when it has a present obligation as a result of past events, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made (see note 32). Possible obligations and known liabilities where no reliable estimate can be made or it is considered improbable that an outflow would result are reported as contingent liabilities in accordance with IAS 37: "Provisions, Contingent Liabilities and Contingent Assets".

Tax

The Revenue authorities in the principal jurisdictions in which the Group operates routinely review historical transactions undertaken and tax law interpretations made by the Group. The Group is committed to conducting its tax affairs in accordance with the tax legislation of the jurisdictions in which they operate. All interpretations made by management are made with reference to the specific facts and circumstances of the transaction and the relevant legislation.

There are occasions where the Group's interpretation of tax law may be challenged by the Revenue authorities. The financial statements include provisions that reflect the Group's assessment of liabilities which might reasonably be expected to materialise as part of their review. The Board is satisfied that adequate provisions have been made to cater for the resolution of tax uncertainties and that the resources required to fund such potential settlements are sufficient.

Due to the level of estimation required in determining tax provisions amounts eventually payable may differ from the provision recognised.

Contingent liabilities – implications of the Managed Separation strategy

The Group routinely monitors and reassesses contingent liabilities arising from matters such as litigation, warranties and indemnities relating to past acquisitions and disposals. Although the announcement of the Managed Separation strategy on 11 March 2016 does not affect the nature of such items, it is possible that the Group may seek to resolve certain matters as part of the implementation of the Managed Separation strategy.

UK Financial Conduct Authority notification of investigation – Old Mutual Wealth Life Assurance Limited

The Group is committed to treating customers fairly and supporting its customers in meeting their lifetime goals and treating customers fairly is central to how our businesses operate. We routinely engage with customers and regulators to ensure that we meet this commitment, but there is the risk of regulatory intervention across various jurisdictions, giving rise to the potential for customer redress which can result in retrospective changes to policyholder benefits, penalties or fines. The Group monitors the exposure to these actions and makes provision for the related costs as appropriate.

As detailed in note Provisions and Accruals, the Group has recognised a provision of £69 million in 2017 for the cost of voluntary redress for affected customers following the publication by the UK Financial Conduct Authority (FCA) of 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) and the subsequent announcement that it was initiating an investigation into a number of firms, including Old Mutual Wealth Life Assurance Limited (OMWLA), a subsidiary of the Group, in relation to potential breaches of the FCA's standards relevant to the matters covered by the Thematic Review.

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 the Group.

40: Commitments

The Group has contractual commitments in respect of funding arrangements and leases which will be payable in future periods. These commitments are not recognised on the Group's statement of financial position at the year end but are disclosed to give an indication of the Group's future committed cash flows. See note 41.

41: Operating lease arrangements

The Group has entered into commercial non-cancellable leases on certain property, plant and equipment where it is not in the best interest of the Group to purchase these assets. Such leases have varying terms, escalation clauses and renewal rights. All Group leases are operating leases, being leases where the lessor retains substantially all the risks and rewards of the ownership of the leased asset.

Operating lease commitments where the Group is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

			£m
Outstanding commitments under non-cancellable operating leases, fall due as follows:	**At 31 December 2017**	At 31 December 2016	At 31 December 2015
Within one year	**14**	11	11
Between one and five years	**37**	28	25
After five years	**43**	34	37
	94	73	73

42: Capital and financial risk management

42(a)(i) *Capital management*

The Group manages its capital with a focus on capital efficiency and effective risk management. The capital objectives are to maintain the Group's ability to continue as a going concern while supporting the optimisation of return relative to the risks. The Group ensures that it can meet its expected capital and financing needs at all times having regard to the Group's business plans, forecasts and strategic initiatives and regulatory requirements in all businesses in the Group. The Group's overall capital risk appetite is set with reference to the requirements of the relevant stakeholders and seeks to:

- Maintain sufficient, but not excessive, financial strength to support stakeholder requirements
- Optimise debt to equity structure to enhance shareholder returns
- Retain financial flexibility by maintaining liquidity including unutilised committed credit lines.

The primary sources of capital used by the Group are equity shareholders' funds, subordinated debt and borrowings. Alternative resources are utilised where appropriate. Risk appetite has been defined for the level of capital, liquidity and debt within the Group. The risk appetite includes long term targets, early warning thresholds and risk appetite limits. The dividend policy sets out the target dividend level in relation to profits.

The regulatory capital assessment for the Group is assessed under Solvency II requirements.

The Internal Capital Adequacy Assessment Process (ICAAP) is used to assess the level of capital which should be retained for the investment and advice businesses within the Group.

42(a)(ii) *Regulatory capital in accordance with Solvency II rules*

From 1 January 2016, both the consolidated Group and regulated insurance entities (see note 46 for a list of the Group's regulated insurance entities) within the Group operating in the EU have been required to measure and monitor their capital resources under the Solvency II (SII) regulatory regime.

The Group's capital position under SII is determined by aggregating the assets and liabilities of the Group recognised and measured on a SII basis (being Own funds) and comparing this to the Group's SII solvency capital requirement (SCR) to determine surplus capital.

The Group's unaudited Solvency II surplus is £ 653 million (2016: £ 800 million), (2015: £ 794 million, representing a Solvency II ratio of 155% (2016: 175%), (2015: 182%) calculated under the standard formula. Own funds include a £566 million subordinated loan from Old Mutal plc (see note 34), and as such represents how the capital position of the Group was presented within Old Mutual plc. This subordinated loan has been effectively converted to equity after the year-end (see note 45). In accordance with the European Insurance and Occupational Pensions Authority (EIOPA) guidance, we have included the Individual Capital Guidance (ICG) requirement within our SCR in all periods. Surplus capital at individual entity level is assessed for availability to the Group and therefore may be restricted when determining Group own funds.

The estimated SCR and corresponding eligible own funds for each period (unaudited) were as follows:

			£m
	At 31 December 2017	At 31 December 2016	At 31 December 2015
Eligible Own Funds	**1,849**	1,872	1,768
Solvency capital requirements (SCR)	**1,196**	1,072	974
Solvency II surplus	**653**	800	794
Coverage	**155%**	175%	182%

42(a)(iii) *Own Risk and Solvency Assessment (ORSA)*

The Solvency II directive introduced a requirement for the Group and the insurance entities located within the EU to conduct an ORSA.

The purpose of the ORSA is:

- To provide quantitative and qualitative assessments of the Group's risk profile relative to risk appetite;
- To provide assessment of regulatory and overall solvency needs and the financial condition of the Group on a forward looking basis;
- To demonstrate the link between the business strategy, risk profile and solvency needs;
- To test the financial, operational and strategic resilience of the business, identify and assess events which could threaten the viability of the Group and validate recovery plans; and
- To assess the effectiveness of risk monitoring, management and control processes.

The assessment considers both the current risk and capital position and the forward looking assessment of the risk profile over the three-year planning horizon of the Group.

The assessment of capital requirements is driven by the assessment of risks within the Group. Each material risk is assessed in order to determine the potential losses which could arise in the event that risk crystalise. These assessments support strategic decisions to accept or mitigate risks.

The assessment of risk and solvency needs is in principle carried out continuously. In practice, the assessment consists of a range of specific activities and decisions carried out at different times of the year as part of an annual cycle, supplemented as necessary by ad hoc assessments of the impact of external events and developments and of internal business proposals.

