NEWS **RELEASE**

Old Mutual plc

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ANNUAL FINANCIAL REPORT 2017

Old Mutual plc (the "Company") has today published its Annual Financial Report for 2017 on the Company's website at www.oldmutualplc.com. A copy of the Annual Financial Report, including the Strategic Report for 2017, will be submitted to the National Storage Mechanism and will shortly be available for inspection at www.morningstar.co.uk/uk/NSM. From the end of March 2018 copies of the Annual Financial Report may also be obtained from Investor Relations, Old Mutual plc, 5th Floor, Millennium Bridge House, 2 Lambeth Hill, London EC4V 4GG, UK or from the Company Secretary, 6th Floor, K Block, Mutualpark, Jan Smuts Drive, Pinelands, 7415, Cape Town, South Africa.

In compliance with the Company's obligations under DTR 6.3.5, additional information is set out below which has been extracted in full unedited text from the Annual Financial Report. Accordingly, page references and section numbers in the text below refer to page numbers and section numbers in the Annual Financial Report. This extracted information should be read in conjunction with the Company's results announcement for the year ended 31 December 2017, which the Company has also released today.

"**Risks**

2017 was a critical year for the delivery of the plc strategy. It marked a transition from planning and preparation to execution and delivery of the managed separation. Plc Head Office and the businesses have made good progress in preparing, planning and executing key steps in readiness for the Group's separation, including completion of the sell-down of the OMAM business and preparing three strong and appropriately capacitated and capitalised businesses ready to stand alone in 2018. It also completed a number of important corporate finance transactions, including the disposal of OMAM and Kotak and further reduction in plc external debt.

Once executed, managed separation will remove a number of key risks inherent to the current structure of the Group. These include currency translation risk, constraints on capital fungibility, and the 1999 demutualisation agreement under which the current plc costs and debt interest must be borne by the non-South African businesses. The risks inherent to the Group structure increased during 2017, as regulation evolved and the Group structure became even more South Africa focused. These longer-term strategic and structural risks are being mitigated to a certain extent by the managed separation. In turn, separation introduces shorter-term risks; but while significant, these are largely manageable, and contingency plans are in place for any unexpected delays.

Under the active portfolio manager model introduced at the start of the managed separation, the plc evaluates each of the Group's businesses as an asset. This model is now fully embedded, with a significant amount of responsibility for meeting local capital and liquidity requirements delegated to the respective business Boards. The OMW and OML Boards and their respective governance frameworks have been redefined and refreshed to ensure their fitness to become listed companies.

The managed separation project governance framework has continuously adapted to meet changing project needs. As might be expected with a programme of this size, project plans are complex with many interdependencies, timelines are tight and external factors such as unexpected political and economic events can exert additional pressures. Both financial and non-financial risks to the managed separation are constantly monitored, ensuring that we remain within the plc financial risk appetite metrics: central liquidity resources, capital, and earnings volatility. We also continue to monitor risk culture across the Group.

We review each managed separation activity in terms of balancing value, cost, time and risk, relative to diverse stakeholder interests. Extensive stress and scenario testing (including macroeconomic and political risk) ensures that we have a full understanding of the possible impacts of variances within the plan and available management actions, and that the plc can remain within its financial risk appetite limits.

We continue to focus on managed separation contingency planning, to ensure that we anticipate and mitigate risks and deploy appropriate responses in the event of unforeseen external issues or project management slippage.

We have devoted considerable work to ensuring the orderly wind-down of the plc and transitioning activities and capabilities to the businesses. The plc's contingent liabilities and pre-existing risks such as the plc employee pension scheme and internal reinsurance programme are being addressed. To ensure an effective handover to OML, processes have been decommissioned where possible and data archived where necessary. The various asset disposals, currency hedging activities and debt liability management exercises during 2017 have substantially de-risked the residual plc balance sheet. To further reduce downside cash flow risks from equity markets, OM Bermuda updated its hedging strategy at the end of October.

Within the businesses, the principal risks remain broadly consistent with those described in the 2015 and 2016 Annual Reports. However, there is a different emphasis on some risks. Execution risk relating to the managed separation is elevated at plc Head Office and the subsidiaries all have significant strategic execution risks relating to major IT or business change initiatives as well as the managed separation itself.

Macroeconomic risk in our principal markets continues to be a focus for the Group, as it is for financial services firms generally. In OMW the risks to capital are small but the risks to earnings are very much dependent on market conditions, given OMW's reliance on asset-based fees. This contrasts with our African businesses, particularly in South Africa, where macro conditions create risks to earnings, liquidity and local capital in the lending, insurance and asset management operations.

In 2017, South Africa suffered several sovereign downgrades that increased economic pressures on the country, and there is a significant risk that the country could be removed from international government bond indices. Although the ANC leadership change at the end of 2017 has been positively received by the markets, political and policy uncertainty will continue in 2018 and potentially until the April 2019 national elections. We undertake extensive stress and scenario tests focusing on these economic and political risks, and business plans have been designed to accommodate this difficult macroeconomic position.

