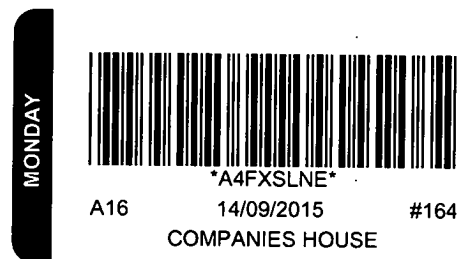


**ANNUAL REPORT  
AND  
FINANCIAL STATEMENTS**

**31 December 2014**



**Old Mutual Wealth Limited  
(formerly Skandia MultiFUNDS Limited)**

Registered in England No. 1680071

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**COMPANY INFORMATION**

**Executive directors** P W Feeney (Chief Executive Officer)  
S K Goodsir  
J P Hine  
C J Hood  
M K Leather  
P Penney  
D W J Sharkey

**Secretary** D L Clarke

**Bankers** National Westminster Bank Plc  
12 High Street  
Southampton  
SO14 2BF

**Auditors** KPMG LLP  
15 Canada Square  
London  
E14 5GL

**Registered office** Old Mutual House  
Portland Terrace  
Southampton  
SO14 7EJ

Telephone: 023 8033 4411

Website: [www.oldmutualwealth.co.uk](http://www.oldmutualwealth.co.uk)

Registered in England No. 1680071

## STRATEGIC REPORT

The directors present their strategic report for the year ended 31 December 2014.

### REVIEW OF THE BUSINESS

The principal activity of the company is the provision of Individual Savings Accounts (ISAs) and Collective Investment Accounts (CIAs), 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). The company forms part of the Old Mutual Wealth division of Old Mutual plc, for which Old Mutual Wealth Management Limited acts as holding company and delivers strategic and governance oversight.

The strategy for the Old Mutual Wealth division is to build a single, modern, vertically integrated, wealth management business with strong asset management at its core. As part of this strategy, the division implemented a substantial rebranding programme resulting in the renaming of entities to further align to the strategic vision of Old Mutual Wealth. Consequently, on 22 September 2014 Skandia MultiFUNDS Limited was renamed to Old Mutual Wealth Limited.

In 2014 the Old Mutual Wealth division conducted significant acquisitions and disposals, acquiring the Intrinsic group, the third largest adviser network in the UK with more than 3,000 advisers (both restricted and independent), and the Quilter Cheviot group (completed in February 2015), one of UK's top discretionary fund managers, whilst divesting of its non-core businesses in Europe. Central to Old Mutual Wealth's strategy is the expansion of Old Mutual Global Investors Limited (asset management) in order to deliver investment solutions that are aligned to the changing needs of investors and financial advisers following the Retail Distribution Review (RDR) in 2013.

Although the business continues to be profitable on an adjusted operating profit basis, due to the ongoing investment on our IT and operating programme the business has made a loss on an IFRS basis.

The strategic priorities of the company are to build its investment proposition, leverage benefits from being part of a vertically integrated wealth management business and outsource its IT and administration to upgrade its infrastructure and reconfigure its cost base. Following the 2014 Budget Statement, significant changes to ISA legislation were announced, effective from 1 July 2014. The key changes included an increase in the annual allowance from £11,880 to £15,000 and removal of investment restrictions between cash, stocks & shares, ultimately providing customers increased flexibility with their investment allocation. The company is well placed to provide greater flexibility with its stock & shares ISA able to access a large fund range including cash and money market funds. The company will continue to invest to adhere to changing regulations, while introducing significant enhancements to its investment proposition to meet customer needs, demonstrated by the removal of the Platform minimum charge on 1 January 2015 and the planned introduction of online functionality allowing customers to service their ISA/CIA top up directly. In February 2014, the Wealth Select proposition was launched into the UK market. Together with our fellow subsidiary companies, Old Mutual Global Investors Limited and Old Mutual Wealth Life & Pensions Limited (formerly Skandia MultiFUNDS Assurance Limited), the proposition brings together a researched range of funds from leading asset managers, a managed portfolio service which manages a customer's money in line with their risk appetite and our leading range of products and services. This has been positively received in the market, generating net client cash flows of £0.7bn in 2014 on the UK Platform, of which, £0.3bn has arisen in Old Mutual Wealth Limited.

From April 2016, platform service companies will no longer be able to retain rebates and pay commission on their books of business due to FCA regulations (PS13-01). By the end of 2015 the company plans to migrate all customers from the existing bundled charging structure to a new clean unbundled charging structure. This approach was designed to provide customers and their advisors with a managed transition path and so limit the disruption this could otherwise cause. As a strategic initiative the company also plans to convert its fund ranges to clean share class, providing clients and advisors with greater transparency and insight to the total cost of investment in advance of the migration.

