ANNUAL REPORT
AND
FINANCIAL STATEMENTS

31 December 2016

Old Mutual Wealth Life & Pensions Limited

Registered in England No. 4163431

Old Mutual Wealth Life & Pensions Limited

CONTENTS

COMPANY INFORMATION

Executive directors	S D Levin (Chief Executive Officer) R D Freeman S K Goodsir J P Hine D W J Sharkey
Secretary	D L Clarke
Bankers	National Westminster Bank Plc 12 High Street Southampton SO14 2NX
Auditors	KPMG LLP 15 Canada Square London E14 5GL
Registered office	Old Mutual House Portland Terrace Southampton SO14 7EJ Telephone: 0808 171 2626 Website: www.oldmutualwealth.co.uk Registered in England No. 4163431

STRATEGIC REPORT

The directors present their strategic report for the year ended 31 December 2016.

REVIEW OF THE BUSINESS
The principal activity of Old Mutual Wealth Life & Pensions Limited (the company) is the provision of long-term assurance business, operating within the platform segment of the long-term savings market in the UK.

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

On 11 March 2016, following a strategic review of the Old Mutual business, Old Mutual plc announced that the long-term interests of the group's shareholders and other stakeholders would be best served by Old Mutual conducting a 'managed separation' of its four businesses - Old Mutual Emerging Markets, Nedbank, Old Mutual Wealth and Old Mutual Asset Management.

Old Mutual plc's announced intention is for the Managed Separation programme to deliver Old Mutual Wealth into the hands of Old Mutual plc's shareholders by way of a demerger and listing on both the London and Johannesburg stock exchanges. This remains subject to change and stakeholder consent and/or readiness of the underlying business. Managed Separation is a clear endorsement of Old Mutual Wealth's strategy and presents an exciting opportunity for the business.

Old Mutual Wealth Strategy

Old Mutual Wealth Life & Pensions Limited is a key component of the Old Mutual Wealth (OMW) division, whose strategy is to deliver a modern, integrated wealth and asset management business. OMW's business combines controlled advice, a leading investment platform, attractive wealth management solutions, and high performing asset and investment management to offer customers and advisers an end-to-end planning and investment solution that is outcome based. We are committed to operating the business responsibly, ensuring we enable financial wellbeing and promote responsible investment.

Central to OMW's strategy is the growth of its investment and asset management capability via the Old Mutual Global Investors group and Quilter Cheviot Limited, the expansion of its adviser network via the Intrinsic group and the enhancement of its platform via Old Mutual Wealth Limited and Old Mutual Wealth Life & Pensions Limited, in order to deliver investment solutions that are aligned to the changing needs of customers and financial advisers.

Old Mutual Wealth Life & Pensions Limited Strategy

The strategic priorities of the company, aligned to the broader strategy of Old Mutual Wealth division, are to build the investment proposition, integrate and leverage benefits from being part of an integrated wealth management business and invest significantly in the infrastructure to build a market leading platform to provide an enhanced service and proposition to customers and advisers.

Outsourcing partnership
In 2013, the company announced a business process outsourcing agreement with International Financial Data Services Limited and International Financial Data Services (UK) Limited (IFDS), to better meet the needs of its customers over the longer term.

This forms part of transformation programmes of activity and represents a significant investment in the UK Platform business. To the end of 2016 the total spend on the programmes was £279m, of which £49m was borne by the company.

Coupled with existing issues, as a result of increased concerns about further extended timescales, quality of delivery and consequential increased costs, OMW concluded that continuing with the current supplier would not be in the best interests of customers, their financial advisers, or shareholders. Accordingly on 2 May 2017, OMW exercised its termination rights under the contract between Old Mutual Wealth Life & Pensions Limited and Old Mutual Wealth Limited and IFDS.

STRATEGIC REPORT (continued)

Outsourcing partnership (continued)

OMW has conducted a comprehensive review of the options available to the UK Platform business and has consequently entered into a new contract with FNZ, having concluded that FNZ's scale, market-proven and functionally rich offering is the most suitable to meet the current and anticipated needs of the business. In partnership with FNZ, OMW 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 swiftly thereafter.

Market recognition
The high level of service and flexibility that is provided through the UK platform and the ongoing investment in the business is recognised in the market by customers, Independent Financial Advisers and market experts.

During 2016 Old Mutual Wealth won a number of awards for the quality and breadth of its proposition and the excellent service delivered to customers and advisers. It is the only business in the UK to have been awarded a Gold Service Rating across all elements of its proposition from Defaqto, following their annual survey of financial advisers. The UK business picked up the Customer Team of the Year and Best Employee Experience in the Financial Services Sector at the UK Customer Experience Awards in 2016 and is ranked 26 in the Top 50 Companies for Customer Service in the UK. The UK Platform was one of only five platforms in the UK to retain its Platinum Platform award from AdviserAsset as we move into 2017.

We pride ourselves on the fact that most of these awards were either voted for by UK financial advisers or based on adviser insight and experience.

Proposition and integration
In 2016 the strategic focus has continued on the integration of the company's market offerings and expertise from the other Old Mutual Wealth businesses. Of the £2.7bn net client cashflow placed with the company and Old Mutual Wealth Limited (OMWL), £0.9bn was invested into Old Mutual Global Investors.

In addition, the company, together with OMWL, continues to work closely with Intrinsic, resulting in net client cash flows of £0.8bn coming through the Intrinsic restricted advice channel.

Prospective Part VII transfer
The plans for a Part VII transfer from Old Mutual Wealth Life Assurance Limited, combining the policyholder assets of both companies, has been put on hold following the announcement of the Managed Separation of the Old Mutual Group. Once the Managed Separation project has completed, we will reconsider our options in this regard.

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

The company achieved strong gross sales of £4.0bn (2015: £3.4bn), an increase of 17% year-on-year, predominately due to higher pension sales following the company's enhanced propositional changes made in 2015, aligned to the new 'pension freedom' legislation and further integration with the Intrinsic network business. Net client cash flow (NCCF) was £2.5bn in 2016 (2015: £2.1bn). Strong NCCF and fund performance has increased the assets under administration to £19.6bn from £15.2bn at the previous year end.

The business continues to be profitable on an AOP basis. The company's post-tax IFRS AOP has increased by £1.1m to £15.1m in 2016. This is attributable to an increase in income and total contribution, following the positive net client cash flow and fund performance. The expenditure for the IFDS outsourcing programme is regarded as one-off and transformational, and is therefore excluded from the AOP results. Due to the increasing costs of the programme, on a standard IFRS basis, the company has made a loss of £6.7m in 2016 compared to a £4.1m profit in 2015.

STRATEGIC REPORT (continued)

Table A: Key performance indicators.

	2016 £'000	2015 £'000
Gross premiums	4,003,219	3,431,446
Net client cash flow	2,452,047	2,100,617
Assets under administration	19,593,585	15,197,173
IFRS adjusted operating profit (AOP) before tax	22,633	19,995
IFRS adjusted operating profit (AOP) after tax	15,122	14,022
IFRS (loss)/profit after tax	(6,694)	4,101

Table B: Reconciliation between IFRS adjusted operating profit before tax and IFRS (loss)/profit after tax.