Papers are presented to the Board throughout the year dealing with individual elements that make up the ORSA. The information contained in those papers and the associated decisions taken are summarised in an annual ORSA report, which is submitted to the Group's regulators as part of the normal supervisory process.

42(b) *Insurance risk (risk arising within insurance contracts)*

For accounting purposes insurance risk is defined as risk arising on insurance business. Contracts issued by the Group may include both insurance and financial risk. Contracts with significant insurance risk are classified as insurance contracts, while contracts with no or insignificant insurance risk are classified as investment contracts.

The Group assumes insurance risk by issuing insurance contracts, under which the Group agrees to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) affecting the policyholder occurs. Insurance risk includes mortality and morbidity risk in the case of life assurance.

Insurance risk arises through exposure to variable claims experience on life assurance, critical illness and other protection business and exposure to variable operating experience in respect of factors such as persistency levels and management expenses. Unfavourable persistency, expenses and mortality and morbidity claim rates, relative to the actuarial assumptions made in the pricing process, may prevent the Group from achieving its profit objectives.

The Group has developed an insurance risk policy which sets out the practices which are used to monitor and manage insurance risks. As well as management of persistency, expense and claims experience, the risk policy sets requirements and standards on matters such as underwriting and claims management practices, and the use of reinsurance to mitigate insurance risk.

The sensitivity of the Group's earnings and capital position to insurance risk is monitored through the Group's business planning and capital management processes. The insurance risk profile and experience is closely monitored to ensure that the exposure remains acceptable.

The Group effectively manages its insurance risks through the following mechanisms:

- Having an agreed risk appetite for all risk types including those related to insurance;
- The Group does not offer group insurance business in order to avoid risk concentrations;
- Analysis of mortality, morbidity, persistency and expense experience to calculate premiums and monitor claims patterns;
- Standards for underwriting and claims management, use of reinsurance and product governance;
- Reinsurance, which is used to limit the Group's exposure to large single claims and catastrophes. When selecting a reinsurer, the Group requires that reinsurers meet financial strength criteria; and
- The matching of assets, which is driven by the nature and term of the insurance liabilities. The management of assets and liabilities is closely monitored to ensure that there are sufficient interest bearing assets to match the guaranteed portion of liabilities. Hedging instruments are used at times to limit exposure to equity market and interest rate movements.

Terms and conditions of long-term insurance business

The terms and conditions attached to insurance contracts determine the level of insurance risk accepted by the Group. The following table outlines the general form of terms and conditions that apply to contracts sold in each category of business, and the nature of the risk incurred by the Group.

Category	Essential terms	Main risks	Policyholder guarantees	Policyholder participation in investment return
Unit linked life assurance	Mortality charges may be re-priced	Mortality	The initial premium is guaranteed to sustain the original cover for the first 10 years	None
Unit linked critical illness	Mortality and morbidity charges may be re-priced	Mortality, Morbidity	The initial premium is guaranteed to sustain the original cover for the first 10 years	None
Non-linked life assurance and critical illness (fixed term and whole of life)	Premium rates fixed at inception	Mortality, Morbidity	Rates fixed for the life of the contract	None
Non-linked life assurance and critical illness (rolling term)	Premium rates fixed, but may be re-priced when the term is rolled	Mortality, Morbidity	Rates fixed for the first 10 years if cover levels are not altered	None

Mortality and morbidity

Mortality and morbidity risk is the risk that death, critical illness and disability claims are different from expected levels. Possible causes are new and unexpected epidemics and widespread changes in lifestyle such as eating, smoking and exercise habits. Higher than expected claims levels will reduce expected emerging profits.

For unit-linked contracts, a risk charge is applied to meet the expected cost of the insured benefit (in excess of the unit value). This risk charge can be altered in the event of changes in the expectation for future claims experience, subject to objective to provide fair customer outcomes.

The operations manage mortality and morbidity risks through the underwriting policies 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.

Persistency

Persistency risk is the risk that policyholder surrenders, transfers or premium cessation on contracts occur at levels that are different to expected.

Persistency statistics are monitored monthly and a detailed persistency analysis at a product level is carried out on an annual basis. Management actions may be triggered if statistics show significant adverse movement or emerging trends in experience.

Expenses

Expense risk is the risk that actual expenses and expense inflation differ from expected levels. Higher expenses and expense inflation may result in emerging profit falling below the Group's profit objectives.

Expense levels are monitored quarterly against budgets and forecasts. 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. This review may result in changes in charge levels, subject to "Treating Customers Fairly" principles.

Tax

Tax risk is the risk that the projected taxation basis for basic life assurance business is incorrect, resulting in contracts being incorrectly priced.

Tax risk also represents potential changes in the interpretation or application of prevailing tax legislation as paid by either policyholders or shareholders, resulting in higher taxes reducing profitability or increasing shareholder tax burdens. The taxation position of the operations is projected annually and tax changes will result in changes to new business pricing models as part of the annual control cycle. High risk issues and emerging trends are reported internally on a quarterly basis.

42(b)(i) *Sensitivity testing – life assurance*

Sensitivity analysis has been performed by applying the following parameters to the statement of financial position and income statement as at 31 December 2017, 31 December 2016 and 31 December 2015.

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 decreased profit and shareholders' equity by £1.9m after tax (2016: £1.2m decrease), (2015: £5.9m decrease). An equal change in the opposite direction would have increased profit and shareholders' equity by £4.0m after tax (2016: £2.4m decrease), (2015: £4.1m decrease).

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), (2015: £6.8m). An equal change in the opposite direction would have decreased profit by £6.0m after tax (2016: £4.1m), (2015: £6.8m).

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 £15.3m after tax (2016: £8.7m), (2015: £10.9m).

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), (2015: £0.9m).

42(c) *Financial risk management*

Risk is an inherent part of the Group's business activities. The Group seeks to identify, assess, monitor and manage each of the various types of risk involved it its business activities in accordance with defined policies and procedures. A key component of our approach to capital management is to ensure that the Group's policies are aligned with the Group's overall strategy, business plans and risk appetite. The Group's Capital Management Forum (CMF) reviews the capital position of each of the regulated businesses on a monthly basis.

The key focus of financial risk management for the Group is ensuring that the proceeds from its financial assets are sufficient to fund the obligations arising from its insurance and asset management operations. The material components of financial risk are credit risk, market risk (arising from changes in equity, bond prices, interest and foreign exchange rates) and liquidity risk.

42(c)(i) *Credit risk*

Overall exposure to credit risk

Credit risk is the risk of adverse movements in credit spreads (relative to the reference yield curve), credit ratings or default rates leading to a deterioration in the level or volatility of assets, liabilities or financial instruments resulting in loss of earnings or reduced solvency. This includes counterparty default risk, migration risk and spread risk.

The Group has established a credit risk policy which applies to all activities where the shareholder is exposed to credit risk, either directly or indirectly. The Policy sets out a suitable credit risk management framework to limit and manage the Group's exposure to credit risk.