Finally, given the high level of organisation change, we are mindful of culture and heightened people risk at plc Head Office and across the businesses. Management of the working environment and stress-related risks has been a focus area for us, using specialist external resources where required. We have made good progress in developing resource contingency plans at plc Head Office, and in determining and implementing appropriate values for each new standalone business.

Sue Kean

Group Chief Risk Officer

Key risks to the managed separation strategy

Old Mutual plc's key mission is executing the managed separation strategy. When this is complete, the Group will be separated, OMW will become a separately listed entity and OMEM, Nedbank, OMB and the residual plc will be subsumed into OML, the newly-listed holding company. Given the centrality of managed separation, the risks to its execution are inherently the Group's top risks, and will remain so until managed separation is complete. Although the managed separation is designed to be capable of being executed in adverse market-situations, volatile markets combined with the complexities of the process could in extreme situations impact the timetable for and/or the value realised from the OMW listing. Therefore the macroeconomic and political risks are included within the key business risk sections (pp21-25) rather than below in the risks to execution of managed separation section.

The risks are listed in order of descending materiality. All key risks, and their related mitigating actions, are overseen by the plc Board and the plc Board Risk Committee.

Current impact and risk outlook	Risk mitigation and management actions
OMEM, OMW and Nedbank need to be sufficiently capacitated and capitalised to operate as successful independently listed entities.	
For the unlisted businesses to be successful standalone businesses they need to be sufficiently well capacitated and capitalised. This means strengthening resource in areas where plc provided support (eg treasury, investor relations and finance), setting up appropriate Governance arrangements and ensuring that each business has adequate capital. Perceived weaknesses in any of the businesses' balance sheets, strategies, operations, governance structures or leadership could potentially affect the managed separation approvals and the ultimate value obtained. OML estimates that, after its primary listing on the JSE, its effective Black Economic Empowerment (BEE) shareholding may be slightly below the Financial Sector Charter (FSC) target of 25%, but this will only be known once the share register settles. As a JSE primarily listed business, OML's methodology for calculating its BEE ownership percentage will change, in line with the provisions of the revised FSC. The BEE shareholding will also be impacted by the corporate transactions involved in the managed separation. OMEM will be using the new scoring methodology for its 2017 scorecard, anticipating the impact of the corporate restructure, in line with the provisions of the revised Financial Services Code that came into effect on 1 December 2017.	Good progress has been made in capacitating OML and OMW. Both businesses have appointed strong and independent new Boards, enhanced senior management capability and undertaken significant work to review and begin implementing new operating models, including enhancing their risk functions. These processes have been tracked and monitored by the plc management team. Significant progress has also been made in developing and internally agreeing the approach and structure of their initial balance sheets to ensure that capital is appropriate for the risks within the businesses even after stress scenarios. OML will consider appropriate transitions, if required, to achieve its BEE ownership targets in due course. The OML Board will be tasked with exploring multiple mechanisms to ensure this goal is met as agreed.

Current impact and risk outlook	Risk mitigation and management actions
The managed separation listings and scheme need to be executed in a manner that balances value, time, cost and risk to ensure the best outcome for all stakeholders.	
Managed separation is an inherently complex project with many inter-dependencies and will require multiple internal and external approvals. Project delivery delays or failure to obtain regulatory or court approvals could potentially impact the separation timelines and increase costs. People stretch, both at plc and within the businesses, remains a key risk to the managed separation execution. The businesses are implementing managed separation and their own internal change projects concurrently. South African political risk could impact or delay the regulatory approvals required for completion of the managed separation.	Robust project management and governance frameworks have been implemented, co-ordinated across plc, OML and OMW with adviser support. The managed separation governance frameworks have evolved as the project evolves. The financial and execution risks to managed separation are regularly reviewed and assessed, with action taken to mitigate risks balancing time, cost and value. A number of risks are largely outside Old Mutual's direct control – such as obtaining timely regulatory and court approvals. We have taken action to mitigate these risks as far as possible: for example, early and proactive engagement on the required regulatory approvals, implementation of a shareholder engagement strategy, and the liability debt management exercise. In 2017, we paid particular attention to people and stretch risk. In plc we reviewed all resourcing and made contingency plans for delays to managed separation. The businesses acquired additional resource or upskilled as required, and each area put in place plans to address their particular concerns.
While we remain a Group, plc needs to ensure that we meet our fiduciary duties while winding-down the businesses in an orderly manner.	
The wind-down of plc needs to be undertaken in a manner that will still allow plc to fulfil its fiduciary duties. Wherever possible the plc contingent liabilities and pre-existing plc risks need to be wound down or addressed to minimise transferring these to either OML or OMW.	Plc's fiduciary duties for the remainder of managed separation have been identified and processes are in place to ensure these are met. In 2017 we made significant progress in addressing plc contingent liabilities and pre-existing risks. Actions included the Kotak sale, the resolution of the two legacy pension schemes and the repayment and repurchase of a significant amount of debt. As a result the plc balance sheet will have a positive net asset value on transfer to OML. As part of the wider managed separation process there are robust plc closure plans in place. Wherever possible, redundant processes and tasks have already been closed down. This will continue into 2018 to ensure a streamlined plc is handed over to OML.