	2016 £'000	2015 £'000
IFRS adjusted operating profit before tax	**22,633**	**19,995**
Adjusting items	(27,159)	(10,755)
Income of discontinued operations	-	66
IFRS (loss)/profit before tax (net of policyholder tax)	**(4,526)**	**9,306**
Income tax attributable to policyholder return	44,359	2,224
IFRS profit before tax	**39,833**	**11,530**
Total tax expenses	(46,527)	(7,429)
IFRS (loss)/profit after tax for the financial year	**(6,694)**	**4,101**

Adjusting items represent the company's share of the platform transformation spend of £23.3m (2015: £14.0m), profit on smoothing of investment return on non-linked and shareholder assets of £1.8m (2015: loss £0.8m) and corporation tax payable on capital gains and losses not matched by a corresponding policyholder deduction of £5.7m (2015: receivable £4.0m). Discontinued operations are associated with Old Mutual plc's disposal of the Nordic business.

FINANCIAL POSITION AT THE END OF THE YEAR

The company's total net assets have increased from £72m to £93m over the course of the year with cash and cash equivalents increasing from £111m to £183m. The Old Mutual plc group and Old Mutual Wealth is committed to financing the continued expansion of the business. During the year £27m of capital contributions have been injected to cover the regulatory impact of anticipated losses and associated risks to facilitate the strategic developments in respect of the outsourcing partnership mentioned above, whilst maintaining a strong level of regulatory solvency. There were no dividends paid in 2016.

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

STRATEGIC REPORT (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The company is exposed to a number of risks as a result of our business model including certain strategic, business, operational, financial and regulatory risks. The nature of our business risks are largely consistent with those we have faced over recent years. The platform transformation is a large scale and complex programme with the majority implemented through third-party suppliers and outsource providers, and which carries a high degree of execution risk. We also face risks from the Managed Separation from Old Mutual plc.

We are affected by macroeconomic conditions and geo-political risks that arise given the impact that these conditions have on financial markets and customer behaviours. Our fund-based management fees, which comprise the majority of our revenues, are directly linked to investment markets. We expect regulatory risk to continue to be high, with increasing regulatory focus in the preparation for the Managed Separation. We continue to be transparent and responsive with the regulators to help manage and build these relationships.

We manage these risks by establishing a risk framework, including a consistent set of risk definitions and policies, and a risk strategy. We set a risk appetite and manage risk within that appetite which is integrally linked to our business strategy. Our risk appetite is reassessed regularly in light of current volatile and uncertain conditions to ensure they remain relevant in implementing our business strategy. Stress and scenario testing is performed regularly to test the resilience of our business. We have mature risk governance processes, which are being developed further in preparation for the Managed Separation.

Our key risks, summarised in the table below, are closely monitored by management and regularly reported to the Board. The table below describes the key risks and uncertainties

Current impact and risk outlook	Risk mitigation and management actions
Macroeconomic conditions The company has a material exposure to macroeconomic and political conditions in the UK and globally. Our fund-based management fees, which comprise the majority of our revenues, are directly linked to investment markets. Political change can impact us directly through changes in law and policy. Our customers are impacted by the current volatile conditions and they may face pressure from higher inflation going forward.	We carry out regular stress and scenario testing, which include scenarios and stresses based on severe economic conditions and political events. These allow us to understand the impact of potential events on our earnings, liquidity and capital resilience. We aim to ensure our cost base can flex to mitigate volatility in our revenues. Potential management actions to mitigate these impacts are subject to approval by the Old Mutual Wealth Life and Pensions Limited Board. We seek to manage these risks to our customers through a comprehensive range of internally-managed investment solutions, designed to address a range of economic conditions.
Competitor and margin risk We are exposed to pressure on our margins where competitive market changes may reduce the attractiveness of our proposition. If our proposition is not compelling, sustainable and profitable, then the company may not be able to meet its business objectives.	The customer proposition has been designed to be competitive and meet customer needs. The delivery of the new platform infrastructure will further increase capacity to respond to competitive market changes.
Customer and conduct risk Risks to our customers are inherent within our business model and can occur at any point in the customer journey or product lifecycle. Customer and conduct risk is an area of increasing focus by regulators across our businesses.	We define good customer outcomes and put processes in place to achieve those for our customers. Product development starts from an understanding of customer needs and preferences and we engage with customers in areas such as the ongoing development of customer communications. Our Customer Outcomes Forum reviews any areas where customer outcomes may be affected significantly and ensures appropriate action is taken where that risk arises. Our Regulatory and Conduct Risk teams provide strong oversight, challenge and advice to our businesses. Our Code of Conduct, reinforced by mandatory training for all our people, sets out our expectations of our people.

STRATEGIC REPORT (continued)

Delivery of strategic change initiatives We face execution risk from the implementation of our business strategy. This includes the delivery of new platform infrastructure in our UK Platform and IT enhancements to the existing platform infrastructure to manage reliance while the new platform infrastructure is being developed and ensuring our organisation is fit for purpose. In delivering our strategic change initiatives, we actively seek to identify, manage and control risk. The delivery of our strategic objectives necessitates exposure to operational risk, and we have appropriate governance and control processes managed through our three lines of defence model. Change initiatives are delivered by first-line management with second-line oversight and challenge and third-line assurance. We also use external business support, subject matter experts and assurance partners for significant change initiatives.	We continually improve our supplier risk management processes to ensure we have strong outsourced supplier controls and governance in support of our major change programmes. We are fully engaged with our regulators on our most significant change programmes to ensure that we meet their requirements, to demonstrate that we are putting the customer at the forefront of our business. Where we identify that risk is, or may become, outside our risk appetite, we take prompt and appropriate action and ensure we continue to maintain effective controls to deliver appropriate business and customer outcomes.
People risk We are exposed to the risk of failure to deliver core parts of our strategy or failure to complete business-as-usual activities to the required standards due to pressures on our people or an inability to recruit, develop and retain high quality people.	We have reviewed our operating models for our key functions identifying where we need to build the skills and talent required under the Old Mutual Wealth Managed Separation strategy. We continue to develop and enhance our talent management processes, including succession planning and leadership development programmes and we monitor this regularly at executive level. We continue to be focused on the diversity of our employees, which requires improvement, as typical across financial services. A number of initiatives focused on recruitment, transparency and gender pay have been set up.
Regulatory risk As part of an end-to-end investment and wealth management business, we are exposed to a high degree of regulatory change, including international regulation. While such change can present opportunities, it can increase costs and impact our products and services. In 2017 we expect significant impact from regulatory change through, for example, the Insurance Distribution Directive , packaged retail and insurance based investment products and EU general data protection reform. We are exposed to the risk of not building and maintaining strong relationships and trust with regulators. This is critical to our business, particularly given increased regulatory focus in the lead-up to separation of Old Mutual Wealth from Old Mutual plc.	We review forthcoming regulatory change and ensure we are well placed to make any changes required to ensure we comply fully when such changes are implemented. The review of operating models (as described under 'People risk' above) includes focus on regulatory expectations of OMW following separation. We focus on being transparent, responsive and proactive in our dealings with regulators to help to manage and build these relationships.
Information security risk There is a risk that our IT infrastructure and architecture, or those of third parties on whom we rely and with whom we share sensitive data, are vulnerable to malicious software attacks and subsequent ransom demands resulting in impact on customer experience, business downtime, additional costs of getting systems operational and reputational damage.	Our information security risk framework is regularly reviewed to ensure that we have robust controls. Monitoring of market experience, awareness campaigns and penetration testing exercises are performed to identify vulnerabilities and ensure we have appropriate plans to mitigate any weaknesses that we identify.