During the year the company has continued to invest in its infrastructure, particularly in respect of its IT environment, to support initiatives such as Wealth Select and enhance internet capability for both customers and advisers, which it believes is a prerequisite for long-term success in its chosen segment of the market. In 2013 the company announced, in partnership with International Financial Data Services Limited (IFDS), a major global IT and outsourced administration service provider, a programme to outsource its IT infrastructure, servicing and platform to better meet the needs of its customers over the longer term. This programme is anticipated to complete in 2016. This is a transformation programme of activity for Old Mutual Wealth Limited, Old Mutual Wealth Life & Pensions Limited, and Old Mutual Wealth Life Assurance Limited (formerly Skandia Life Assurance Company Limited) and represents a very material investment in costs and resources across the business. To the end of 2014 we have incurred £76m of spend and all costs are apportioned across the three impacted businesses.

**STRATEGIC REPORT (continued)****KEY PERFORMANCE INDICATORS (KPIs)**

Table A below show 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; these are detailed in table B below.

The company achieved gross premiums of £2.7bn, an increase of 5% year-on-year (2013: £2.6bn), with ISA sales particularly performing favourably. Net client cash flow (NCCF) was £0.4bn in 2014 (2013: £0.7bn). Strong fund performance in 2014 along with the positive NCCF has increased the funds under management to £18.2bn from £16.9bn at the previous year end.

The company's post-tax IFRS AOP has decreased by £1.2m to a profit of £3.5m. This is attributable to higher expenses, partially offset by an increase in income and total contribution, following positive net client cash flows. The spend for the IFDS outsourcing initiative is regarded as one-off and transformational, and therefore excluded from AOP. On a standard IFRS basis, losses have risen from £(6.9)m in 2013 to £(18.7)m in 2014.

Table A: Key performance indicators	(Restated)	
	2014	2013
	£'000	£'000
Gross premiums	2,719,614	2,589,756
Net client cash flow	443,819	739,940
Funds under management	18,182,354	16,852,229
Return on assets	(13)%	(4)%
IFRS adjusted operating profit (AOP) before tax	4,648	5,959
IFRS adjusted operating profit (AOP) after tax	3,452	4,687
IFRS loss after tax	(18,693)	(6,876)

The net client cash flow has been restated for the prior year due to the exclusion of re-registration clients from the original surrender values.

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

	2014	2013
	£'000	£'000
<b>Adjusted operating profit before tax</b>	<b>4,648</b>	<b>5,959</b>
Adjusting items	(20,567)	(9,449)
Costs of discontinued operations	(7,644)	(5,616)
<b>Loss before tax</b>	<b>(23,563)</b>	<b>(9,106)</b>
Total tax	4,870	2,230
<b>Loss after tax for the financial year</b>	<b>(18,693)</b>	<b>(6,876)</b>

Adjusting items represent the IFDS outsourcing spend. Costs of discontinued operations are associated with Old Mutual plc's disposal of the Nordic business, the principal cost of which was the company rebranding costs described in the review of the business section.

**FINANCIAL POSITION AT THE END OF THE YEAR**

The company's total net assets have decreased from £95m to £80m over the course of the year, with cash and cash equivalents decreasing from £72m to £55m. The Old Mutual plc group is committed to financing the continued expansion of the business. During the year £3m of capital contributions have been injected to cover the regulatory impact of anticipated losses and associated risks to facilitate the strategic developments mentioned above, whilst maintaining a strong level of regulatory solvency.

The use of the going concern basis of accounting is therefore considered appropriate, reflecting both the future expected profitability and the continued support from the group in the development of the business. There are no material uncertainties, related events or conditions that may cast significant doubt over the ability of the group 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 (formerly Skandia Life Holding Company Limited).

**STRATEGIC REPORT (continued)**

**PRINCIPAL RISKS AND UNCERTAINTIES**

The company has adopted the enterprise risk management framework of the Old Mutual Wealth (OMW) business unit. This provides a framework for the monitoring, management and governance of risk, as detailed in note 3.

The table below describes the key risks and uncertainties

<b>Key Risk</b>	<b>Impact Assessment</b>	<b>Management and Mitigation</b>
<p><b>Operational risk:</b> IT transformation and change delivery: Risk of failing to deliver our ongoing strategic IT transformation plan and change delivery programme. The expected benefits of the transformation may not be achieved at the anticipated time, or to the extent expected.</p>	<p>Delays in implementing the IT strategic transformation could result in failure to meet the business case benefits.</p>	<ul style="list-style-type: none"> <li>- Close monitoring and governance of the strategic IT transformation plan and change delivery programme continues.</li> <li>- Continued build out of our infrastructure resilience.</li> </ul>
<p><b>Business risk:</b> External environment: Risk that changes to economic conditions, regulation, legislation or the competitive landscape impact the attractiveness of the company's products and services.</p>	<p>Inability to meet our business performance objectives.</p>	<ul style="list-style-type: none"> <li>- The customer proposition has been designed to be competitive and meet customer needs.</li> <li>- Market facing Risk and Customer Solutions teams monitor economic, regulatory, legislative and competitive developments in order to respond as required.</li> </ul>
<p><b>Regulatory risk:</b> Regulatory compliance: Risk of failure to comply with regulatory requirements, adversely impacting the relationship with the UK regulators.</p>	<p>Potential censure, sanction, fine or reputational damage.</p>	<ul style="list-style-type: none"> <li>- We have an open and honest relationship with both the PRA and the FCA.</li> <li>- We seek early validation of our interpretation of regulations to ensure solutions are compliant.</li> <li>- Regulatory and risk change programmes include Solvency II, Conduct Risk and FATCA.</li> </ul>
<p><b>Regulatory risk:</b> Regulatory compliance: Risk of failure to effectively meet regulatory requirements in respect of client money and client assets (CASS).</p>	<p>Potential censure, sanction, fine or reputational damage.</p>	<ul style="list-style-type: none"> <li>- CASS procedures have been updated in accordance with an internal review and full training has been given to all impacted teams.</li> <li>- A working party has been created to implement the regulatory changes required in 2015; this is progressing according to plan.</li> </ul>