	We have anticipated the risk of not retaining enough plc Head Office operational capacity and capability to run the residual Group effectively in the event of a delayed separation. Although not considered likely, it has been mitigated through contingency planning.

Current impact and risk outlook	Risk mitigation and management actions
Some risks arise from the constraints of the existing Group structure, and will be reduced by managed separation.	
Our Group earnings, dividend and surplus capital are reported in sterling but the majority of our earnings and surplus capital are denominated in South African rand. This creates currency translation and foreign exchange control risk, and our reported Group earnings are particularly sensitive to rand/GBP exchange movements. Managed separation will address this risk, by removing the current Group structure. The recent regulatory trend in both the UK and South Africa has been to encourage the independence of subsidiary Boards while retaining an expectation of Group oversight and control. Managed separation mitigates the potential risks arising from this ambivalence, but any delay could present challenges.	Managed separation seeks to allow each business to meet its capital requirements and debt interest in matched currencies and cash flows. Each business will have the appropriate capital to succeed independently and to be more closely aligned to its natural shareholder base. Regular stress and scenario testing helps us understand and monitor the resilience of our capital and liquidity over the managed separation time horizon. Our modelling shows we are sufficiently capitalised in line with our philosophy of holding capital where the risks lie. We have implemented dividend hedging on a six-month forward-looking basis, in line with the expected timing for the completion of managed separation. Risks presented by conflicting regulatory expectations relating to Group control versus subsidiary independence will ultimately be removed as the Group separates. In the meantime, we seek to address them through open and timely communication with both our subsidiaries and the regulators, and through the continued role played by plc executives on the subsidiaries' Boards. We have also expanded our documentation of real or perceived conflicts of interest, and this is regularly refreshed in light of real or perceived case studies.

Key risks to OMEM and Nedbank, and OMW

In addition to the risks relating to the execution of the managed separation, OML and OMW are exposed to a number of risks inherent to the products they offer and the markets that they operate in.

OMEM and Nedbank (ultimately OML)

Current impact and risk outlook	Risk mitigation and management actions
Volatile or difficult macroeconomic conditions, particularly within South Africa, could potentially increase financial pressure on consumers –impacting OML's future earnings and credit risk.	
In 2017 South Africa's real GDP growth increased marginally to 0.9%, with the IMF forecasting similar rates of growth in 2018. There were also several sovereign downgrades which may trigger South Africa's subsequent exclusion from the Citi World Government Bond Index. The 21 February 2018 Budget introduced a number of tax increases, which sought to address the rising South African government's fiscal deficit. One of these was a 1% increase to VAT, which together with a continued low growth rate for the economy could increase financial pressure on consumers. The result of such pressure could be reduced demand for OML's financial products and services, and an increase in lapses and credit default rates. Nedbank, and to a lesser but growing extent OMEM, have significant exposure to credit risk through their banking businesses. Nedbank has a greater proportion of wholesale funding than the market norm; and it is exposed to significant credit risk within the core South African market and in the Rest of Africa, where there are particular challenges due to low growth. The economic situation in Zimbabwe remains volatile, with a lack of liquidity and substantial increases in equity, which may not be sustainable. Local exchange controls may reduce OMEM's ability to remit dividends back to South Africa.	OML continuously monitors its financial risk appetite metrics and builds multiple external economic factors into stress and scenario testing to understand their possible impact on earnings, liquidity and capital resilience. In anticipation of 2017's sovereign downgrades, we built the possible impacts into OML's business plans and downside projections. Both Nedbank and OMEM are focused on managing discretionary costs resulting from lower growth and potentially slowing revenues as consumers come under increasing pressure. Within OMEM, market and liquidity risks arising from guaranteed products, and the hedges in place to mitigate them, are actively overseen by the Balance Sheet Management team. OMEM's Credit Loss Ratio remained within limits during 2017, and work continues to develop an improved credit risk governance framework. Due to the current macroeconomic environment, lending is being further restricted to keep OMEM within risk appetite, and this may impact planned earnings. Nedbank's credit losses were better than planned, due mainly to good risk management and provisioning. Nedbank remains well positioned to deal with potentially severe stress scenarios. OMEM continuously reviews developments in Zimbabwe and undertakes separate stress and scenario testing to understand exposures and identify possible management actions.
Changing government policies and public sentiment, particularly in South Africa, could adversely influence external perceptions of OML and impact regulations (including business ownership and fungibility restrictions within Africa).	
Global and South African political risk remained elevated throughout 2017, but has stabilised somewhat following the	OML monitors political developments and their possible impacts on the business.