STRATEGIC REPORT (continued)

SOLVENCY II

From 1 January 2016 the Solvency II capital regime has applied to the company. Solvency II is a European Union directive which defines a set of requirements for European insurance entities in respect of the measurement of assets and liabilities, the assessment of risk-based capital requirements, risk management and governance practices and external reporting to the public and to the PRA.

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

By order of the board

S D Levin
Director
10 May 2017

DIRECTORS' REPORT

The directors present their report and financial statements for the year ended 31 December 2016.

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

DIRECTORS
The directors of the company during the year were as follows:

S D Levin	(Chief Executive Officer)
J D Charles	(resigned 30 June 2016)
R D Freeman	(appointed 30 September 2016)
S K Goodsir	
J P Hine	(resigned 14 April 2017)
C J Hood	(resigned 15 April 2016)
M K Leather	(resigned 23 August 2016)
P R Penney	(resigned 22 August 2016)
D W J Sharkey	

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

DIVIDENDS
During the year no dividends were paid (2015: £nil).

EMPLOYEES
The company has no employees (2015: nil). Management services are provided by a fellow group undertaking as disclosed in note 27.

POLITICAL DONATIONS
No political donations were made during the year (2015: £nil).

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

DISCLOSURE OF INFORMATION TO AUDITOR
Each of the persons who is a director at the date of approval of this report confirms that:
- so far as the directors are each aware, there is no relevant audit information of which the company's auditor is unaware; and
- each director has taken all the steps that he ought to have taken as director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

By order of the board

S D Levin
Director
10 May 2017

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

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF OLD MUTUAL WEALTH LIFE & PENSIONS LIMITED

We have audited the financial statements of Old Mutual Wealth Life & Pensions Limited for the year ended 31 December 2016 set out on pages 11 to 43. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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

Respective responsibilities of directors and auditor
As explained more fully in the directors' responsibilities statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the financial statements:
- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements. Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:
- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Elizabeth Cox

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

10 May 2017

INCOME STATEMENT
for the year ended 31 December 2016

	Notes	2016 £'000	2015 £'000
REVENUE			
Investment contracts			
Fee income	4	120,309	86,581
Change in deferred fee income	24	10,570	15,504
		130,879	102,085
Insurance contracts			
Gross premiums written	5	10	9
Outward reinsurance premiums		(14)	(5)
Earned premiums, net of reinsurance		(4)	4
Other revenue			
Investment return	6	3,273	457
Other income		285	-
TOTAL REVENUE		134,433	102,546
EXPENSES			
Insurance contract claims			
Claims incurred - gross amount		(203)	(322)
Claims incurred - reinsurers' share		6	117
Claims incurred - net of reinsurance	7	(197)	(205)
Other charges			
Commission expenses	8	(17,082)	(21,963)
Change in deferred acquisition costs	13	(10,004)	(14,741)
Administrative expenses	9	(67,224)	(53,671)
Finance costs	11	(6)	(1)
Other expenses		(87)	(435)
TOTAL EXPENSES		(94,600)	(91,016)
PROFIT BEFORE TAX		39,833	11,530
Policyholder tax	12	(44,359)	(2,224)
(Loss)/profit after policyholder tax before shareholder tax		(4,526)	9,306
Taxation	12	(46,527)	(7,429)
Less: policyholder tax		44,359	2,224
Shareholder tax		(2,168)	(5,205)
(LOSS)/PROFIT FOR THE YEAR		(6,694)	4,101
Attributable to equity holder		(6,694)	4,101

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

The notes on pages 16 to 43 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
for the year ended 31 December 2016

	2016	2015
	£'000	£'000
(LOSS)/PROFIT FOR THE YEAR	(6,694)	4,101
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		
All attributable to equity holder	(6,694)	4,101

The notes on pages 16 to 43 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY
for the year ended 31 December 2016

	Notes	Share capital £'000	Distributable reserves: Capital contributions £'000	Distributable reserves: Retained earnings £'000	Non-distributable reserves £'000	Total equity-holder's funds £'000
Balance at 1 January 2015		16,000	67,000	(38,735)	7,403	51,668
Profit for the year		-	-	10,610	(6,509)	4,101
Capital contributions		-	16,500	-	-	16,500
Balance at 1 January 2016		16,000	83,500	(28,125)	894	72,269
Loss for the year		-	-	(6,694)	-	(6,694)
Capital contributions		-	27,000	-	-	27,000
Transfer to retained earnings		-	-	894	(894)	-
Balance at 31 December 2016		16,000	110,500	(33,925)	-	92,575

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

Capital contributions represent amounts received from the parent company and are reflected within equity as there is no obligation to repay the contributions nor is there any interest payable on the contributions.

The notes on pages 16 to 43 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION
at 31 December 2016

	Note	2016 £'000	2015 £'000
ASSETS			
Deferred acquisition costs	13	8,380	18,384
Investments in collective investment schemes	16	10,747	9,133
Investments held for the benefit of policyholders	15	19,383,312	15,046,795
Other investments	17	16,066	29,493
Current tax assets		19,973	23,849
Other receivables	18	60,202	36,849
Other prepayments and accrued income	19	2,236	363
Cash and cash equivalents	20	183,173	111,389
Total assets		19,684,089	15,276,255
EQUITY AND LIABILITIES			
CAPITAL AND RESERVES			
Share capital	21	16,000	16,000
Capital contributions		110,500	83,500
Non-distributable reserves		-	894
Retained earnings		(33,925)	(28,125)
Total equity attributable to equity holder		92,575	72,269
LIABILITIES			
Liabilities for linked investment contracts	14	19,354,631	15,052,948
Deferred tax liabilities	23	33,939	9,875
Deferred fee income	24	5,852	16,422
Other provisions	25	1,101	870
Other payables	26	195,991	123,871
Total liabilities		19,591,514	15,203,986
Total equity and liabilities		19,684,089	15,276,255

The notes on pages 16 to 43 are an integral part of these financial statements.