Old Mutual Wealth Limited

**STRATEGIC REPORT (continued)**

**PRINCIPAL RISKS AND UNCERTAINTIES (continued)**

An assessment of change in risks is completed annually. All risks are stable.

By order of the board

A handwritten signature in black ink, appearing to read 'D L Clarke', written in a cursive style.

D L Clarke  
Secretary  
25 March 2015

## **DIRECTORS' REPORT**

The directors present their report and financial statements for the year ended 31 December 2014.

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:

P W Feeney	(Chief Executive Officer)
S K Goodsir	(Appointed 14 July 2014)
J P Hine	
C J Hood	(Appointed 14 July 2014)
M K Leather	
P Mann	(Resigned 20 May 2014)
P Penney	
M O Satchel	(Resigned 14 July 2014)
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.

D J L Eardley resigned as company secretary on 31 March 2014. S L Davey was appointed as company secretary on 1 April 2014 and subsequently resigned as company secretary on 3 September 2014. D L Clarke was appointed as company secretary on 3 September 2014.

## **DIVIDENDS**

During the year no dividends were paid (2013: £nil).

## **EMPLOYEES**

The company has no employees (2013: nil). Management services are provided by a fellow group undertaking as disclosed in note 24.

## **POLITICAL CONTRIBUTIONS**

No political contributions were made during the year (2013: £nil).

## **FINANCIAL INSTRUMENTS**

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

## **DISCLOSURE OF INFORMATION TO AUDITORS**

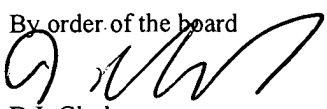
Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the directors are each aware, there is no relevant audit information of which the company's auditors are unaware; and
- each director has taken all the steps that he/she 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 auditors are aware of that information.

## **AUDITORS**

The company's previous auditor, KPMG Audit Plc, instigated an orderly wind down of business and notified the company that it would not be seeking reappointment for the company's 2014 audit. In its place, KPMG LLP, an intermediate parent, has been appointed as the company's new auditor. Separately, during the year Old Mutual Wealth tendered the audit as part of its governance process, and as a result, decided to reappoint KPMG LLP.

By order of the board

  
D L Clarke  
Secretary

25 March 2015



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

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

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

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

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

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

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

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

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

We have audited the accompanying financial statements of Old Mutual Wealth Limited for the year ended 31 December 2014 set out on pages 9 to 34. 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 7, 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](http://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 2014 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.

**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.



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

25 March 2015

**INCOME STATEMENT**

for the year ended 31 December 2014

	Notes	2014 £'000	2013 £'000
<b>REVENUE</b>			
Fee income	4	104,206	134,097
Change in deferred fee income	19	20,847	34,147
Investment return	5	761	1,269
Other income		14	171
<b>TOTAL REVENUE</b>		<u>125,828</u>	<u>169,684</u>
<b>EXPENSES</b>			
Commission expenses	6	(26,530)	(56,363)
Change in deferred acquisition costs	12	(21,544)	(34,799)
Administrative expenses	7	(100,307)	(86,811)
Other expenses		(1,010)	(817)
<b>TOTAL EXPENSES</b>		<u>(149,391)</u>	<u>(178,790)</u>
<b>LOSS BEFORE TAX</b>		(23,563)	(9,106)
Taxation	9	4,870	2,230
<b>LOSS FOR THE YEAR</b>		<u>(18,693)</u>	<u>(6,876)</u>
Attributable to equity holders		<u>(18,693)</u>	<u>(6,876)</u>

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

The notes on pages 14 to 34 are an integral part of these financial statements.

Old Mutual Wealth Limited

**STATEMENT OF COMPREHENSIVE INCOME**  
for the year ended 31 December 2014

	2014 £'000	2013 £'000
<b>LOSS FOR THE YEAR</b>	<u>(18,693)</u>	<u>(6,876)</u>
<b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b> All attributable to equity holders	<u>(18,693)</u>	<u>(6,876)</u>

The notes on pages 14 to 34 are an integral part of these financial statements.