February 2018 leadership transition. In H2 2017 media attention focused on issues relating to corruption and state capture. The resignation of Jacob Zuma as President and the appointment of Cyril Ramaphosa as his successor in February 2018 was well received by markets. Tackling corruption and renewing investor confidence will be government priorities. Key risks to OML include the business received from collective labour organisations and public sector workers, which could present a risk of mass exits from our products following a change in sentiment or could be affected by government cutbacks. South African political risk also creates additional risks in the macroeconomic environment (see above). The recent military-backed transfer of power in Zimbabwe raised concerns around political instability. To date the transition has been orderly and introduces potential upside political risk, particularly if the new leadership is able to introduce measures aimed at supporting economic growth.	Where there are potential systemic risks such as the KPMG allegations, cross-businesses teams are mobilised to review the potential impacts of the event, ascertain the actions that can be taken, and work with external stakeholders. Nedbank's CEO began engagement with Cyril Ramaphosa after his election as ANC leader, emphasising the need for economic policy certainty. OMEM's CEO is an active member of Business Leadership South Africa and the Association for Savings and Investments South Africa, and attended and sponsored the JSE South African investment conference in New York in November 2017. During 2017, Nedbank enhanced its monitoring and governance over reputational risk in relation to customers, suppliers and other stakeholders.
Current impact and risk outlook	**Risk mitigation and management actions**
Delivery of multiple major change programmes increases the risks of non-delivery and people stretch, and could reduce OML's ability to operate successfully as a standalone entity.	
Both OMEM and Nedbank are currently undertaking multiple change programmes. These include the managed separation and listing, significant IT transformation, and responding to major regulatory change including the introduction of Twin Peaks regulation in South Africa, SAM and Basel III. The volume of these simultaneous change programmes places strain on management and resourcing, and increases delivery risk. This applies particularly at OMEM, where the additional demands of functioning as an independent organisation and embedding a new management team have put the business under strain. We also recognise that OMEM needs to develop and embed a new customer-focused and digital culture to support the new strategy. The continuing Cape Town water crisis presents a significant risk of disruption to OMEM's Cape Town operations.	All major change programmes are overseen by appropriate governance structures and, ultimately, the respective OMEM and Nedbank Boards. People risk will remain elevated throughout the managed separation and is compounded by the increased need to manage costs due to the depressed South African economic environment. Where required, interim and contingency resources will be identified and deployed. Nedbank has launched its People and Culture 2020 journeys, aimed at increasing efficiency and enhancing execution. OMEM has a broad range of credible contingency arrangements – including construction of a grey water collection and filtration plant on its Cape Town operations centre, due to come onstream in early May 2018.

Velocity of regulatory change in South Africa and increased risk of regulatory enforcement.	
In South Africa, the new Twin Peaks supervisory regime and SAM regulations will be implemented over the next few years. Both will drive significant changes for our businesses. Development of the SAM regulations has continued through 2017. Two major issues affecting OMEM and OML are the treatment of the Nedbank holding and the agreement of a transitional period for capital. Conduct risk remains significant, with an increased focus on the quality of advice provided with the distribution of our mass market products, presenting a risk of regulatory intervention and redress. Both Nedbank and OMEM will be impacted by the implementation of IFRS9 and IFRS17, the FICA Amendment Act and Basel III – which come into effect during 2018 and 2019 – and have programmes underway to ensure compliance.	Change and readiness programmes are underway to ensure compliance with the new regulatory framework, although resourcing within the Risk and Finance functions remains a challenge. Nedbank began with the design and introduction of a conduct risk framework in 2016. In 2017 it began a full-scale Market Conduct regulatory programme, assisted by EY. OMEM is developing a new Market Conduct framework which will support enhanced oversight of advice risk. Both OMEM and Nedbank continue to engage actively with government, regulators and industry forums to positively influence the evolving public policy landscape. Nedbank and OMEM continue to embed their Anti Money Laundering (AML) frameworks and controls, particularly in their Rest of Africa subsidiaries.

Current impact and risk outlook	**Risk mitigation and management actions**
Failure to adequately anticipate or respond to competitive pressures or changing customer expectations, particularly in relation to enhancing the digital offering.	
OMEM faces significant competitive pressures in its core markets and there is a risk of being left behind in the customer proposition development race. OMEM is undertaking several strategic investments to improve customer processes and experience, respond to new regulatory requirements, and integrate the UAP business, acquired in 2015, with investment in sales and service enablement in Africa (starting in the Faulu and CABS businesses). Nedbank is currently implementing the digital journey and managed evolution of its existing IT infrastructure. Its Managed Evolution systems roll out, now underway, and digital fast lane strategy are bringing large-scale changes; some increase in IT disruption and impact to systems availability must therefore be expected. OMEM is exposed to risks relating to the stability and maintenance of its existing IT infrastructure in its Rest of Africa businesses.	De-risking and de-scoping OMEM's IT transformation programme has reduced project delivery risk. A robust project governance framework is in place and progress is monitored by the OMEM Board IT Committee, which has been augmented with experienced non-executive directors. Nedbank has a strong and established IT governance framework and has enhanced second-line oversight. OMEM is currently reviewing its entire IT capability framework to ensure that it can support the future strategy.