The credit risk exposures of the Group are monitored regularly to ensure that counterparties remain creditworthy, to ensure there is appropriate diversification of counterparties and to ensure that exposures are within approved limits. At 31 December 2017, the Group's material credit exposure was to financial institutions (primarily through the investment of shareholder funds), corporate entities (including external fund managers and reinsurers) and individuals (primarily through fund management trade settlement activities).

There is no direct exposure to European sovereign debt (outside of the UK) within the shareholder investments. The Group has no significant concentrations of credit risk exposure.

Reinsurance arrangements

The Group 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 and to provide liquidity.

Since the Group uses reinsurance as a means of mitigating insurance risk, reinsurance counterparties bear a significant financial obligation to the Group.

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 Group would be able to withhold amounts due to the reinsurer to offset amounts due from the reinsurer.

The Group 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 Group 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 Group and the reinsurance providers.

None of the Group's reinsurance assets are either past due or impaired. Of the reinsurance assets shown in the statement of financial position all are considered investment grade with the exception of £51 million of unrated exposures (2016: £68 million, 2015: £97 million). Collateral is not taken against reinsurance assets or deposits held with reinsurers other than in limited circumstances. For further information see note 25.

Details of the age analyses and credit quality of reinsurance assets in respect of insurance contracts and investment contracts are included below.

Investment of shareholder funds

The risk of counterparty default in respect of the investment of shareholder funds is managed through:

- Setting minimum credit rating requirements for counterparties;
- Setting limits and early warning indicators for individual counterparties and counterparty concentrations;
- Monitoring exposures regularly against approved limits; and
- Reviewing counterparties and associated limits on at least an annual basis.

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

Other credit risks

The Group is exposed to financial adviser counterparty risk through a number of loans that is makes to it makes to it's advisers and the payment of upfront commission on the sale of certain types of business, The risk of default by financial advisers is managed through monthly monitoring of loan and commission debt balances and the establishment of a net provision, when considered appropriate. The Group is exposed to the 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. This risk 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.

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

Details of the credit quality of debt securities can be found in note 20(a).

Impact of credit risk on fair value

Due to the limited exposure that the Group 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. The fair value movements on these instruments are mainly due to changes in market conditions.

Collateral and other credit enhancements

The amount and type of collateral required by the Group depends on an assessment of the credit risk of the counterparty. Collateral held is managed in accordance with Group's guidelines and the relevant underlying agreements. The market value of securities received as collateral is monitored on a daily basis and securities received as collateral generally are not recognised on the statement of financial position.

Maximum exposure to credit risk

The table below represents the Group's maximum exposure to credit risk. The Group's maximum exposure to credit risk does not differ from the carrying value disclosed in the relevant notes to the financial statements. Exposure arising from financial instruments not recognised on the statement of financial position is measured as the maximum amount that the Group would have to pay, which may be significantly greater than the amount that would be recognised as a liability. The "not rated" balances represent the pool of counterparties that do not require a rating. These counterparties individually generate no material credit exposure and this pool is highly diversified, monitored and subject to limits.

The Group does not have any significant exposure arising from items not recognised on the statement of financial position.

£m

	Credit rating relating to financial assets that are neither past due nor impaired									
At 31 December 2017	**AAA**	**AA**	**A**	**BBB**	**<BBB**	**Internally rated**	**Included through consolidation of funds**	**Carrying value including held for sale**	**Less: Amount classified as held-for-sale**	**Carrying value**
Financial investments	–	183	–	12	–	508	4,536	5,239	–	5,239
Government and government-related securities	–	183	–	–	–	–	2,244	2,427	–	2,427
Other debt securities, preference shares and debentures	–	–	–	–	–	505	1,896	2,401	–	2,401
Short-term funds and securities	–	–	–	12	–	3	–	15	–	15
Other Investments and Securities	–	–	–	–	–	–	396	396	–	396
Reinsurance assets	–	1,050	1,807	–	–	51	–	2,908	–	2,908
Loans and advances neither past due not impaired	–	–	–	–	–	199	–	199	–	199
	–	1,233	1,807	12	–	758	4,536	8,346	–	8,346

£m

	Credit rating relating to financial assets that are neither past due nor impaired									
At 31 December 2016	AAA	AA	A	BBB	<BBB	Internally rated	Included through consolidation of funds	Carrying value including held for sale	Less: Amount classified as held-for-sale	Carrying value
Financial investments	5	170	5	22	1	465	2,243	2,911	(35)	2,876
Government and government-related securities	–	164	–	18	1	1	721	905	(19)	886
Other debt securities, preference shares and debentures	–	–	–	–	–	461	1,522	1,983	–	1,983
Short-term funds and securities	5	6	5	4	–	3	–	23	(16)	7
Reinsurance assets	–	877	1,918	–	–	68	–	2,863	–	2,863
Loans and advances neither past due not impaired	–	–	–	–	–	220	–	220	–	220
	5	1,047	1,923	22	1	753	2,243	5,994	(35)	5,959

£m

	Credit rating relating to financial assets that are neither past due nor impaired									
At 31 December 2015	AAA	AA	A	BBB	<BBB	Internally rated	Included through consolidation of funds	Carrying value including held for sale	Less: Amount classified as held-for-sale	Carrying value
Financial investments	187	6	6	23	1	351	2,138	2,712	–	2,712
Government and government-related securities	187	–	–	23	1	–	1,119	1,330	–	1,330
Other debt securities, preference shares and debentures	–	–	–	–	–	341	987	1,328	–	1,328
Short-term funds and securities	–	6	6	–	–	10	–	22	–	22
Other Investments and Securities	–	–	–	–	–	–	32	32	–	32
Reinsurance assets	–	685	1,725	–	–	97	–	2,507	–	2,507
Loans and advances neither past due not impaired	–	–	–	–	–	190	–	190	–	190
	187	691	1,731	23	1	638	2,138	5,409	–	5,409

Financial assets past due but not impaired

At 31 December 2017 there were no financial assets past due but not impaired (2016: nil, 2015: nil).

Financial assets individually impaired

At 31 December 2017 there was a £1 million provision in respect of financial assets individually impaired (2016: nil, 2015: nil).

The main considerations for the impairment assessment include whether there are known issues in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Group determines the allowance appropriate for each individually significant asset on an individual basis. Items considered when determining the allowance amount include the sustainability of the counterparty's business plan, the counterparty's ability to improve performance once a financial issue has arisen, the realisable value of collateral, and the timing of expected cash flows. The impairment losses are evaluated at each reporting date.

42(c)(ii) ***Market risk***

(i) Overview

Market risk is the risk of a financial impact to earnings or value arising from the changes in values of financial assets or financial liabilities from changes in equity, bond and property prices, interest rates and foreign exchange rates. Market risk arises differently across the Group's businesses depending on the types of financial assets and liabilities held.

The Group has a market risk policy which set out the risk management framework, permitted and prohibited market risk exposures, maximum limits on market risk exposures, management information and stress testing requirements which are used to monitor and manage market risk. The policy is cascaded to the businesses across the Group and Group level governance and monitoring processes provide oversight of the management of market risk by the individual businesses.

The Group does not undertake any principal trading for its own account. The Group's revenue is however affected by the value of assets under management and consequently it has exposure to equity market levels and economic conditions. Scenario testing is undertaken to test the resilience of the business to severe but plausible events and to assist in the identification of management actions.