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended 31 December 2014

	Share capital £'000	Capital contributions £'000	Retained losses £'000	Total equity holders' funds £'000
<b>Balance at 1 January 2013</b>	7,430	113,500	(53,792)	67,138
Loss for the year	-	-	(6,876)	(6,876)
Capital contribution	-	35,000	-	35,000
<b>Balance at 1 January 2014</b>	7,430	148,500	(60,668)	95,262
Loss for the year	-	-	(18,693)	(18,693)
Capital contribution	-	3,000	-	3,000
<b>Balance at 31 December 2014</b>	<u>7,430</u>	<u>151,500</u>	<u>(79,361)</u>	<u>79,569</u>

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 contribution.

The notes on pages 14 to 34 are an integral part of these financial statements.

**STATEMENT OF FINANCIAL POSITION**  
at 31 December 2014

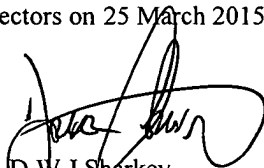
	Notes	2014 £'000	2013 £'000
<b>ASSETS</b>			
Goodwill	11	15,253	15,253
Deferred acquisition costs	12	39,135	60,679
Investments in collective investment schemes	13	9,883	5,163
Current tax assets		7,949	6,421
Other receivables	14	16,329	19,606
Cash and cash equivalents	15	55,307	72,369
<b>Total assets</b>		<u>143,856</u>	<u>179,491</u>
<b>EQUITY AND LIABILITIES</b>			
<b>CAPITAL AND RESERVES</b>			
Share capital	16	7,430	7,430
Capital contributions		151,500	148,500
Retained losses		(79,361)	(60,668)
<b>Total equity attributable to equity holders</b>		<u>79,569</u>	<u>95,262</u>
<b>LIABILITIES</b>			
Deferred fee income	19	35,589	56,436
Other provisions	20	707	17
Other payables	21	27,991	27,776
<b>Total liabilities</b>		<u>64,287</u>	<u>84,229</u>
<b>Total equity and liabilities</b>		<u>143,856</u>	<u>179,491</u>

The notes on pages 14 to 34 are an integral part of these financial statements.

Approved at a meeting of the board of directors on 25 March 2015 and signed on its behalf by:



M K Leather  
Director



D W J Sharkey  
Director

Company registered number: 1680071

**STATEMENT OF CASH FLOWS**  
for the year ended 31 December 2014

	2014	2013
	£'000	£'000
<b>OPERATING ACTIVITIES</b>		
Client fee income and fund based fees	109,231	135,268
Commissions paid	(26,609)	(59,003)
Net cash paid to clients and service providers	(94,349)	(85,904)
Net amount of funding repaid (to)/by clients	(2,840)	5,833
Other	(6,291)	(4,111)
<b>Net cash used in operating activities</b>	<u>(20,858)</u>	<u>(7,917)</u>
<b>INVESTING ACTIVITIES</b>		
Interest received	796	1,298
<b>Net cash from investing activities</b>	<u>796</u>	<u>1,298</u>
<b>FINANCING ACTIVITIES</b>		
Capital contributions received	3,000	35,000
<b>Net cash from financing activities</b>	<u>3,000</u>	<u>35,000</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<u>(17,062)</u>	<u>28,381</u>
Cash and cash equivalents at beginning of the year	<u>72,369</u>	<u>43,988</u>
<b>Cash and cash equivalents at end of the year</b>	<u><u>55,307</u></u>	<u><u>72,369</u></u>

The notes on pages 14 to 34 are an integral part of these financial statements.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2014

**1 GENERAL INFORMATION**

Old Mutual Wealth 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.

The strategy for the Old Mutual Wealth division is to build a single, modern, vertically integrated, wealth management business with strong asset management at its core. As part of this strategy, the division implemented a substantial rebranding programme. As a result, on 22 September 2014 Skandia MultiFUNDS Limited was renamed to Old Mutual Wealth Limited.

**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 indicated that for at least twelve months from the date of approval of these financial statements 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 operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. The directors expect to see improvement in the financial operating performance of the company over the next financial period. 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.

These are separate financial statements as the company has elected under IAS 27 paragraph 10 not to prepare consolidated financial statements.

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 these annual financial statements**

The following standards, amendments to standards and interpretations have been adopted in these financial statements:

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
- Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
- IFRIC 21 'Levies'

The adoption of these standards did not have any impact on the financial statements.



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

The IASB has issued components of IFRS 9 Financial Instruments, which is the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement in its entirety. The project has three main phases:

- Phase I: Classification and measurement of financial instruments;
- Phase II: Amortised cost and impairment of financial assets; and
- Phase III: Hedge accounting.

IFRS 9, as currently issued, includes requirements for the classification and measurement of financial assets and liabilities, derecognition requirements and additional disclosure requirements. The main changes from IAS 39 include the following:

- Financial assets are to be classified and measured based on the business model for managing the financial asset and the cash flow characteristics of the financial asset, either at fair value or amortised cost.
- A financial asset or liability that would otherwise be at amortised cost may only be designated as at fair value through profit or loss if such a designation reduces an accounting mismatch.
- For financial liabilities designated as at fair value through profit or loss a further requirement is that all changes in the fair value of financial liabilities attributable to credit risk be transferred to 'Other Comprehensive Income' with no recycling through profit or loss on disposal.