Strategic and governance risks in the Rest of Africa subsidiaries.	
Nedbank and OMEM's Rest of Africa businesses have been subject to strategic and governance risks and in some cases underperformance. As some of these subsidiaries are separately listed and not fully owned, there are potential issues relating to information flows and strategic alignment. In addition, businesses in some jurisdictions may be subject to government restrictions on repatriation of profits. Nedbank's strategic alliance with ETI was significantly affected by the fall in oil prices and the downturn in the Nigerian economy, resulting in losses and lower-than-expected business flows. However, there have been a number of positive developments during the year, including Nigeria exiting recession. OMEM has been working to integrate the UAP business with a focus on embedding governance and control frameworks. The CABS business has the risk of volatile results due to the challenging environment.	The Rest of Africa businesses remain closely monitored and overseen by the respective Nedbank and OMEM Group functions and Board committees. Progress has been made in strengthening and aligning governance and control frameworks and the integration of Rest of Africa subsidiaries remains a focus area. Nedbank has identified a need for a centralised and co-ordinated operating framework to align the subsidiaries with the main business, increasing monitoring and oversight at the subsidiary level. This framework is in its early implementation stages. The outlook for the ETI alliance improved during 2017, as Nigeria's exit from recession helped to boost business performance. ETI governance committees have been strengthened with key appointments.
A cybersecurity breach may cause business disruption, reputational damage and material adverse effects on the business' financial condition, operational results and prospects.	
Both OMEM and Nedbank are exposed to increasing cyber security risks, with legacy infrastructure particularly vulnerable. Cyber attacks could result in operational losses, interruption of business operations, the loss of critical data and reputational damage.	Nedbank has an experienced Chief Information Security Officer and has made significant progress in enhancing cyber-resilience during 2017. Nedbank continues to invest substantially on this front. OMEM has recruited a new Chief Information Security Officer and strengthening its cybersecurity team. The effectiveness of the control environment is assessed by regular external assurance.

OMW

Current impact and risk outlook	Risk mitigation and management actions
Volatile or difficult global macroeconomic conditions could potentially impact OMW's earnings, particularly asset-based fees.	
Global markets maintained historic highs in 2017, with market volatility relatively subdued. However, there is a continuing risk of a rapid correction or return of increased volatility. FTSE100 equity levels remained high, with a weaker pound boosting sterling profitability for many multinational firms in the index. A potential market correction could impact OMW by reducing asset-based fees.	OMW regularly undertakes stress and scenario testing to understand the effect of severe macroeconomic events and their potential impact on the business. During 2017 OMW incorporated the implications of a 'hard Brexit' scenario into its stress and scenario testing to understand any possible longer-term implications on capital and liquidity.
Changing government policies and public sentiment in our key markets could adversely influence external perceptions of OMW and impact regulatory change.	
Global political risk remained elevated throughout 2017, with tensions in the Middle East impacting oil prices, and the ongoing stand-off on the Korean peninsula. In the UK, concerns remain over the implementation of Brexit and the impact of the Conservative government losing its majority in the April 2017 election. This created additional risk in financial markets.	We continuously monitor political developments and review the possible impacts. During 2017, OMW undertook scenario testing for possible changes in government policy.
Delivery of multiple major change programmes increases the risk of non-delivery and people stretch, and could reduce OMW's ability to operate successfully as a standalone entity (including the separation and sale of its single-strategy business, OMGI).	
OMW is currently undertaking multiple change programmes, including the managed separation and listing, the sale and separation of the OMGI single-strategy business, the platform transformation programme, and responding to major regulatory changes such as MiFID II and GDPR. This volume of concurrent change inevitably imposes strains on management, particularly resource and project management, increasing delivery risk. There is an increased risk of human resources process failures regarding employee recruitment, retention, reward and development.	All major change programmes have appropriate and robust governance structures, and are ultimately overseen by the strengthened OMW management team and Board. To reduce people risk, OMW is identifying those most at risk, offering coaching, additional resource and wellbeing packages, and providing monthly people reports to management.

Current impact and risk outlook	Risk mitigation and management actions
Failure to adequately anticipate or respond to competitive pressures or changing customer expectations, particularly in relation to enhancing and developing a new platform.	