Approved at a meeting of the board of directors on 10 May 2017 and signed on its behalf by:

D W J Sharkey
Director

Company registered number: 4163431

STATEMENT OF CASH FLOWS
for the year ended 31 December 2016

	2016	2015
	£'000	£'000
OPERATING ACTIVITIES		
Cash received from policyholders - insurance contracts	10	9
Cash received from policyholders - investment contracts	3,997,789	3,431,827
Risk reinsurance - net receipts/(payments) to reinsurers	72	(1)
Cash paid to policyholders - insurance contracts	(203)	(322)
Cash paid to policyholders - investment contracts	(1,554,857)	(1,311,225)
Commissions paid	(16,856)	(22,216)
Net cash (to)/from service providers, suppliers and employees	(5,513)	1,796
	2,420,442	2,099,868
Investments for the benefit of policyholders		
Investment income on fixed-interest securities	1,074	553
Investment income on equities and collective investments	318,919	251,778
Net purchases of investments	(2,693,209)	(2,308,661)
	(2,373,216)	(2,056,330)
Cash generated from operations	47,226	43,538
Taxes paid	(18,137)	(9,186)
Net cash generated from operating activities	29,089	34,352
INVESTING ACTIVITIES		
Interest received	778	711
Net sale/(purchases) of investments	14,923	(20,617)
Net cash from/(used in) investing activities	15,701	(19,906)
FINANCING ACTIVITIES		
Interest paid	(6)	(1)
Short term funding to credit institutions	-	(23,460)
Capital contribution received	27,000	16,500
Net cash from/(used in) financing activities	26,994	(6,961)
Net increase in cash and cash equivalents	71,784	7,485
Cash and cash equivalents at beginning of the year	111,389	103,904
Cash and cash equivalents at end of the year	183,173	111,389

The notes on pages 16 to 43 are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2016

1 GENERAL INFORMATION

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

2 SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation
The financial statements have been prepared and approved by the directors in accordance with Part 15 of the Companies Act 2006, Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments, have been prepared in sterling and are rounded into thousands.

The financial statements have been prepared on the going concern basis. With regard to losses incurred, the company is dependent for its working capital on funds provided to it by Old Mutual Wealth UK Holding Limited, its parent undertaking. Old Mutual Wealth UK Holding Limited is a member of Old Mutual plc, a strongly capitalised FTSE 100 group. The group is committed to financing the continued expansion of the business, and Old Mutual Wealth UK Holding Limited has provided the company with an undertaking that it will continue to make available such funds as are needed by the company and in particular will not seek repayment of any amounts made available. This will enable the company to maintain its regulatory solvency, and to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so and do not believe the strategic review changes this.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, except as noted below.

Standards, amendments to standards, and interpretations adopted in the 2016 annual financial statements
During the year, there were no new standards implemented that had a material effect on the financial statements of the company.

Future standards, amendments to standards, and interpretations not early-adopted in the 2016 annual financial statements
At the date of authorisation of these financial statements the following standards, amendments to standards, and interpretations, which are relevant to the company, have been issued by the International Accounting Standards Board.

IFRS 9 Financial Instruments
IFRS 9 'Financial Instruments' was issued in July 2014 and will replace IAS 39 'Financial Instruments: Recognition and Measurement'. IFRS 9 incorporates amendments to the classification and measurement of financial instruments, 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).

Classification and measurement of financial assets and liabilities
Financial assets are to be classified based on (i) the business model within which the financial assets are managed and (ii) the contractual cashflow characteristics of the financial assets.

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 cashflows and those cashflows comprise solely payments of principal and interest (hold to collect).

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments (continued)
Financial assets are measured at fair value through other comprehensive income, if they are held within a business model whose objective is achieved by both collecting contractual cashflows and selling financial assets, and those contractual cashflows comprise solely payments of principal and interest ('hold to collect and sell').

The accounting for financial liabilities is largely unchanged, except for financial liabilities designated at fair value through profit or loss (FVTPL). Changes in the fair value of these financial liabilities which are attributable to the company'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.

Impairment of financial assets
Impairments in terms of IFRS 9 will be determined based on an expected credit loss (ECL) model rather than the current incurred loss model required by IAS 39.

Companies 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 company'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.

This standard is effective for accounting periods beginning on or after 1 January 2018. The company is in the process of assessing the impact of IFRS 9.

IFRS 15 Revenue from Contracts with Customers
IFRS 15 was issued in May 2014 and will replace all existing revenue requirements in IFRS and will apply to all revenue arising from contracts with customers, unless the contracts are in the scope of the standards on leases, insurance contracts and financial instruments.

The core principle of the standard is that revenue recognised reflects the consideration to which the company expects to be entitled in exchange for the transfer of promised goods or services to the customer. The standard incorporates a five-step analysis to determine the amount and timing of revenue recognition.

This standard is effective for accounting periods beginning on or after 1 January 2018. The company is in the process of assessing the impact of IFRS 15.

Critical accounting estimates and judgements
Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the company's business that typically require such estimates are the determination of the fair value for financial assets and liabilities, impairment charges, deferred acquisition costs, deferred fee income and deferred taxes. Each of these are discussed in more detail in the relevant accounting policies and notes to the financial statements.

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

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

Insurance contracts
Insurance contracts comprise the unbundled insurance component of unit-linked contracts.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

Other investments
Other investments comprise UK Government fixed-interest securities held as shareholder investments. All investments are classified as 'fair value through the income statement' at initial recognition and are stated at quoted bid prices which equates to fair value, with any resultant gain or loss recognised in the income statement.

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

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

The assets are classified using the 'fair value through the income statement' at initial recognition option with any resultant gain or loss recognised in the income statement. Changes in the value of linked assets and the corresponding change in liabilities are offset and do not appear on the face of the income statement as they relate solely to the policyholders. The directors believe that including these changes in value separately on the face of the income statement, as required by IAS 39, would detract from the ability of users to understand the transactions and assess the entity's performance and future cash flows. The changes in value are disclosed in note 15.

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments held for the benefit of policyholders (continued)
Premiums received from policyholders are invested in funds selected by the policyholder. The resulting liabilities for linked investment contracts are accounted for under the 'fair value through the income statement' option, in line with the corresponding assets as permitted by IAS 39.

Investments in collective investment schemes
Investments in collective investment schemes are designated at 'fair value through income statement' at initial recognition and are stated at fair value, with any resultant gain or loss recognised in the income statement. Investments in collective investment schemes comprise the company's short term holdings as a result of daily transactions between the company and its clients via the 'manager's box'. These transactions will result in either too many units being held (long positions) or too few units being held (short positions).

Holdings in unit trusts are valued at quoted bid price for long positions and quoted offer price for short positions. Open Ended Investment Company (OEIC) assets are single priced funds and are valued at the quoted net asset value per share.

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

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

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

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

Other receivables
Other receivables are non-interest bearing and are stated at their amortised cost, less appropriate allowances for estimated irrecoverable amounts, which approximates to fair value.

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

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

Capital contributions
Capital contributions represent the amount received from the parent company and are reflected within equity as there is no obligation to repay the contribution nor is there any interest payable on the contributions.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Deferred fee income
Front-end fee income, comprising fees received at inception or receivable over an initial period for services not yet provided, is deferred through the creation of a deferred fee income liability ("DFI") on the statement of financial position and released to income as the services are provided. Equal service provision is assumed over the lifetime of the contract and, as such, the deferred fees are amortised on a linear basis over the expected life of the contract. The deferred fee income liability principally comprises fee income already received in cash and Phased Initial Charges which will be recovered from policyholder plans over a five year period.

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

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

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

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

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

Other expenses
All expenses are recognised in the income statement as a cost when incurred.