The standard is effective for accounting periods beginning on or after 1 January 2018; it is yet to be endorsed by the EU.

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

The standard provides a comprehensive new model for revenue recognition. The company would be required to disclose information about its contracts with customers, disaggregating information about recognised revenue and information about its performance obligations at the end of the reporting period. The impact of the new standard will be further assessed in more detail.

This standard is effective for accounting periods beginning on or after 1 January 2017; it is yet to be endorsed by the EU.

#### **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, goodwill, 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.

#### **Goodwill**

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to the relevant book of policies and is not amortised but is tested annually for impairment.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Impairment of assets**

The carrying amount of the company's goodwill is reviewed at each reporting date to determine whether there is any impairment. An impairment loss is recognised whenever the carrying amount of an asset or relevant book of policies exceeds its recoverable amount. Impairment losses are recognised in the income statement. The recoverable amount is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

#### **Deferred acquisition costs**

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

At the end of each reporting period, deferred acquisition costs are reviewed for recoverability, by category, against future margins from the related contracts at the reporting 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.

#### **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.

#### **Investments in subsidiaries**

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

#### **Other receivables**

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

#### **Cash and cash equivalents**

Cash and cash equivalents comprise cash balances and call deposits. The carrying amount of these assets approximates to their fair value.

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

### 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

#### **Other provisions**

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

#### **Other payables**

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

#### **Client money and client assets**

The company holds money on behalf of clients in accordance with the Client Money Rules of the Financial Conduct Authority. Such client monies and other client assets held via its nominee subsidiary are not reflected in the statement of financial position as the company is not beneficially entitled to them.

#### **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 are recognised as revenue in line with the provision of the investment management services. These services are deemed to be provided equally over the lifetime of a contract. Initial 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 on the statement of financial position and released to income as the services are provided. The deferred fee income liability principally comprises fee income already received in cash.

#### ***Unit trust rebates***

Rebates received from unit trust managers are accounted for on an accruals basis and are included in fund based fees.

#### ***Investment gains and losses***

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

#### ***Interest income***

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

#### ***Dividend income***

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

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2014

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Other expenses**

All other 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. 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.

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 dealt with in equity.

**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 contribution.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2014

**3 RISK MANAGEMENT FRAMEWORK AND RISK EXPOSURE**

**Risk management framework**

The Enterprise Risk Management (ERM) framework is defined for the Old Mutual Wealth (OMW) business unit of Old Mutual plc. The company has adopted the OMW ERM framework. The ERM framework is articulated by reference to the following key areas:

- The strategic aims of the business;
- Risk governance and culture;
- Risk preferences and trade-offs; and
- Risk appetite statements and key risk indicators.

The strategic aims of the business are defined as follows:

- Sustainability: the business is designed to be sustainable in the long-term, supported by appropriate capital and liquidity.
- Proposition: the business aims to enable positive futures for its customers through delivering real solutions for real customer needs. Key components of the proposition relate to our conduct of delivering on our promises, our capability to continue to evolve the business to ensure that it remains at the forefront of the industry and ensuring we have an appropriate governance framework and culture.
- Financial performance: the business aims to achieve compelling financial returns over the long term.

The risk governance framework employs the 3 lines of defence principle (the first line manages risk, the second line provides oversight and challenge to the first line and the third line provides independent assurance). The risk governance model is supported by active risk identification, measurement, monitoring, assessment, testing, reporting and control.

Risk culture is defined by the following statements:

- We accept that taking on risk is essential to us achieving our vision and aims.
- We seek to balance the risk faced by all our stakeholders and explicitly consider risk in our business decisions.
- We proactively seek to identify risks.
- We will explicitly recognise when we trade one risk for another.
- We will always seek to understand our risk exposures.
- We promote an open culture of constructive challenge and timely escalation of issues.

Our risk preferences provide a broad context to our approach to managing risk and represent the high-level principles of our attitude to different types of risk. They set context for our risk appetite and inform our strategy. Our risk trade-offs provide high level principles for key areas where we seek to balance risk in pursuit of our strategic aims.

Our risk preferences are articulated as follows:

- We will ensure risks taken are commensurate with our strategic aims and at an acceptable level of return. We accept business risks (persistence, expense and new business) as a consequence, but we ensure these are appropriately managed and mitigated.
- We have a strong preference for capital-light products with limited appetite for taking on financial position risk and, in particular, products with financial guarantees.
- We have a preference for secondary market risk through asset-based fees as this is central to our proposition and the markets in which we operate and we accept the potential impact on financial performance.
- We avoid market risk on our shareholder free assets.
- We seek to minimise operational risk through effective processes, systems and controls.

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. Our 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.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2014

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

**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 business unit 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 rating of counterparties are monitored monthly.