OMW must continue to anticipate and respond to competitive pressures and customer expectations relating to product design, distribution and customer experience. Failure to do so could result in reduced new business volumes and outflows. This is particularly relevant to OMW's IT and systems, where key IT initiatives may not deliver what is required either on time or within budget or provide the performance levels required to support current and future needs. Failure to devote significant resources to support existing systems and upgrade legacy systems could impair our ability to gather information for pricing, underwriting and reserving, and to attract and retain customers, for whom online functionality is increasingly important. The initial platform project experienced significant cost and time over-runs and was terminated in 2017. It was replaced by a new platform transformation programme, with FNZ replacing IFDS as lead external partner. Failure of the new programme could materially affect OMW's financial position and client relationships.	The new platform transformation programme has a robust governance framework. It is overseen by OMW's Board IT Committee, which includes non-executive directors with transformation project experience. The programme's well defined project management framework includes risk identification and monitoring, with a clearly defined risk appetite framework and statements. Its progress has remained on-plan from the outset. Lessons learned from a review of the initial project have been implemented. Actions included ensuring strong second-line oversight and the creation of the OMW Board IT Committee.
Extensive regulatory change in core markets increases the risk of failing to comply with existing and new regulations.	
OMW is subject to extensive regulation in the UK and internationally and thus faces compliance risks, including conduct risk. The underlying businesses are subject to the risk of adverse changes in the laws, regulations and regulatory requirements in the markets in which they operate. It is difficult to accurately predict the timing, scope or form of future regulatory initiatives, although it is widely expected that there will continue to be a substantial amount of regulatory change. Notable developments include the EU General Data Protection Regulation (GDPR) and UK Senior Managers and Certification Regime (SMCR) and a high degree of supervisory oversight of regulated financial services firms, challenging firms on the extent to which compliance with requirements and the interests of customers have been achieved. OMW is currently under investigation over to the treatment of long-standing customers of closed-book products.	OMW has built a regulatory change framework to allow effective planning and management across the organisation, and to ensure prompt identification of regulatory change affecting one or more OMW businesses. OMW-level projects are in place for key regulatory changes such as MiFID II and GDPR to ensure that a consistent approach to both interpretation and implementation is taken across all businesses, tracked by the OMW Regulatory Delivery Committee. A specialist Regulatory Liaison team facilitates effective relations and communications with OMW's primary regulators, the FCA and PRA, ensuring careful tracking and delivery of regulatory requests and actions. The activities of this team are closely monitored by executive management and the Board Risk Committee. OMW is cooperating with the FCA in its investigation, which is ongoing.
A cybersecurity breach may cause business disruption, reputational damage and material adverse effects on the business' financial condition, operational results and prospects.	

OMW is increasingly exposed to the risk that third parties or malicious insiders may attempt to use cybercrime techniques, including distributed denial of service attacks, to disrupt the availability, confidentiality and integrity of its IT systems. This could result in disruption to key operations, make it difficult to recover critical services, damage assets and compromise data.	We have made significant investments across OMWs businesses to increase system security and resilience, and an Information Security Improvement Programme is underway. We have appointed a new Chief Information Security Officer and are strengthening the support team.

Overview of the Group's risk and governance structures

The active portfolio manager governance model, introduced in 2016 after the announcement of the managed separation strategy, is now fully embedded. Under this model we evaluate each of the Group's businesses as an asset, with a view to realising maximum value through separation.

The businesses, particularly OMW and OML, have developed their own governance capabilities – such as appointing independent chairmen, and defining their own values and culture, risk strategies and appetite frameworks. The plc still oversees these processes and will continue to monitor them centrally until separation.

Risk strategy

Our risk strategy remains unchanged from 2016. We continue to use the following principles to guide our actions and choices throughout the managed separation:

- All our actions must be directed towards our objective and aligned with these measures of success, within the parameters and risk appetite agreed by the plc Board
- We will have to make trade-offs between four principal considerations: the value unlocked, the cost involved in delivering the strategy, the time it takes to do so, and the risks incurred or mitigated by our actions
- To maintain market confidence we must demonstrate meaningful action in a reasonable timeframe at valuations that are perceived to be, at a minimum, fair
- We are committed to treating shareholders fairly. We will seek to communicate our intentions and plans in an open and proactive manner, as appropriate in the context of our fiduciary obligations
- We are willing to accept short-term price volatility in our stock as the market digests each action and begins to value each business and the plc appropriately
- We will continue to discharge our fiduciary and regulatory responsibilities in an appropriate manner.

Risk appetite

Plc liquidity and regulatory capital have remained our key risk appetite metrics throughout 2017, supported by earnings volatility and risk and control culture. The financial metrics are projected over the horizon of managed separation: we evolve and recalibrate them as the managed separation progresses, by undertaking extensive stress and scenario testing.

The businesses have developed their own qualitative and quantitative risk appetite metrics reflecting their own business models, industries and risk strategies. These are monitored by the business Boards as well as the plc. At both plc and business levels we use risk appetite limits and early warning thresholds (EWTs) to define the boundaries of risk taking and manage our risk/return profile.