Taxation
The taxation charge is based on the taxable result for the year and comprises both shareholder and policyholder tax, calculated at different rates. The taxable result for the year is determined in accordance with enacted legislation and taxation authority practice for calculating the amount of corporation tax payable.

Policyholder tax comprises corporation tax payable at a lower rate on the policyholders' share of the taxable result for the year, together with deferred tax at the lower rate on temporary timing differences relating to policyholder items.

Deferred taxes are calculated according to the statement of financial position method, based on temporary timing differences between reported and tax values of assets and liabilities. 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 liabilities are not discounted. Deferred tax assets are recognised for all temporary timing differences to the extent that it is probable that taxable profit will be available against which the deductible temporary timing difference can be utilised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also recognised in equity.

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURE

Risk management framework

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

- Risk strategy, appetite and policy;
- Risk identification and assessment;
- Risk management, monitoring and assurance;
- Scenario testing and modelling;
- Risk reporting and escalation;
- Risk governance and three lines of defence;
- Culture, leadership and tone from the top.

The strategic aims are driven directly from the vision and are informed by risk experience over time. They represent the key elements of the strategy over the long term and represent the perspective from which key risks are identified in the business and the appetite for those risks. The strategic aims are as follows:

- Sustainability: build a business for the long term, supported by appropriate capital and liquidity;
- Customer: customer centricity; putting the customer at the heart of our business throughout the customer relationship;
- Strategic priorities: to become an integrated business with leading Wealth brands and customer proposition, supported by the right talent and bench-strength to deliver the required transformational change;
  - Distribution: profitable, flexible, market leading investment platforms, market leading cross-border investment business, leading advised distribution;
  - Investment: build the leading investment and asset management capability;
- Governance and Culture: govern the Old Mutual Wealth Management Limited business and its subsidiaries in an effective and efficient manner. Operate a responsible business making decisions that take account of the impact on those around us. Establish, promote and maintain an effective culture embedded through all areas of the business;
- Financial performance: achieve compelling financial returns over the long term.

The risk culture is defined by the following principles:

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

Risk appetite statements and key risk indicators have been defined with a particular focus on conduct risks in order to monitor the risks that could lead to poor customer outcomes. Key risk indicators are monitored and reported on a regular basis to identify emerging threats and identify actions to manage risks within appetite. The risk appetite is reviewed at least annually, taking account of environmental changes and strategic opportunities. In addition the OMW suite of policies set out the standards that are required by the business in managing risks.

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURE (continued)

The risks faced by the company are described below:

Market risk

Market risk is defined as the risk that a change in the value of, or income from, any asset is not matched by an equal change in the value of the related liability. Market risk arises from fluctuations in equity prices, property prices and interest rates, where assets and liabilities are not precisely matched.

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

The financial impact of more extensive movements in market risk other than those that could reasonably be expected is examined through stress tests carried out within the Economic Capital at Risk assessment.

The sensitivity of future earnings to the values of and income from investments is regularly monitored through sensitivity analysis performed for business planning.

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

Equity and property price risk

In accordance with the market risk policy, the company does not invest shareholder assets in equity or property, or related collective investments, except where the exposure arises due to temporary, short term holding of collectives in respect of fees due from clients and mismatches between policyholder unitised fund assets and liabilities. These mismatches are permitted, subject to maximum limits, to avoid excessive dealing costs. For this reason and because the dealing mismatches contain both long and short positions, the overall exposure to these mismatches is not considered to be material.

Due to the nature of the investments held there is no material exposure to equity and property price risk on non-linked assets.

The company derives revenues (e.g. rebates of fund management charges on collectives held for the benefit of policyholders) and incurs costs (e.g. financial adviser fund based renewal commissions) which are linked to the performance of the underlying assets. Therefore future earnings will be affected by equity and property market performance.

The sensitivity of profit to changes in equity and property prices is given in the sensitivity analysis.

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURE (continued)

Market risk (continued)

Interest rate risk
Interest rate risk arises primarily from exposure to movements in the value of fixed-interest securities, which are held indirectly (through collective investments) for the benefit of policyholders, and movements in interest earned on company cash deposits.

Also UK government fixed interest securities are held to match deferred tax liabilities, where tax payments will arise over a 7 year period. These securities have short remaining terms and so the exposure to interest rates is not material.

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. However, assuming that the in-force business continues to grow, a rise in interest rates would enable a higher return on new investments, which in turn would cause unit-linked asset values to grow more quickly and so fund based fees may be higher in the longer term. A rise in interest rates would also result in higher interest earned on company cash deposits.

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

Interest rates applicable to interest bearing financial instruments

	2016 Fixed	2016 Variable	2015 Fixed	2015 Variable
Assets:				
Bonds	5.81%		4.91%	-
Deposits with credit institutions	-	0.16%	-	0.36%

Currency risk
The company is not exposed to direct currency risk and holds no foreign currency balances. However, the company is exposed to currency risk indirectly through fund based fees derived from unit-linked funds which hold assets denominated in foreign currencies. Therefore, a movement in exchange rates would affect the value of future fund based fees received by the company.

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

The Old Mutual Wealth division has established a credit risk policy which sets out restrictions on the permitted financial transactions with counterparties to control and monitor the level of credit risk to which the company is exposed. The value of credit risk exposures and the credit ratings of counterparties are monitored regularly.

The main areas in which the company is exposed to credit risk are:
- Default in respect of the investment of shareholder's assets; and
- Default by fund management groups in respect of settlements and rebates of fund management charges on collective investments held for the benefit of policyholders.

There is no direct exposure to Eurozone sovereign debt within the company's shareholder investments.

The company has no significant concentrations of credit risk.

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

NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2016

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURE (continued)

Credit risk (continued)

Risk of default in respect of the investment of shareholder's assets is controlled by:
- Minimum credit rating requirements for counterparties;
- Limits for individual counterparties and counterparty concentrations; and
- Reviewing limits annually and monitoring exposures regularly.

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

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

Impact of credit risk on fair value
Due to the limited exposure that the company has to credit risk, credit risk does not have a material impact on the fair value movement of financial instruments for the year under review. The fair value movements on these instruments are predominantly due to changes in market conditions.

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

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

Liquidity risk can arise as a result of significant switches or surrenders of policyholder funds over a short timeframe or an individual very large switch or surrender. In some cases, switches and surrenders of policyholder funds are paid by the company before settlement is received from the market on the sale of policyholder assets. This risk is managed by maintaining liquid capital resources to meet the value of surrender payments which may reasonably be expected in stressed conditions and by regularly monitoring forecast and actual cash flows. In addition, the company has the facility to borrow from a parent undertaking, Old Mutual Wealth Holdings Limited, in the event of insufficient liquidity.

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

Maturity schedule
The maturity dates of financial liabilities are shown below.