(ii) Insurance operations

For the Group's insurance operations, equity, property, volatility and interest rate risk exposure to capital and to earnings are quantified through sensitivity testing.

For the Group's unit-linked assurance operations, policyholders carry the full market risk, with the only risk to the Group being asset-based fee risk from charges on policyholder funds. In respect of the Group's shareholders' funds, market risk is addressed in the Group's Credit Risk and Liquidity Risk policies, which ensure that entities invest their shareholder funds in such a manner as to minimise market risk.

(iii) Equity and property price risk

In accordance with the market risk policy, the company does not invest shareholder funds 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. 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.

	£m		
	Impact on profit after tax		
	At 31 December 2017	At 31 December 2016	At 31 December 2015
Impact of 10% increase in equity and property prices	**32**	30	29
Impact of 10% decrease in equity and property prices	**(31)**	(31)	(29)

(iv) Interest rate risk

Interest rate risk arises primarily from investment in fixed interest government securities, which are exposed to fluctuations in interest rates and bank balances held with financial institutions.

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 rate sensitivity testing

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 shareholder's 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. In previous years, gilts backing free capital and sterling reserves were held for regulatory purposes (2015: £75.6m) and these were subject to market movements, although the sterling reserves themselves were not included in the IFRS financial statements. These gilts are no longer required due to regulatory changes effective from 2016.

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

	£m		
	Impact on profit after tax		
	At 31 December 2017	At 31 December 2016	At 31 December 2015
Impact of 1% increase in interest rates	**20**	16	12
Impact of 1% decrease in interest rates	**(10)**	(12)	(13)

(v) Currency translation risk

The Group is exposed to movements in exchange rates from changes in the Sterling value of surplus assets and earnings denominated in foreign currencies. From a capital perspective, our capital is held where our risks are located and currency translation risk would only be realised if we were to require a transfer of surplus capital between regions during a period of stress. The functional currencies of the Group's principal overseas operations are Euro and Hong Kong dollars.

Some of the Groups' business operations may undertake activities that are not in their functional currencies. These activities are economically hedged by numerous activities such as the use of currency swaps, currency borrowings and forward foreign exchange contracts.

The foreign currency translation table below have been prepared on the basis that the values of the economic hedging instruments are reflected at their carrying value as opposed to their notional amounts. The tables are therefore a reflection of the foreign currency exposures in their respective currencies. Each currency is actively managed and compared with appropriate limits. The Group does not have significant concentrations of foreign currency risk exposure.

At 31 December 2017, the Group's total shareholders' equity deployed by currency was:

						£m
	GBP	**EUR**	**USD**	**SEK**	**Other**	**Total**
Shareholders' equity at 31 December 2017	**891**	**7**	**173**	**21**	**7**	**1,099**
Shareholders' equity at 31 December 2016	779	179	12	19	3	992
Shareholders' equity at 31 December 2015	764	148	(15)	10	6	913

(vi) Liquidity risk

Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The Group manages liquidity by maintaining adequate liquidity resources and banking facilities, continuously monitoring forecast and actual cash flows, and matching the maturity profiles of financial assets and liabilities. Individual businesses maintain and manage their local liquidity requirements according to their business needs, within the overall liquidity framework established by the Group. The Group maintains contingency funding arrangements to provide liquidity support to businesses in the event of severe liquidity stresses.

Information on the nature of the investments and securities held is given in note 22.

During 2016 and 2015, the Group had an implicit borrowing arrangement with its parent Old Mutual plc where it could receive funding for liquidity strains in stress scenarios should the need arise. No drawdown on this arrangement was made over the period. In January 2017, the Group established a new internal £200 million revolving credit facility with Old Mutual plc for a two year duration which was subsequently amended in May 2017 to £70 million over the same term. Further details, together with information on the Group's borrowed funds, are given in note 34.

Group operating segments are required, both in terms of their local requirements and in accordance with the Group's liquidity risk framework, to establish their own processes for managing their liquidity and capital needs and these are subject to review by their local oversight functions, with representation from the Group.

The Group does not have material liquidity exposure to special purpose entities or investment funds. The contractual maturities of the Group's financial liabilities are set out below.

42(d) *Contractual maturity analysis*

The following table is a maturity analysis of liability cash flows based on contractual maturity dates for investment contract liabilities and expected claim dates for insurance contracts. Investment contract policyholders have the option to terminate or transfer their contracts at any time and to receive the surrender or transfer value of their policies. Although these liabilities are payable on demand, and are therefore included in the contractual maturity analysis as due in less than three months and more than three months and less than one year, the Group does not expect all these amounts to be paid out within one year of the reporting date.

The undiscounted cash flows of discretionary participating investment contracts only include amount vested or to be vested, while their carrying amount include reserves that are payable at the discretion of the Group.

£m

		Undiscounted cash flows				
At 31 December 2017	**Carrying amount**	**Up to three months**	**Three months to one year**	**Between one and five years**	**More than five years**	**Total**
Life assurance policyholder liabilities						
Insurance contracts	**489**	**15**	**8**	**34**	**855**	**912**
Life assurance policyholder liabilities	**480**	**6**	**8**	**34**	**855**	**903**
Outstanding claims	**9**	**9**	**–**	**–**	**–**	**9**
Investment contracts						
Unit-linked investment contracts and similar contracts	**59,139**	**59,139**	**–**	**–**	**–**	**59,139**
Total policyholder liabilities	**59,628**	**59,154**	**8**	**34**	**855**	**60,051**

£m

		Undiscounted cash flows				
At 31 December 2016	Carrying amount	Up to three months	Three months to one year	Between one and five years	More than five years	Total
Life assurance policyholder liabilities						
Insurance contracts	417	22	10	56	660	748
Life assurance policyholder liabilities	402	7	10	56	660	733
Outstanding claims	15	15	–	–	–	15
Investment contracts						
Unit-linked investment contracts and similar contracts	51,265	53,080	–	–	–	53,080
Total policyholder liabilities	51,682	53,102	10	56	660	53,828

£m

		Undiscounted cash flows				
At 31 December 2015	Carrying amount	Up to three months	Three months to one year	Between one and five years	More than five years	Total
Life assurance policyholder liabilities						
Insurance contracts	293	23	10	49	538	620
Life assurance policyholder liabilities	284	14	10	49	538	611
Outstanding claims	9	9	–	–	–	9
Investment contracts						
Unit-linked investment contracts and similar contracts	49,041	48,525	516	–	–	49,041
Total policyholder liabilities	49,334	48,548	526	49	538	49,661

42(e) *Operational risk*

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

Operational risk includes all risks 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.

Operational risk includes the effects of failure of the administration processes, IT maintenance and development processes, investment processes (including settlements with fund managers, fund pricing and matching & dealing), product development and management processes, legal risks (e.g. risk of inadequate legal contract with third parties), risks relating to the relationship with third party suppliers, and the consequences of financial crime and business interruption events.

In accordance with Group policies, management have primary responsibility for the identification, management and monitoring of risks, and escalation and reporting on issues to executive management.

The company executive management have responsibility for implementing the Group risk management methodologies and framework and for development and implementation of action plans to manage risk levels within acceptable tolerances and resolve issues.