The plc's appetite and intentions are set out below, with the metrics used to measure each:

Capital	Earnings	Liquidity	Culture
The Group has no appetite for regulatory intervention (whether perceived or real) during managed separation. As such, we hold a buffer above minimum requirements in order to remain solvent. During 2017, we continued to set Solvency II capital risk appetite at 110% with an EWT at 120%. This reflects the significant level of disallowed surplus capital within South Africa under the Solvency II calculations. We indicated at our 2017 Interim Results that we could accept the possibility of dipping below our EWT when considering options for our capital structure.	We accept that as part of our plc strategy of managed separation, and as our businesses consolidate their past expansion, execution risks and earnings volatility are likely to increase. However, we have no appetite for big surprises, such as earnings volatility that cannot be anticipated by the market we operate in or significant operational losses.	The capital management policy introduced with the managed separation strategy allows significant flexibility in managing liquidity. We hold a buffer at Group level to support this, sufficient for a liquidity survival horizon of at least 12 months. We also have a multi-year liquidity view over the managed separation horizon. The Group should be able to meet extreme but plausible short-term losses.	We measure our risk and control culture by considering our governance and tone from the top, understanding of risk, attitude to risk, control functions, quality of management information, and remuneration structures. Qualitative assessment of our risk and control culture focuses on the values and behaviours embedded in the businesses that shape risk decisions.
Monitoring and management			
Our key principle is that all our businesses should be well capitalised as if they were standalone businesses, and that the Group position must be compliant with regulatory requirements at all times. There is ongoing monitoring of our Solvency II position and the impact of managed separation activities on this are projected. We remained above our EWT throughout 2017. Based on stress tests, the Board agreed at the time of the Liability Management exercise in November that the Group could operate	At the plc level, we make extensive use of multi-year stress testing to understand the possible impact of risks on dividends and earnings. We also use business-specific monitoring to identify and assess risks within individual businesses. We monitor earnings volatility by reviewing year-to-date pre-tax AOP on a constant currency basis. In 2017, earnings remained above this indicator.	The plc liquidity metric is continuously monitored and reported to the plc Board. The limits and EWT are calculated dynamically so are refreshed each month. In 2017, plc liquidity remained above both the limits set and the EWT.	Each business undertakes culture monitoring half-yearly using a 50-question qualitative assessment. We set threshold levels for positive responses, with an EWT of 70% and a limit of 50%. At year end 2017 one business was slightly below EWT but on an improving trend. Ongoing actions are being taken to improve the position.

below the EWT where the reasons for it do not reflect the underlying economic position of the Group, providing the Group remained above risk appetite of 110%.			

"Related parties

(a) Transactions with key management personnel, remuneration and other compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including any director (whether executive or otherwise) of the Group. Details of the compensation paid to the Board of directors as well as their shareholdings in the Company are disclosed in the Remuneration Report on page 97 to 128.

(b) Key management personnel remuneration and other compensation

	Year ended 31 December 2017		Year ended 31 December 2016	
	Number of personnel	**£'000**	Number of personnel	£'000
Directors' fees	**11**	**2,081**	11	1,584
Remuneration		**21,758**		25,133
Cash remuneration	**9**	**4,830**	14	6,228
Short-term employee benefits	**10**	**5,444**	14	9,828
Long-term employee benefits	**9**	**123**	14	280
Share-based payments	**9**	**11,361**	11	8,797
		23,839		26,717

Share options

	Year ended 31 December 2017		Year ended 31 December 2016	
	Number of personnel	**Number of options/shares '000s**	Number of personnel	Number of options/shares '000s
Outstanding at beginning of the year	**4**	**58**	4	52
Granted during the year				6
Exercised during the year		**(23)**		–
Outstanding at end of the year	**3**	**35**	4	58

Restricted shares	**Year ended 31 December 2017**		Year ended 31 December 2016	
	Number of personnel	**Number of options/shares '000s**	Number of personnel	Number of options/shares '000s
Outstanding at beginning of the year	**10**	**23,494**	10	11,346
Leavers	**(2)**	**(1,346)**	(2)	(2,974)
New appointments	**1**	**1,087**	2	5,215
Granted during the year		**948**		11,659
Exercised during the year		**(673)**		(236)
Vested during the year		**(952)**		(1,516)
Outstanding at end of the year	**9**	**22,558**	10	23,494

(c) Key management personnel transactions

Key management personnel and members of their close family have undertaken transactions with Old Mutual plc and its subsidiaries, joint ventures and associated undertakings in the normal course of business, details of which are given below. For current accounts positive values indicate assets of the individual whilst for credit cards and mortgages positive values indicate liabilities of the individual.