	<3 months £'000	3-12 months £'000	1-5 years £'000	>5 years £'000	Total £'000
2016:					
Liabilities for linked investment contracts	19,354,631	-	-	-	19,354,631
Other payables	195,991	-	-	-	195,991
	19,550,622	-	-	-	19,550,622
2015:					
Liabilities for linked investment contracts	15,052,948	-	-	-	15,052,948
Other payables	123,870	-	-	-	123,870
	15,176,818	-	-	-	15,176,818

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURE (continued)

Liquidity risk (continued)

Liabilities for linked investment contracts are classified as less than three months maturity; whilst the company does not expect all liabilities to be settled within this period, the terms of the contracts allow the policyholders to redeem their policies at any time

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

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

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

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

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

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

The sensitivity of future earnings to fluctuations in insurance risk exposures is regularly monitored through sensitivity analysis performed for business planning.

Mortality and morbidity
Mortality risk is the risk that death claims are higher than expected within the company's pricing assumptions. Mortality risk is not material as the company does not provide material mortality insurance on its products and mortality benefits are reinsured.

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

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

The surrender value is never more than the current reported value of the contract liability.

In order to limit this risk to an acceptable level, charging and commission structures are designed to limit the risk of direct financial loss on surrender.

Persistency statistics are monitored monthly. Actions may be triggered as a result of higher than expected lapse rates and significant emerging trends. A detailed persistency analysis at a product level is carried out on an annual basis.

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

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURE (continued)

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

Expense levels are monitored monthly against budgets and forecasts. An activity based costing process is used to allocate costs relating to processes and activities to individual product lines.

Sensitivity of profit to changes in management expenses is illustrated in the sensitivity analysis on page27.

Tax
Tax risk is the risk that inappropriate charges are made to policyholders to cover tax costs because the projected taxation basis for basic life assurance business is incorrect. The taxation position of the company is projected annually and tax changes will result in changes to new business pricing models as part of the annual control cycle. Risks and emerging trends are reported internally on a quarterly basis.

Operational risk
Operational risk is the risk that failure of people, processes, systems or external events results in financial loss, damage to the brand/reputation, adverse regulatory intervention or government or regulatory fine. 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, underwriting 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. inadequate legal contracts 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 Old Mutual Wealth division policies, company executive management have primary responsibility for the identification, management and monitoring of risks, and escalation and reporting on issues to executive management and group management.

Company executive management have responsibility for implementing the Old Mutual Wealth division risk management methodologies and framework and the development and implementation of action plans to manage risk levels within acceptable tolerances and resolve issues.

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

The Old Mutual Wealth Capital Management Policy sets out the key considerations and restrictions with regard to the amount of capital that is retained.

Capital is managed to the company's solvency target which is set to ensure that the company can maintain its own funds above the solvency capital requirement under plausible but severe stresses. In addition, the company maintains working capital to provide for fluctuations in experience and to meet strategic objectives. The company regards the regulatory capital resources of £277.1m (2015: £223.5m) as its capital. The company has met the regulatory requirement for capital throughout 2016. From 1 January 2016 the regulatory capital regime has changed to reflect the implementation of the European Solvency II directive. The prior year comparative has been restated to reflect these changes. The company has own funds (on a Solvency II basis) which exceeds its internal solvency target.

3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURE (continued)

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

Capital assessment and scenario testing results are used to inform strategic decisions such as allocation of development budgets between initiatives to generate new business and to manage risk in respect of existing business.

Sensitivity tests
Sensitivity analysis has been performed by applying the following parameters to the statement of financial position and income statement as at 31 December 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 reporting date). 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. The linked funds would move by around 2.4% as a shift of 1% in gilt yields moves gilt market values by 10%, but only 24% of linked assets are gilts.

An increase in interest rates of 1% would have increased the profit and increased shareholder's equity by £142,000 after tax (2015: reduced the profit and decreased shareholder's equity by £2,164,000). An equal change in the opposite direction would have increased the profit and increased shareholder's equity by £1,093,000 after tax (2015: £2,219,000). The reduction in the shareholder element is limited to the amount of interest received, as the company only has deposits with credit institutions currently attracting interest of 0.16%.

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 the profit by £4,279,000 after tax (2015: £3,530,000). An equal change in the opposite direction would have reduced the profit by £4,279,000 after tax (2015: £3,530,000).

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 reduced the profit by £5,378,000 after tax (2015: £4,280,000).

Mortality/morbidity
The impact on profit of an increase in mortality and morbidity claims rates of 5% is tested. As there are no morbidity contracts in force and the capital protected death benefit is reinsured, increased mortality would only affect profit through the cost of paying clients 1% more than encashment value on death. The increase in claim rates is assumed to occur throughout the year.

An increase in mortality and morbidity claims of 5% each would have reduced the profit after tax by £8,000 (2015: £8,000).

NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2016

4 FEE INCOME

	2016 £'000	2015 £'000
Investment contracts		
Premium based fees	174	342
Fund based fees	70,401	65,887
Fixed fees	3,047	3,660
Other fee income	46,687	16,692
	120,309	86,581

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

5 GROSS PREMIUMS WRITTEN

	2016 £'000	2015 £'000
Insurance contracts		
Regular premiums	10	9

6 INVESTMENT RETURN

	2016 £'000	2015 £'000
Investment income and realised gains		
Interest on fixed-interest securities	993	722
Interest on short term bank deposits	784	705
Other investment income	-	3
Realised gains on fixed interest securities, net	1,840	-
	3,617	1,430
Unrealised losses		
Unrealised losses on fixed-interest securities	(344)	(973)
	3,273	457

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

7 INSURANCE CONTRACT CLAIMS

	2016 Gross £'000	2016 Reinsurance £'000	2016 Net £'000	2015 Gross £'000	2015 Reinsurance £'000	2015 Net £'000
Death claims	203	(6)	197	322	(117)	205

8 COMMISSION EXPENSES

	2016 £'000	2015 £'000
Initial commission	174	342
Renewal commission	16,908	21,621
	17,082	21,963

9 ADMINISTRATIVE EXPENSES

	2016 £'000	2015 £'000
Administrative expenses	67,224	53,671
Administrative expenses include:		
Management fees paid to fellow group undertakings (see note 29)	66,496	53,166
Of which:		
Auditor's remuneration: services paid to KPMG LLP	1,021	470

Amounts paid to KPMG LLP were in respect of audit services, consisting of fees for statutory audits and group reporting, of £145,858 (2015: £126,472) and non-audit services, consisting of fees for regulatory returns of £875,148 (2015: £343,693).

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

NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2016

10 REMUNERATION OF KEY MANAGEMENT PERSONNEL

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

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

	2016 £'000	2015 £'000
Aggregate directors' emoluments		
Aggregate emoluments excluding pension contributions	619	793
Company pension contribution to money purchase schemes	16	31
Aggregate compensation for loss of office (cash payment)	238	-

7 directors had money paid to money purchase schemes during the year (2015: 6).

3 directors, including the highest paid director, received or were due to receive shares or share options in Old Mutual plc under a long term incentive scheme (2015: 7). 6 directors (2015: 6) exercised options during the year.

	2016 £'000	2015 £'000
Emoluments of the highest paid director		
Aggregate emoluments excluding pension contributions	230	217
Company pension contribution to money purchase schemes	5	8

The highest paid director did not exercise share options during the current or prior year.