42(f) *Investment contract risk*

Investment contract risk arises through the exposure to unfavourable operating experience in respect of factors such as persistency levels and management expenses relative to the Group's expectations when pricing contracts, which may prevent the Group from achieving its profit objectives.

43: Fiduciary activities

The Group provides custody, trustee, corporate administration and investment management and advisory services to third parties that involve the Group making allocation and purchase and sale decisions in relation to a wide range of financial instruments. Those assets that are held in a fiduciary capacity are not included in these financial statements. Some of these arrangements involve the Group accepting targets for benchmark levels of returns for the assets under the Group's care. These services give rise to the risk that the Group will be accused of misadministration or under performance.

44: Related parties

In the normal course of business, the Group enters into transactions with related parties that relate to insurance and investment management business. These are conducted on an arm's length basis and are not material to the Group's results.

44(a) ***Services provided to, and by related parties***

Transactions with related parties carried out by the Group during the year were as follows:

			£m
	Year ended 31 December 2017	Year ended 31 December 2016	Year ended 31 December 2015
Income earned	**5**	2	3
Expenses incurred	**(60)**	(70)	(71)
Receivable at year end	**28**	115	56
Payable at year end	**(790)**	(843)	(792)

Expenses incurred include interest on loans to Old Mutual plc and commission paid/payable to other related parties. Payables at year end mainly relate loans payable to Old Mutual plc. Interests in subsidiaries and related undertakings are set out in Appendix B.

44(b) ***Transactions with key management personnel, remuneration and other compensation***

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. Details of the compensation paid to the Board of directors as well as their shareholdings in the Company are disclosed in the Remuneration Report.

44(c) ***Key management personnel compensation***

	£'000 **At** **31 December 2017**	£'000 At 31 December 2016	£'000 At 31 December 2015
Aggregate directors' emoluments			
Aggregate emoluments excluding pension contributions	**4,201**	2,424	2,338
Company pension contribution to defined contributions schemes	**10**	17	38
	4,211	2,441	2,376

Three directors had money paid to a money purchase scheme during the year (2016: 1), (2015: 1).

Five directors (2016: 2), (2015: 2) received or were due to receive shares or share options in Old Mutual plc under a long term incentive scheme.

Two directors (2016: 2), (2015: 2) exercised options during the year.

	£'000 **At** **31 December 2017**	£'000 At 31 December 2016	£'000 At 31 December 2015
Emoluments of the highest paid director			
Aggregate emoluments excluding pension contributions	**1,323**	1,086	1,233

The highest paid director exercised share options during the current and prior years.

The directors' emoluments disclosed above are in respect of the two directors of the Parent Company in office during the year who are directly employed by Old Mutual Wealth Business Services Limited, a subsidiary undertaking (2016: 2), (2015: 2). The above disclosure includes the remuneration of those directors in relation to their services to this Parent Company and its subsidiaries. The remuneration for each director is apportioned on the basis of time spent across the Parent Company and its subsidiaries but restricted to the period in which they were a director of the Parent Company (and also reflecting the changing group structure across the reporting period).

The above emoluments also include the fees paid to the non-executive directors except for JB Hemphill and I G Johnson as they consider that their services to the Parent Company are incidental to their duties within the Group.

44(d) Key management personnel transactions

Key management personnel and members of their close family have undertaken transactions with the Group and its subsidiaries, joint ventures and associated undertakings in the normal course of business.

Various members of key management personnel hold or have at various times during the year held, investments managed by asset management businesses of the Group. These include unit trusts and mutual funds. None of the amounts concerned are material in the context of the funds managed by the Group business concerned, and all of the investments have been made by the individuals concerned either on terms which are the same as those available to external clients generally or, where that is not the case, on the same preferential terms as were available to employees of the business generally.

44(e) Other related parties

Details of the Group's pension schemes, whose assets are managed by external investment managers are provided in note 37. Transactions made between the Group and related parties were made in the normal course of business. Loans from related parties are made on normal arm's length commercial terms.

45: Events after the reporting date

Acquisition of Skandia UK from Old Mutual plc

The Skandia UK Limited group of entities was acquired from Old Mutual plc on 31 January 2018 and comprises seven Old Mutual plc group entities with net asset value of £591 million. The transfer was financed by the issue of a share and with the balance represented by a merger reserve; no debt was taken on as a result of this transaction. The most significant asset within these entities is a £566m receivable which corresponds to an equivalent payable within the Group's statement of financial position. The net effect of this transaction for the Group is to replace a payable due to Old Mutual plc with equity.

Financing arrangements

On 23 February 2018, the Group entered into, and fully drew down, the New Term Loan, a £300 million senior unsecured term loan with a number of relationship banks with an annual coupon of 45 basis points above LIBOR, to be updated every three months. The New Term Loan will be repaid in full using proceeds from the sale of the Single Strategy Business following the completion of the OMGI Transaction.

On 28 February 2018, the Group issued a £200 million subordinated debt security in the form of a 10-year Tier 2 bond with a one-time issuer call option after 5 years to J.P. Morgan Securities plc, paying a semi-annual coupon of 4.478% (the "Tier 2 Bond"). Including the impact of amortisation of bond set-up costs, the issuance of the Tier 2 Bond will increase operating expenses in the Head Office function by approximately £11 million on an annual basis. The debt security is currently undocumented and unlisted and has a Fitch instrument rating of BBB-. The Group intends to finalise a prospectus and obtain a listing for the Tier 2 Bond on the regulated market of the London Stock Exchange, with a view to a potential remarketing and secondary placement of the Tier 2 Bond in due course. In addition, the Group entered into the New Revolving Facility, a £125 million revolving credit facility which is currently undrawn and is expected to remain undrawn during 2018.

Subsequent to the year end, and as part of a series of internal transactions, £566 million of intercompany indebtedness to other companies within the Old Mutual plc group has been equitised, with the effect of the intercompany indebtedness being cancelled and replaced with equity in the form of share capital and a merger reserve. The overall indebtedness also reduced by £16 million from ordinary course transactions. The remaining £200 million intercompany indebtedness was repaid in full from the new facilities referred to above and from existing cash resources on 28 February 2018. On the same date, the £70 million revolving credit facility with Old Mutual plc was cancelled.

46: Subsidiaries

Critical accounting estimates and judgements – Consolidation set of standards

The Group has applied the following key judgements in the application of the requirements of the consolidation set of standards (IFRS 10 "Consolidated Financial Statements" and IFRS 11 "Joint Arrangements"):

Consolidation of investment funds and securitisation vehicles

The Group acts as a fund manager to a number of investment funds. In determining whether the Group controls such a fund, it will focus on an assessment of the aggregate economic interests of the Group (comprising any carried interests and expected management fees) and the investor's rights to remove the fund manager. The Group assesses, on an annual basis, such interests to determine if the fund will be consolidated. See note 24 for disclosures in respect of the investment funds in which the Group has an interest.

Structured entities

In assessing whether the Group has power over such investees in which it has an economic interest, the Group considers numerous factors. These factors may include the purpose and design of the investee, its practical ability to direct the relevant activities of the investee, the nature of its relationship with the investee and the size of its exposure to the variability of returns of the investee. The Group has evaluated all exposures and has concluded that all investments in investment funds as well as and other funding vehicles represent investments in structured entities. Information on structured entities is included in note 24.