The company's principal assets are bank balances, cash and loans and other receivables.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The company's credit risk is primarily attributable to its trade receivables.

With the exception of its bank deposits, the company has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

There is negligible exposure to European sovereign debt within the company's shareholder investments.

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

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2014

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

**Market risk**

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

The financial impact of more extensive movements in market risk other than those that could reasonably be expected is examined through stress tests carried out within the Internal Capital Adequacy Assessment Process (ICAAP). Market risk arises from exposure to movements in interest rates, equity & property values and foreign exchange rates.

**Interest rate risk**

A rise in interest rates would cause an immediate fall in the value of investments in fixed income securities within clients' funds, resulting in a short-term fall in fund based fees. The company holds no fixed income securities itself and so direct interest rate risk is negligible. However, assuming that the business continues to grow, a rise in interest rates would enable a higher return on new investments, which in turn would cause client investments' values to grow more quickly and so fund based fees may be higher in the longer term.

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

The effective interest rate applicable to interest bearing financial instruments is as follows:

	2014 Variable	2013 Variable
<b>Assets</b>		
Deposits with credit institutions	0.41%	0.37%

**Equity and property price risk**

In accordance with the market risk policy, the company does not invest shareholder assets in equity or property assets (or related collective investments) except where the exposure arises from the manager's box positions which are short term and subject to internal limits. Exposure to this risk is immaterial.

The company derives revenues (e.g. annual management charges from clients) which are linked to the performance of the underlying assets. Therefore, future earnings will be affected by equity and property market performance.

Sensitivity of profit to changes in equity and property prices is given in the sensitivity analysis later in this section.

**Foreign exchange rate risk**

The company has no material exposure to foreign exchange risk.

**NOTES TO THE FINANCIAL STATEMENTS**

for the year ended 31 December 2014

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

**Liquidity risk**

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

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

Liquidity risk can arise as a result of a significant number of switches of clients' funds in a short timeframe or an individual instruction for a large number of clients. In some cases, switches of clients' funds are paid by the company before settlement is received from the market on the sale of the clients' assets (generally where switches occur from equity based funds into cash funds). This risk is managed by maintaining liquid capital resources to meet the value of switches and 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 intermediate parent undertaking, Old Mutual Wealth Holdings Limited (formerly Skandia Life Assurance (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
<b>2014:</b>					
Amounts due to fellow subsidiaries	11,970	-	-	-	11,970
Other payables	16,021	-	-	-	16,021
	<u>27,991</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,991</u>
<b>2013:</b>					
Amounts due to fellow subsidiaries	10,613	-	-	-	10,613
Other payables	17,163	-	-	-	17,163
	<u>27,776</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,776</u>



## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

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

#### **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 or adverse regulatory intervention or government or regulatory fine.

Operational risk includes all risks resulting from operational activities, excluding risks already described above and excluding strategic risks and risks resulting from being part of a wider group of companies.

Operational risk includes the effects of failure of the administration processes, IT maintenance and development processes, investment processes (including settlements with fund managers, fund pricing and matching & dealing), product development and management processes, legal risks (e.g. risk of inadequate legal 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 business unit policies, the management have primary responsibility for the identification, management and monitoring of risks, and escalation and reporting on issues to company executive management and to Group.

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

#### **Investment contract risk**

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

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

#### ***Persistency***

Persistency risk is the risk that the rate at which customers surrender and cease paying regular premiums exceeds the expectation when preparing the business plan. Excessive surrenders and regular premium cessations can result in a reduction in profits in future years.

Persistency statistics are monitored monthly to identify emerging trends. Actions may be triggered as a result of higher than expected lapse rates.

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

#### **Expenses**

Expense risk is the risk that actual expenses exceed the expectation when preparing the business plan. This may result in emerging profit falling below the company's profit objectives.

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

## NOTES TO THE FINANCIAL STATEMENTS

for the year ended 31 December 2014

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

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

The potential impacts on the capital resources and future profits of the company are assessed regularly. Market and investment contracts 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 opinions. Credit risks are assessed by determining the financial exposure to material counterparties and the likelihood of default of these counterparties. Credit ratings are used to assess the likelihood of default.

The Capital Management policy sets out the key considerations and restrictions with regard to the amounts of capital that is retained.

Capital is managed by ensuring that the company has sufficient capital resources to meet its liabilities to its customers for the remaining lifetime of the in-force business, except in the event of extreme adverse circumstances with an acceptably small likelihood of occurrence. The company also retains sufficient capital resources to meet regulatory statutory capital requirements and to maintain working capital to provide for fluctuations in experience, in particular in respect of new business volumes. The company regards the regulatory statutory capital resources of £60.8m (2013: £76.0m) as capital. The regulatory capital requirements have been met throughout the year. The ICAAP is used to assess the level of capital which should be retained by the company. The ICAAP 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.

#### **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 2014 and 31 December 2013. The same methods and assumptions have applied to both 2014 and 2013 comparatives.