	Year ended 31 December 2017		Year ended 31 December 2016	
	Number of personnel	**£000s**	Number of personnel	£000s
Current accounts				
Balance at beginning of the year	**4**	**2,951**	5	2,208
Net movement during the year		**870**		743
Balance at end of the year	**5**	**3,821**	4	2,951
Credit cards				
Balance at beginning of the year	**4**	**30**	5	20
Net movement during the year		**2**		10
Balance at end of the year	**5**	**32**	4	30
Mortgages				
Balance at beginning of the year	**1**	**121**	3	110
Net movement during the year		**85**		11
Balance at end of the year	**3**	**206**	1	121
Property & casualty contracts				
Total premium paid during the year	**2**	**6**	1	6
Claim paid during the year	**1**	**9**	–	–
Life insurance products				
Total sum assured/value of investment at end of the year	**9**	**24,375**	9	23,325
Pensions, termination benefits paid				
Value of pension plans as at end of the year	**9**	**8,461**	9	3,339

Various members of key management personnel hold or have at various times during the year held, investments managed by asset management businesses of the Group. These include unit trusts, mutual funds and hedge funds. None of the amounts concerned are material in the context of the funds managed by the Group business concerned, and all of the investments have been made by the individuals concerned either on terms which are the same as those available to external clients generally or, where that is not the case, on the same preferential terms as were available to employees of the business generally.

(d) Other transactions with related parties

Peter Moyo, the Chief Executive Officer of Old Mutual Life Assurance Company (South Africa) Limited, OMLAC(SA), a wholly owned subsidiary of the Group, and one of the Company's key management personnel, is also a founder and Executive Director of NMT Capital, and holds an equity interest in NMT Capital and NMT Group Proprietary Limited (NMT Group).

OMLAC(SA) has provided equity and preference share funding to the NMT Group and has also provided preference share funding to a family trust of Peter Moyo, which trust has an equity interest in NMT Capital. Included in dividend income from associated undertakings for the year eneded 31 December 2017, is £0.1 million (R2 milllion) of preference share dividends received from NMT Capital (Pty) Ltd. OMLAC(SA) has invested in preference shares to the value of £4 million (R62 million) in NMT Capital and has also invested in ordinary and preference share capital of NMT Group (Pty Ltd) £8 million (R142 million), and the preference share capital of Amabubesi Capital Travelling (Pty) Ltd of £1 million (R18 million), RZT Zeply 4971 (Pty) Ltd of £0.7 million (R13 million), RZT Zeply 4973 (Pty) Ltd of £0.7 million (R13 million) and STS Capital (Pty) Ltd of

£0.7 million (R13 million), all of which are considered to be related parties of NMT Capital (Pty) Ltd. Preference share dividends totalling £0.5 million (R8 million) was received by OMLAC(SA) during the year.
The Group also holds £1 million (R14 million) of the ordinary share capital in NMT capital."

"Related parties

Old Mutual plc enters into transactions with its subsidiaries in the normal course of business. These are principally related to funding of the Group's businesses and head office functions. Details of loans, including balances due from/to the Company, are set out below. Disclosures in respect of the key management personnel of the Company are included in the Group's related parties disclosures in note J3.

There are no transactions entered into by the Company with associated undertakings.

		£m
	At 31 December 2017	At 31 December 2016
Balances due from subsidiaries	**301**	4,070
Balances due to subsidiaries	**(236)**	(3,908)
Balances due from other related parties – Nedgroup Trust Limited	**16**	16

Income statement information

At 31 December						£m
	Year ended 31 December 2017			Year ended 31 December 2016		
	Interest received	**Ordinary dividends received**	**Other amounts paid**	Interest received	Ordinary dividends received	Other Amounts paid
Subsidiaries	**44**	**1,739**	**(117)**	74	95	(108)

"Responsibility statement of the directors in respect of the annual financial report

We confirm that to the best of our knowledge:

– the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
– the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

We consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy.

Bruce Hemphill — Group Chief Executive

Ingrid Johnson — Group Finance Director

14 March 2018"

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Notes to Editors

About Old Mutual plc

Old Mutual plc is a holding company for several financial services companies. In March 2016, it announced a new strategy of managed separation entailing the separation of its underlying businesses into independently-listed, standalone entities.

The managed separation strategy seeks to preserve and release the value currently trapped within the group structure. The managed separation will be materially complete by the end of 2018.

OM Asset Management, a US based institutional asset manager, is now independent from Old Mutual. The remaining underlying businesses are:

Old Mutual Emerging Markets: Old Mutual Emerging Markets seeks to become a premium African financial services group that offers a broad spectrum of financial solutions to retail and corporate customers across key market segments in 17 countries.

Nedbank: Nedbank ranks as a top-5 bank by capital on the African continent and Ecobank, in which Nedbank maintains a 21.2% shareholding, ranks within the top-10 banks by assets on the African continent.

Old Mutual Wealth: Old Mutual Wealth is a leader in the UK and in selected offshore markets in wealth management, providing advice-led investment solutions and investment platforms to over 900,000 customers, principally in the affluent market segment.

For the year ended 31 December 2017, Old Mutual reported an adjusted operating profit before tax of £2.0 billion. For further information on Old Mutual plc and the underlying businesses, please visit the corporate website at www.oldmutualplc.com.