46(a) Principal subsidiaries and Group enterprises

The following table lists the principal Group undertakings whose results are included in the consolidated financial statements. A complete list of the Group's related undertakings comprising of subsidiaries, associates and other significant holdings is contained in note Appendix B.

Parent company

Quilter plc (formerly known as Old Mutual Wealth Management Limited)

Subsidiaries

The principal subsidiaries of the Group at 31 December 2017 are listed by country of incorporation.

Name	Nature of business	% held
United Kingdom		
Old Mutual Wealth Holdings Limited	Holding company	100
Old Mutual Wealth UK Holding Limited	Holding company	100
Old Mutual Global Investors Holdings Limited	Holding company	100
Old Mutual Wealth Life Assurance Limited	Life assurance	100
Old Mutual Wealth Life & Pensions Limited	Life assurance	100
Old Mutual Investment Management Limited	Multi-asset business	100
Quilter Cheviot Limited	Investment management	100
Intrinsic Financial Services Limited	Financial Advice	100
Old Mutual Wealth Limited	Savings and Investments	100
Old Mutual Wealth Business Services Limited	Management services	100
Ireland		
Old Mutual International Ireland Limited	Life assurance	100
Isle of Man		
Old Mutual International Holdings Limited	Holding company	100
Old Mutual International Isle of Man Limited	Life assurance	100

All the above companies have a year end of 31 December and their financial results have been incorporated and are included in the Group financial statements from the effective date that the Group controls the entity.

46(b) *Guarantees provided by the Group to subsidiaries*

No significant guarantees have been provided by the Group during the financial year.

The Group provides financial support in certain cases where funds require seed capital and also provides liquidity funding in the case of large divestments from unit trust funds.

During 2016 the Parent Company made capital contributions of £35 million to its subsidiary Old Mutual Wealth Holdings Limited.

46(c) *Loss of control of subsidiaries*

There has been no loss of control of any major subsidiaries during the course of the current and previous year.

APPENDIX A – OTHER ACCOUNTING POLICIES

Investments in associates

An associate is an entity over which the Group has significant influence, but not control or joint control, through its participation in the entity's financial and operating policy decisions. Significant influence is generally demonstrated by the Group holding between 20% and 50%, of the voting rights. Where voting rights are irrelevant, all other factors, contractual or otherwise, are assessed in determining whether the Group has the ability to exercise significant influence.

The results, assets and liabilities of associates, other than those that are measured at FVTPL (see below) are incorporated into these consolidated financial statements using the equity method of accounting from the date that significant influence commences until the date it ends. Under this method, the cost of the investment in an associate together with the Group's share of that entity's post-acquisition changes to shareholders' funds is included as an asset in the consolidated statement of financial position. The cost includes goodwill recognised on acquisition. The Group's share of associates' post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. Where a Group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate. Unrealised losses are eliminated in the same way but only to the extent that there is no evidence of impairment. Investments in associates that are held with a view to subsequent resale are accounted for as non-current assets held for sale.

Where the Group has an investment in an associate, a portion of which is held by, or is held indirectly through a unit trust or similar entity, including investment-linked insurance funds, that portion of the investment is measured at FVTPL.

Foreign currency translation

The Group's presentation currency is pounds sterling (£). The functional currency of the Group's foreign operations is the currency of the primary economic environment in which these entities operate. The Parent Company functional currency is pounds sterling (£). Income statements and cash flows of foreign entities are translated into the Group's presentation currency at average exchange rates for the year and their statements of financial position are translated at the year-end exchange rates. Exchange rate differences arising from the translation of the net investment in foreign subsidiaries and associates are recognised in other comprehensive income and taken to the currency translation reserve within equity. To the extent that these gains and losses are effectively hedged, the cumulative effect of such gains and losses arising on the hedging instruments are also included in that component of shareholders' equity. On disposal of a foreign entity, exchange differences are transferred out of this reserve to the income statement as part of the gain or loss on sale.

Foreign currency transactions are converted into the relevant functional currency at the exchange rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are translated into the relevant functional currency at exchange rates prevailing at the reporting date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated into the functional currency at foreign exchange rates prevailing at the dates the fair values were determined. Non-monetary assets and liabilities denominated in foreign currencies that are stated at historical cost are converted into the functional currency at the rate of exchange ruling at the date of the initial recognition of the asset and liability and are not subsequently retranslated.

Exchange gains and losses on the translation and settlement during the period of foreign currency assets and liabilities are recognised in profit or loss. Exchange differences for non-monetary items are recognised in the statement of other comprehensive income when the changes in the fair value of the non-monetary item are recognised in the statement of other comprehensive income, and in profit or loss if the changes in fair value of the non-monetary item are recognised in profit or loss.

Property, plant and equipment

Property, plant and equipment consists principally of computer equipment, motor vehicles, fixtures and fittings, and is stated at cost less accumulated depreciation and any recognised impairment losses. Cost includes the original purchase price of the asset and the costs of bringing the asset to its working condition for its intended use. Depreciation is charged to profit or loss on a straight-line basis to write down the cost of the asset to its residual value over its estimated useful life, ranging between 3 and 10 years depending on the length of time the Group expects to derive benefit from the asset.

Management determines useful lives and residual values for assets when they are acquired, based on experience of similar assets and taking into account other relevant factors such as any expected changes in technology. The Group assesses and adjusts (if required) the useful life, residual value and depreciation method for property plant and equipment on an annual basis.

Items of property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows. Where the carrying amount of an asset is greater than its estimated recoverable amount, which represents the higher of the asset's fair value less costs of disposal and value in use, it is written down immediately to its recoverable amount and an impairment loss is recognised in the income statement. Impaired non-financial assets, except goodwill, are reviewed for possible reversal of the impairment at each reporting date. On de-recognition of an item of equipment, any gain or loss on disposal, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is included in profit or loss in the period of the de-recognition. Items of property and equipment that are not owned by the Group, but are held under lease arrangements are accounted for in accordance with the accounting policy on leases.

Leases

Operating leases

Leases where the lessor retains the risks and rewards of ownership of the underlying asset are classified as operating leases. Where the Group is the lessee, payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the term of the lease.

Finance leases

Lease agreements where the Group substantially accepts the risks and rewards of ownership of the leased asset are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Lease payments are allocated between the liability and finance charges so as to achieve a constant interest rate on the outstanding balance of the liability.

Finance lease obligations, net of finance charges, are included in liabilities. The interest element of the finance cost is charged to profit or loss over the lease period under the effective interest method. Where applicable, assets acquired under finance leases are depreciated over the shorter of the useful life of the asset and the lease term.

Share Capital

Equity instruments

Shares are classified as equity instruments when there is no contractual obligation to deliver cash or other assets to another entity on terms that may be unfavourable. The value of the Company's share capital consists of the number of ordinary shares in issue multiplied by their nominal value. The difference between the proceeds received on issue of the shares and the nominal value of the shares issued is recorded in share premium.

Share issue costs

Incremental external costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds of the issue and disclosed where material.