#### **Interest rate risk**

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

A decrease in interest rate by 1% would have reduced the loss and increased shareholders' equity by £1,019,000 after tax (2013: £1,364,000); an equal change in the opposite direction would have increased the loss by £761,000 after tax (2013: £580,000). The reduction in the shareholder element of the loss would however be limited to the amount of interest received, as the company only has bank balances currently attracting base rate interest of 0.41%.

#### **Market risk**

A 10% movement in funds under management would impact the annual fee income, rebates received from unit trust managers and renewal commission payable to financial advisers. The sensitivity is applied as an instantaneous shock to equity and property prices at the start of the year (e.g. if the current funds under management is £10.0 billion, the test allows for the effect of an immediate change in funds under management to £9.0 billion and to £11.0 billion).

A decrease of 10% in funds under management would have increased the loss and reduced shareholders' equity by £5.0 million (2013: £4.6 million) after tax while an increase of 10% in the funds under management would have reduced the loss and increased shareholders equity by £5.0 million after tax (2013: £4.6 million).

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2014

**4 FEE INCOME**

	2014 £'000	2013 £'000
Initial fees	1,101	2,210
Annual fees	14,133	18,474
Fund based fees	88,655	112,442
Other fee income	317	971
	<u>104,206</u>	<u>134,097</u>

Fee income has fallen due to the unbundled product pricing structure changes introduced in 2013. Within fund based fees, the company no longer benefits from unit trust rebates on new business; this is mitigated by an increase in the tiered annual management charge and the reduction in renewal commission in note 6.

**5 INVESTMENT RETURN**

	2014 £'000	2013 £'000
Interest on short term bank deposits	<u>761</u>	<u>1,269</u>

Short term bank deposits are held within cash and cash equivalents.

**6 COMMISSION EXPENSES**

	2014 £'000	2013 £'000
Initial commission	1,101	2,210
Renewal commission	25,429	54,153
	<u>26,530</u>	<u>56,363</u>

Commission expenses have reduced in 2014 due to the impacts of the Retail Distribution Review on the changes in the pricing structure described in note 4.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2014

**7 ADMINISTRATIVE EXPENSES**

	2014 £'000	2013 £'000 (restated)
Administrative expenses	<u>100,307</u>	<u>86,811</u>
Administrative expenses include:		
Management fees paid to fellow subsidiary undertaking (see note 24)	98,814	85,166
<b>Of which:</b>		
Auditor's remuneration: services paid to KPMG LLP	<u>192</u>	<u>172</u>

Services paid to KPMG LLP include audit services, consisting of fees in respect of statutory audits and group reporting, of £156,000 (2013: £140,000) and non-audit services, consisting of fees in respect of regulatory returns, of £36,000 (2013: £32,000). These amounts also include amounts paid and movements in accruals.

Amounts receivable by 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.

**8 REMUNERATION OF KEY MANAGEMENT PERSONNEL**

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

Directors' emoluments shown below are included in management fees payable to fellow subsidiary undertakings shown in note 7.

	2014 £'000	2013 £'000
<b>Aggregate directors' emoluments</b>		
Aggregate emoluments excluding pension contributions	931	979
Company pension contribution to money purchase schemes	37	54
Aggregate compensation for loss of office (cash payment)	221	87

8 directors had money paid to money purchase schemes during the year (2013: 7).

8 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 (2013: 6). 8 directors (2013: 5) exercised options during the year.

	2014 £'000	2013 £'000
<b>Emoluments of the highest paid director</b>		
Aggregate emoluments excluding pension contributions	200	379

The highest paid director exercised share options during the prior year only.

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.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2014

**9 TAXATION**

	2014 £'000	2013 £'000
Current year corporation tax credit	(5,039)	(2,092)
Prior year corporation tax charge/(credit)	169	(138)
Tax credit for the year	<u>(4,870)</u>	<u>(2,230)</u>

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

Loss before tax	(23,563)	(9,106)
Tax based on loss at the applicable tax rate, 21.50% (2013: 23.25%)	(5,066)	(2,117)
Effect of:		
Expenses not deductible for tax purposes	(58)	58
Prior year corporation tax charge/(credit)	169	(138)
Movement in unprovided deferred tax	101	(18)
Other	(16)	(15)
	<u>(4,870)</u>	<u>(2,230)</u>

From 1 April 2014 the main rate of UK corporation tax reduced to 21%. A further reduction to 20% with effect from 1 April 2015 was enacted during 2013.

**10 INVESTMENTS IN SUBSIDIARIES**

Old Mutual Wealth (Nominees) Limited (formerly Skandia MultiFUNDS (Nominees) Limited) is a wholly owned subsidiary undertaking in the current and prior year and is incorporated in England & Wales. It is valued at original cost of £2 (2013: £2). The subsidiary holds investments on behalf of the clients of Old Mutual Wealth Limited in a nominee capacity. It did not trade during the current or prior year and consequently there are no results or dividends in either year. This is expected to continue for the foreseeable future.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2014

**11 GOODWILL**

	2014 £'000	2013 £'000
Cost and net book value	<u>15,253</u>	<u>15,253</u>

In 2008 Old Mutual Wealth Limited acquired the trade of Selestia Investments Limited for £21,575,000. All the assets and liabilities of Selestia Investments Limited were transferred to the company at book value. The excess of the cost of £21,575,000 over the value of these assets created goodwill of £15,523,000.