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

11 FINANCE COSTS

	2016 £'000	2015 £'000
Other interest expense	6	1

NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2016

12 TAXATION

	2016 £'000	2015 £'000
Shareholder taxation		
UK corporation tax at 20.00% (2015: 20.25%)	(1,200)	3,231
Overseas tax	3,535	2,478
Deferred tax	683	(547)
	3,018	5,162
Prior years:		
Corporation tax payable (over)/underprovided	(850)	43
	2,168	5,205
Policyholder taxation		
UK corporation tax at 20% (2015: 20%)	21,117	5,385
Deferred tax	23,381	(3,083)
	44,498	2,302
Prior years:		
Corporation tax payable overprovided	(139)	(78)
Total policyholder tax charge	44,359	2,224
Tax on profit for the year	46,527	7,429

The total tax charge for the year can be reconciled to the accounting profit as follows:

	2016 £'000	2015 £'000
Pre-tax profit	39,833	11,530
Tax on profit at the applicable tax rate, 20.00% (2015: 20.25%)	7,967	2,335
Effect of:		
Tax pertaining to previous years	16	(8)
Non-deductible costs	86	203
Non-taxable revenues	(38)	(701)
Group relief paid for at other than standard rate	-	(18)
Utilisation of previously unrecognised deferred tax	89	1,419
Policyholder taxes deductible in computing shareholder tax	(8,970)	(590)
Impact of reduction in shareholder tax rate	190	589
Policyholder tax	44,359	2,224
Overseas taxes	2,828	1,976
	46,527	7,429

From 1 April 2015 the main rate of UK corporation tax was reduced to 20%. Further reductions to 19% from 1 April 2017 and 17% from 1 April 2020 were enacted in 2015 and 2016 respectively.

NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2016

13 DEFERRED ACQUISITION COSTS

	2016 £'000	2015 £'000
Opening balance	18,384	33,125
Capitalisation of deferred acquisition costs	1,392	1,200
Amortisation of deferred acquisition costs	(11,396)	(15,941)
Change in deferred acquisition costs	(10,004)	(14,741)
Closing balance	8,380	18,384
Current	6,158	11,257
Non-current	2,222	7,127
	8,380	18,384

14 LIABILITIES FOR UNIT-LINKED INVESTMENT CONTRACTS

	2016 £'000	2015 £'000
At fair value through the income statement		
Unit-linked liabilities	19,354,631	15,052,948

Analysis of change in liabilities for linked investment contracts

	2016 £'000	2015 £'000
Opening balance	15,052,948	12,508,005
Premiums received	4,003,219	3,431,445
Full surrenders	(876,736)	(801,345)
Mortality/morbidity claims	(19,729)	(20,659)
Withdrawals	(654,505)	(508,503)
Changes in fair value of underlying assets	1,938,447	493,665
Other fees and charges	(89,013)	(49,660)
Closing balance	19,354,631	15,052,948

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

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

14 LIABILITIES FOR UNIT-LINKED INVESTMENT CONTRACTS (continued)

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

All liabilities are current because policyholders can redeem at any time.

15 INVESTMENTS HELD FOR THE BENEFIT OF POLICYHOLDERS

	2016 Cost £'000	2016 Fair value £'000	2015 Cost £'000	2015 Fair value £'000
At fair value through the income statement				
Financial assets	18,956,254	19,383,312	12,929,725	15,046,795

These assets are held to cover the liabilities for linked investment contracts as shown in note 14. All amounts are current.

The difference between linked assets and linked liabilities is principally due to short term timing differences between policyholder premiums being received and invested, and withdrawals awaiting settlement into underlying funds.

16 INVESTMENTS IN COLLECTIVE INVESTMENT SCHEMES

	2016 £'000	2015 £'000
At fair value through the income statement		
Investments in collective investment schemes	10,747	9,133

These investments are individually insignificant and short term, therefore any difference between cost and fair value is minimal. The net gain or loss on these investments is included in the income statement within other income (2015: other expense).

17 OTHER INVESTMENTS

	2016 Cost £'000	2016 Fair value £'000	2015 Cost £'000	2015 Fair value £'000
At fair value through the income statement				
Bonds and other fixed-income securities	16,928	16,066	30,270	29,493

Bonds and other fixed-income securities comprise UK government stocks with a AA rating (2015: AAA).

£2.7m (2015: £nil) of bonds and other fixed-income securities are due to mature within 12 months and £13.4m (2015: £29.5m) are classified as non-current.

NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2016

18 OTHER RECEIVABLES

	2016 £'000	2015 £'000
Arising out of direct insurance operations		
Policyholders	399	1,797
Intermediaries	3,221	4,385
	3,620	6,182
Other		
Due from fellow group undertakings (see note 27)	1,922	1,353
Due from fellow subsidiary undertakings (see note 27)	-	318
Other taxes and social security	11,224	5,793
Investment settlements outstanding	43,436	23,203
	56,582	30,667
	60,202	36,849
Current	60,190	36,431
Non-current	12	418
	60,202	36,849

Amounts due from policyholders are in respect of Phased Initial Charges.

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 a renegotiation of terms.

19 OTHER PREPAYMENTS AND ACCRUED INCOME

	2016 £'000	2015 £'000
Accrued interest	2,236	363

Accrued interest represents interest earned on bank accounts and fixed interest securities. All amounts are current and short term.

20 CASH AND CASH EQUIVALENTS

	2016 £'000	2015 £'000
Bank balances	22,838	33,373
Money market OEIC investments	160,335	78,017
Cash and cash equivalents	183,173	111,389

All cash and cash equivalents are current.

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

NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2016

20 CASH AND CASH EQUIVALENTS (continued)

Bank overdrafts are used to fulfil short term liquidity needs and are repayable on demand. The company has a gross overdraft facility of £10.0m (2015: £10.0m) for individual bank accounts subject to the aggregate balance across all accounts being at least zero.

21 SHARE CAPITAL

	2016 £'000	2015 £'000
Allotted, called up and fully paid		
16,000,001 (2015: 16,000,001) ordinary shares of £ 1 each	16,000	16,000

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

22 FINANCIAL INSTRUMENTS

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

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

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

Assets - investments held for the benefit of the policyholders, investments in collective investment schemes and other investments.
Liabilities - liabilities for linked investment contracts.

2016	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets designated at fair value through the income statement				
- investments and securities	19,382,708	-	604	19,383,312
- bonds and other fixed income securities	16,066	-	-	16,066
- holdings in collective investment schemes	10,747	-	-	10,747
	19,409,521	-	604	19,410,125
Financial liabilities designated at fair value through the income statement				
- long-term business policyholder liabilities	19,354,027	-	604	19,354,631
	19,354,027	-	604	19,354,631

22 FINANCIAL INSTRUMENTS (continued)

2015

	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
Financial assets designated at fair value through the income statement				
- investments and securities	15,045,227	-	1,568	15,046,795
- bonds and other fixed income securities	29,493	-	-	29,493
- holdings in collective investment schemes	9,133	-	-	9,133
	15,083,853	-	1,568	15,085,421
Financial liabilities designated at fair value through the income statement				
- long-term business policyholder liabilities	15,051,380	-	1,568	15,052,948
	15,051,380	-	1,568	15,052,948

Level 1 to 2 transfers

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

Reconciliation of Level 3 fair value measurements of financial assets:

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

	2016 £'000	2015 £'000
Fair value through the income statement		
Investments and securities:		
Opening balance	1,568	-
Losses recognised in income statement	(964)	(45)
Transfers into level 3	-	1,613
Closing balance	604	1,568

Reconciliation of Level 3 fair value measurements of financial liabilities:

Level 3 liabilities comprise linked long term business policyholder liabilities matching policyholders' investments in suspended property funds.