Dividends

Dividends are distributions of profit to holders of the Group's share capital and as a result are recognised as a deduction in equity. Dividends payable to holders of equity instruments are recognised in the period in which they are authorised or approved. Interim dividends payable to holders of the Group's ordinary share capital are announced with the Half Year results and authorised by the directors of the Parent Company. The final dividend is announced with the Annual Report and Accounts and typically requires shareholder approval at the Annual General Meeting. For this reason it is not included in the annual consolidated financial statements.

Shares held by trusts

Shares in the Parent Company that are held by the Employee Benefit Trust (EBT) are treated as 'own shares' or Treasury shares. The EBT purchases shares in the Parent Company for delivery to employees under employee incentive plans. Purchased shares are recognised as a deduction from equity at the price paid for them.

Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to the ordinary shareholders of the Parent Company by the weighted average number of Ordinary Shares in issue during the period, excluding Ordinary Shares purchased by various share trusts of the Group and held as own shares.

Diluted earnings per share is calculated by increasing the weighted average number of Ordinary Shares outstanding to assume conversion of all dilutive potential Ordinary Shares, notably those related to employee share schemes.

APPENDIX B – RELATED UNDERTAKINGS

The Companies Act 2006 requires disclosure of certain information about the Group's related undertakings which is set out in this note. Related undertakings comprise subsidiaries, joint ventures, associates and other significant holdings. Significant holdings are where the Group either has a shareholding greater than or equal to 20% of the nominal value of any share class, or a book value greater than 20% of the Group's assets.

The definition of a subsidiary undertaking in accordance with the Companies Act 2006 is different from the definition under IFRS. As a result, the related undertakings included within the list below may not be the same as the undertakings consolidated in the Group IFRS financial statements. Refer to accounting policies note 4.1 Group Accounting for further detail on principles of consolidation and definition of joint ventures.

The Group's related undertakings along with the country of incorporation, the registered address, the classes of shares held and the effective percentage of equity owned at 31 December 2017 are disclosed below.

Company Name	Share Class	% Held
United Kingdom		
Old Mutual House, Portland Terrace, Southampton, SO14 7EJ		
IFA Holding Company Limited	Ordinary	100
IFA Services Holdings Company Limited	Class A and Class B Ordinary	100
Old Mutual Wealth Business Services Limited	Ordinary	100
Old Mutual Wealth Holdings Limited	Ordinary	100
Old Mutual Wealth Life Assurance Limited	Ordinary	100
Old Mutual Wealth Life & Pensions Limited	Ordinary	100
Old Mutual Wealth Limited	Ordinary	100
Old Mutual Wealth Nominees Limited	Ordinary	100
Old Mutual Wealth Pensions Trustee Limited	Ordinary	100
Old Mutual Wealth UK Holding Limited	Ordinary	100
Onenote Limited (dissolved 24 January 2017)	Ordinary	100
Selestia Investments Limited	Class A1, B1, B2, B3 and C shares	100
Selestia Services Limited (dissolved 24 January 2017)	Class A1, B1, B2, B3, C and R shares	100
Millennium Bridge House, 2 Lambeth Hill, London, EC4V 4GG		
Beaumont Robinson Limited	Ordinary	100
Commsale 2000 Limited	Ordinary	100
Dodd Murray Limited	Ordinary class B, C, D, I & K	100
DQS Financial Management Limited	Ordinary	100
Infiniti Financial Planning & Investment Management Limited	Ordinary	100
Maestro Financial Services Limited	Ordinary & preference	100
Michael Waite Independent Financial Advice Limited	Ordinary	100
NPL Financial Limited	Ordinary	100
Old Mutual Global Investors Holdings Limited	Ordinary	100
Old Mutual Global Investors (UK) Limited	Ordinary	100
Old Mutual Investment Management Limited	Ordinary	100
Old Mutual Wealth Private Client Advisers Limited	Ordinary	100
OMIFM Limited	Ordinary	100
OMW CoSec Services Limited	Ordinary	100
Premier Planning Limited	Ordinary	100
Premier Wealth Limited	Ordinary	100
Quilter Cheviot Investment Management Limited	Ordinary	100
Quilter Financial Planning Limited	Ordinary	100
Quilter International Limited	Ordinary	100
Quilter Investors Limited	Ordinary	100
Quilter Life Assurance Limited	Ordinary	100
Quilter Private Client Advisors Limited	Ordinary	100

Company Name	Share Class	% Held
Quilter Wealth Solutions Limited	Ordinary	100
One Kingsway, London, WC2B 6AN		
Cheviot Capital (Nominees) Limited	Ordinary	100
Quilter Group Limited (formerly Cheviot GP Limited)	Ordinary	100
QUILPEP Nominees Limited	Class A and B2 shares	100
Quilter Cheviot Holdings Limited	Ordinary	100
Quilter Cheviot Limited	Ordinary	100
Quilter Limited	Ordinary	100
Quilter Nominees Limited	Class B shares	100
Violet No2 Limited	Ordinary	100
Cheviot Exodus LP (dissolved 25 August 2017)	Ordinary	100
Wiltshire Court, Farnsby Street, Swindon, SN1 5AH		
Blueprint Distribution Limited	Ordinary and cumulative redeemable preference shares	100
Blueprint Financial Services Limited	Ordinary and cumulative redeemable preference shares	100
Blueprint Organisation Limited	Ordinary and cumulative redeemable preference shares	100
Caerus Bureau Services Limited	Ordinary	100
Caerus Capital Group Limited	Ordinary and Class B shares	100
Caerus Financial Limited	Ordinary	100
Caerus Holdings Limited	Ordinary	100
Caerus Portfolio Management Limited	Ordinary	100
Caerus Wealth Limited	Ordinary	100
Caerus Wealth Solutions Limited	Ordinary	100
Intrinsic Valuation Services Limited	Ordinary	100
Intrinsic Cirilium Investment Company Limited	Class A, Class B and preference shares	100
Intrinsic Financial Planning Limited	Ordinary	100
Intrinsic Financial Services Limited	Ordinary	100
Intrinsic Financial Solutions Limited	Ordinary	100
Intrinsic Mortgage Planning Limited	Ordinary	100
Intrinsic Wealth Financial Solutions Limited	Ordinary	100
Intrinsic Wealth Limited	Ordinary	100
Riverside House, The Waterfront, Newcastle upon Tyne, NE15 8NY		
Positive Solutions (Financial Services) Limited	Class B1 Shares	100
Think Synergy Limited	Ordinary	100
12 – 14,Upper Marlborough Road, St Albans, Hertfordshire, AL1 3UR		
360 Dot Net Limited	Ordinary	13
6 Tollgate Business Park Tollgate West, Stanway, Colchester, Essex, England, CO3 8AB		
Charles Derby Group Limited	Ordinary	10
Hong Kong		
24th Floor, Henley Building, 5 Queen's Road		
Old Mutual Global Investors (Asia Pacific) Limited	Ordinary	100