	2016 £'000	2015 £'000
Long-term business policyholders liabilities:		
Opening balance	1,568	-
Losses recognised in income statement	(964)	(45)
Transfers into level 3	-	1,613
Closing balance	604	1,568

22 FINANCIAL INSTRUMENTS (continued)

Structured entities

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

Type of structured entity	*Nature*	*Purpose*	*Interest held by the company*
Investments in collective investment schemes	Manage company funds through the investment in assets	Generate fees from managing company assets	Investments in units issued by the fund
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

Investments in unconsolidated structured entities

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

	Investment securities £'000
As at 31 December 2016:	
Investments in collective investment schemes	10,747
Investments held for the benefit of policyholders	19,383,312
	19,394,059
As at 31 December 2015:	
Investments in collective investment schemes	9,133
Investments held for the benefit of policyholders	15,046,795
	15,055,928

NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2016

22 FINANCIAL INSTRUMENTS (continued)

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

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

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

	Gross amount of financial instrument £'000	Gross amounts of recognised financial instruments offset in the statement of financial position £'000	Net amount of recognised financial instruments offset in the statement of financial position £'000
As at 31 December 2016:			
Financial assets			
Cash and cash equivalents	309,692	(126,519)	183,173
Financial liabilities			
Amounts owed to bank depositors	(126,519)	126,519	-
As at 31 December 2015:			
Financial assets			
Cash and cash equivalents	224,100	(112,711)	111,389
Financial liabilities			
Amounts owed to bank depositors	(112,711)	112,711	-

NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2016

23 DEFERRED TAX

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

	Deferred income & costs £'000	Unrealised gains/(loss) on investments £'000	Tax losses carried forward £'000	Transitional adjustment £'000	Other £'000	Total £'000
Policyholder deferred tax						
(Asset) at 1 January 2015	(7,967)	27,960	-	(1,719)	33	18,307
Movement in the year	(3)	(3,296)	-	214	2	(3,083)
(Asset)/liability at 31 December 2015	(7,970)	24,664	-	(1,505)	35	15,224
Movement in the year	407	22,753	-	215	6	23,381
(Asset)/liability at 31 December 2016	(7,563)	47,417	-	(1,290)	41	38,605
Shareholder deferred tax						
(Asset)/liability at 1 January 2015	(245)	-	(7,137)	2,748	(168)	(4,802)
Movement in the year	122	-	(166)	(489)	(14)	(547)
(Asset)/liability at 31 December 2015	(123)	-	(7,303)	2,259	(182)	(5,349)
Movement in the year	295	-	796	(390)	(18)	683
(Asset)/liability at 31 December 2016	172	-	(6,507)	1,869	(200)	(4,666)
Total deferred tax liability/(asset)						
(Asset)/liability at 31 December 2015	(8,093)	24,664	(7,303)	754	(147)	9,875
(Asset)/liability at 31 December 2016	(7,391)	47,417	(6,507)	579	(159)	33,939

From 1 April 2015 the main rate of UK corporation tax was reduced to 20%. Further reductions to 19% from 1 April 2017 and 17% from 1 April 2020 were enacted in 2015 and 2016 respectively. The effect of these rate reductions is fully factored into the figures above.

The value of deferred tax assets not recognised as at 31 December 2016 was £42,612,260 (2015: £50,221,071). This relates to gross shareholder capital losses carried forward of £250,660,355. A deferred tax asset on losses carried forward is recognised to the extent that there are other taxable temporary differences expected to reverse in the foreseeable future. Any excess has not been recognised as there is sufficient uncertainty to the extent it is probable that there will be future taxable profits to utilise the losses. Unrecognised losses are available to carry forward without expiry subject to the continuation of the business.

NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2016

24 DEFERRED FEE INCOME

	2016 £'000	2015 £'000
Opening balance	16,422	31,926
Capitalisation of deferred fee income	123	342
Amortisation of deferred fee income	10,447	15,162
Change in deferred fee income	(10,570)	(15,504)
Closing balance	5,852	16,422
Current	5,748	10,447
Non-current	104	5,975
	5,852	16,422

25 OTHER PROVISIONS

	Provision for rectifications £'000
Balance at 1 January 2015	803
Additions in the year	249
Change in estimate	(182)
Balance at 31 December 2015	870
Additions in the year	255
Utilisation	(1)
Change in estimate	(23)
Balance at 31 December 2016	1,101

The provision for rectifications relates to the estimated cost of completing a number of separate system rectification projects and any amendments to clients' plans arising as a result.

The majority of the provision is expected to be utilised in the next 12 months.

NOTES TO FINANCIAL STATEMENTS
for the year ended 31 December 2016

26 OTHER PAYABLES

	2016 £'000	2015 £'000
Arising out of direct insurance operations		
Investment settlements outstanding	97,293	54,943
Claims outstanding	34,407	20,496
Due to policyholders	34,453	28,979
	166,153	104,418
Other		
Due to fellow group undertakings (see note 27)	27,336	18,929
Other taxes and social security costs	704	253
Other	1,798	271
	29,838	19,453
	195,991	123,871

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

27 RELATED PARTY TRANSACTIONS

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

	2016 £'000	2015 £'000
Rebates received - passed back to policyholders	3,451	3,403
Rebates received - taken to income	117	255
Total rebates received from fellow group undertaking	3,568	3,658

The company receives rebates of annual fund management charges from a fellow group undertaking where it acts as introducer.

	2016 £'000	2015 £'000
Management fees paid to fellow group undertakings (see note 9)	66,496	53,166

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

27 RELATED PARTY TRANSACTIONS (continued)

	2016 £'000	2015 £'000
Amounts due from fellow subsidiary/group undertakings (see note 18)		
Other receivables	1,922	1,671

	2016 £'000	2015 £'000
Amounts due to fellow subsidiary/group undertakings (see note 26)		
Other payables	(27,336)	(18,929)

Amounts due from or to group undertakings and fellow subsidiaries at the reporting date are included in notes 18 and 26 respectively. Balances are settled in cash on a quarterly or monthly basis.

Details of transactions with directors and key management are provided in note 10.

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

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

28 EVENTS AFTER THE REPORTING DATE

As explained in the Strategic Report, in 2013 the company announced a programme to outsource its business processes via an outsourcing agreement with International Financial Data Services Limited and International Financial Data Services (UK) Limited (IFDS).

On 2 May 2017, the company exercised its termination rights under the contract with IFDS. As a result, future planned project spend with respect to IFDS will cease. The company has entered into a new outsourcing contract with FNZ and both parties are currently in the early stages of scoping and planning the new project.

29 CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2016 (2015: £nil).

30 ULTIMATE PARENT COMPANY

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

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

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