Company Name	Share Class	% Held
Ireland		
Arthur Cox Building, Earlsfort Terrace, Dublin 2, D02 CK83		
Old Mutual International (Ireland) dac	Ordinary	100
Hambledon House, 2nd Floor, 19/26 Lower Pembroke Street, Dublin 2		
Pembroke Quilter (Ireland) Nominees Limited	Ordinary	100
Isle of Man		
King Edward Bay House, King Edward Road, Onchan, IM99 1NU		
Old Mutual International Business Services Limited	Ordinary	100
Old Mutual International Holdings Limited	Ordinary	100
Old Mutual International Isle of Man Limited	Ordinary	100
Old Mutual International Trust Company Limited	Ordinary	100
Jersey		
4th Floor 28/30 The Parade, St Helier, JE2 3QQ		
C.I.P.M Nominees Limited	Ordinary	100
QGCI Nominees Limited	Ordinary	100
Singapore		
Marina Boulevard, #05-02, Marina Bay Financial Centre		
Old Mutual Global Investors (Singapore) PTE. Limited	Ordinary	100
Capita Green, #06-01, 138 Market Street, 048946		
AAM Advisory PTE Limited	Ordinary	100
South Africa		
Mutual Gardens, Mowbray, Cape Town		
Global Edge Technologies (Pty) Limited	Ordinary	100
Switzerland		
Schützengasse 4, 8001 Zürich		
Old Mutual Global Investors (Switzerland) LLC	Ordinary	100
United Arab Emirates		
7 & 8, Level 2, Gate Village 7, Dubai International Financial Centre, Dubai, 482062		
Old Mutual International Middle East Limited	Ordinary and Class B and Class D redeemable preference shares	100

In addition, the following funds are consolidated and constitute related undertakings:

Fund Name	Share Class	% Held
United Kingdom		
Millennium Bridge House, 2 Lambeth Hill, London, EC4V 4AJ		
Old Mutual Asian Equity Income Fund	Ordinary	95
Old Mutual Absolute Return Government Bond Fund	Accumulation	48
Old Mutual Cirilium Balanced Portfolio	Accumulation	47
Old Mutual Cirilium Balanced Passive Portfolio	Accumulation	65
Old Mutual Cirilium Conservative Portfolio	Accumulation	50
Old Mutual Cirilium Conservative Passive Portfolio	Accumulation	58
Old Mutual Cirilium Dynamic Passive Portfolio	Accumulation	52
Old Mutual Cirilium Moderate Passive Portfolio	Accumulation	55
Old Mutual Compass Portfolio 2	Hedged	73
Old Mutual Compass Portfolio 3	Hedged	84
Old Mutual Compass Portfolio 4	Hedged	81
Old Mutual Compass Portfolio 5	Hedged	97
Old Mutual Europe Ex UK Smaller Companies Fund	Hedged	47
Old Mutual Global Emerging Markets	Ordinary	53
Old Mutual Global Strategic Absolute Return Bond Fund	Hedged	99
Old Mutual Japanese Equity	Hedged	55
Old Mutual Local Currency Emerging Market Debt Fund	Hedged	61
Old Mutual Managed Fund	Accumulation	24
Old Mutual Monthly Income High Yield Bond Fund	Hedged	98
Old Mutual Style Premia Absolute Return Fund	Hedged	96
Old Mutual Woodford Equity Income	Accumulation	100
OM Aberdeen Asia Pacific Fund	Accumulation	100
OM Artemis Income Fund	Accumulation	100
OM Artemis UK Special Situations Fund	Accumulation	100
OM Asia Pacific Fund	Accumulation	44
OM Blackrock Gold & General Fund	Accumulation	100
Old Mutual Newton UK Opportunities Fund	Accumulation	100
OM Bond 1 Fund	Income	100
OM Bond 2 Fund	Income and Accumulation	100
OM Bond 3 Fund	Income and Accumulation	100
OM Corporate Bond Fund	Income and Accumulation	50
OM Equity 1 Fund	Accumulation	100
OM Equity 2 Fund	Accumulation	100
OM Ethical Fund	Accumulation	62
OM European Equity (ex UK) Fund	Accumulation	77
OM Fidelity Global Focus Fund	Accumulation	100
OM Fidelity Moneybuilder Income Fund	Income and Accumulation	100
OM Fidelity Strategic Bond Fund	Income and Accumulation	100
OM Foundation 3 Fund	Income and Accumulation	97
OM Foundation 4 Fund	Income and Accumulation	100
OM Foundation 5 Fund	Income and Accumulation	100
OM Generation Target 3 Fund	Income and Accumulation	76
OM Generation Target 4 Fund	Income and Accumulation	85
OM Generation Target 5 Fund	Income and Accumulation	73
OM Gilt Fund	Income and Accumulation	100
OM Global Best Ideas Fund	Accumulation	58

Fund Name	Share Class	% Held
OM Global Equity Income Fund	Income and Accumulation	88
OM Global Property Securities Fund	Income and Accumulation	73
OM Global Strategic Bond Fund	Income and Accumulation	35
OM Henderson China Opportunities Fund	Accumulation	100
OM Henderson European Growth Fund	Accumulation	100
OM Invesco Perpetual Asian Fund	Accumulation	100
OM Invesco Perpetual Corporate Bond Fund	Income and Accumulation	100
OM JPM Emerging Markets Fund	Accumulation	100
OM JPM Natural Resources Fund	Accumulation	99
OM Monthly Income Bond Fund	Income and Accumulation	79
OM Newton Global Income Fund	Income and Accumulation	100
Old Mutual Newton UK Income Fund	Income and Accumulation	100
OM North American Equity Fund	Accumulation	28
OM Schroder Tokyo Fund	Accumulation	100
OM Schroder US Mid Cap Fund	Income and Accumulation	100
Old Mutual Creation Conservative Portfolio	Accumulation	92
Old Mutual Creation Balanced Portfolio	Accumulation	92
Old Mutual Creation Moderate Portfolio	Accumulation	92
Old Mutual Creation Dynamic Portfolio	Accumulation	89
Old Mutual JPM US Growth Advantage Fund	Accumulation	100
OM Threadneedle European Select Fund	Accumulation	100
OM Threadneedle High Yield Bond Fund	Income and Accumulation	100
OM UK Equity Income Fund	Income and Accumulation	67
OM UK Index Fund	Accumulation	100
OM Voyager Diversified Fund	Accumulation	99
OM Voyager Global Dynamic Equity Fund	Accumulation	96
OM Voyager Strategic Bond Fund	Income and Accumulation	94
OM World Index Fund	Accumulation	100
Old Mutual Cirilium Moderate Portfolio	Ordinary	39
Old Mutual Schroder European Alpha Income Fund	Ordinary	100
Old Mutual Cirilium Adventurous Portfolio	Ordinary	64
Old Mutual Cirilium Adventurous Passive Portfolio	Ordinary	71
Old Mutual Creation Adventurous Portfolio	Ordinary	100
Old Mutual Emerging Market Debt Fund	Ordinary	43
Old Mutual Financials Contingent Capital Fund	Ordinary	75
Oakhill House, 150 Tonbridge Road, Hildenborough, Tonbridge, Kent, TN11 9DZ		
Fidelity Multi Asset Adventurous Fund	Accumulation	65
Luxembourg		
4, Rue Jean Monnet L-2180 Luxembourg Grand Duchy of Luxembourg		
Old Mutual Global Portfolios – Balanced Fund	Ordinary	100
Old Mutual Global Portfolios – Dynamic Fund	Ordinary	100
Old Mutual Global Portfolios – Cautious Fund	Ordinary	100