**Impairment testing methodology**

Determining whether an intangible asset is impaired requires an estimation of the recoverable amount. This has been calculated with reference to the value-in-force of the relevant book of policies. The value-in-force calculation requires the entity to estimate the future cash flows expected to arise from the relevant book of policies and a suitable discount rate in order to calculate present value.

**Key assumptions applied to the value in use calculations**

The expected future cash flows are based on the current in-force book of business. The cash flows are discounted at the economic cost of capital rate as determined by the business. The key assumption that affects the value-in-force calculations is detailed below.

	2014	2013
Pre-tax discount rate applied	9.0%	9.3%

**Results of the impairment tests performed**

Based upon the results of the comparison of value-in-use with the carrying value, management believe that no impairment is required. In addition, management believe that any reasonable change in the assumptions would not cause the recoverable amounts to fall below the carrying amounts. Accordingly, no impairment charge has been recognised.

**12 DEFERRED ACQUISITION COSTS**

	2014 £'000	2013 £'000
Opening balance	60,679	95,478
Capitalisation of deferred acquisition costs	1,005	1,554
Amortisation of deferred acquisition costs	<u>(22,549)</u>	<u>(36,353)</u>
Change in deferred acquisition costs	<u>(21,544)</u>	<u>(34,799)</u>
Closing balance	<u>39,135</u>	<u>60,679</u>
Current	19,495	29,076
Non-current	<u>19,640</u>	<u>31,603</u>
	<u>39,135</u>	<u>60,679</u>

Following the RDR (effective 1 January 2013), new regulations came into effect which prohibit the payment of commission to financial advisers in respect of new advised investment business. This has reduced deferred costs at inception of investment contracts and therefore the value capitalised as deferred acquisition costs. This has been offset by the reduction of deferred fee income shown in note 19.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2014

**13 INVESTMENTS IN COLLECTIVE INVESTMENT SCHEMES**

	2014 £'000	2013 £'000
<b>At fair value through the income statement</b>		
Investments in collective investment schemes	<u>9,883</u>	<u>5,163</u>

These investments are individually insignificant and short term, therefore any difference between cost and fair value is minimal. The net loss or gain on these investments in the current and prior year is included in the income statement within other expenses.

**14 OTHER RECEIVABLES**

	2014 £'000	2013 £'000
Due from group undertakings (see note 24)	2,957	4,031
Trade debtors	6,037	4,949
Prepayments and accrued income	<u>7,335</u>	<u>10,626</u>
	<u>16,329</u>	<u>19,606</u>

Trade debtors principally comprise amounts due from clients and investment settlements outstanding.

Amounts due from group companies are unsecured and interest free.

The directors consider that the carrying amount of trade and other receivables approximates their fair value.

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

All amounts are current.

**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 31 December 2014

**15 CASH AND CASH EQUIVALENTS**

	2014 £'000	2013 £'000
Bank balances	<u>55,307</u>	<u>72,369</u>

Cash at bank comprises balances on current and call accounts. The carrying amount of these assets approximates their fair value.

The company has a gross overdraft facility of £2,500,000 (2013: £2,500,000) for individual bank accounts subject to the aggregate balance across all accounts being at least zero.

**16 SHARE CAPITAL**

	2014 £'000	2013 £'000
<b>Allotted, called up and fully paid</b> 7,430,000 (2013: 7,430,000) ordinary shares of £1 each	<u>7,430</u>	<u>7,430</u>

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

**17 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).

2014	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets designated at fair value through the income statement</b>				
- investments in collective investment schemes	<u>9,883</u>	<u>-</u>	<u>-</u>	<u>9,883</u>
<b>2013</b>	Level 1 £'000	Level 2 £'000	Level 3 £'000	Total £'000
<b>Financial assets designated at fair value through the income statement</b>				
- investments in collective investment schemes	<u>5,163</u>	<u>-</u>	<u>-</u>	<u>5,163</u>



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**17 FINANCIAL INSTRUMENTS (continued)**

**Structured entities**

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

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

**Investments in unconsolidated structured entities**

The table below sets out the shareholder 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. The maximum exposure to losses is equal to the carrying amount of assets held.

	Investment securities £'000
<b>As at 31 December 2014:</b>	
Investments in collective investment schemes	9,883
<b>As at 31 December 2013:</b>	
Investments in collective investment schemes	5,163

**18 DEFERRED TAX**

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

	Tax losses carried forward £'000	Other carried forward £'000	Deferred tax asset not provided £'000	Total £'000
(Asset)/ liabilities at 31 December 2012	(7,458)	(22)	7,480	-
Movement in the year	960	19	(979)	-
(Asset)/ liabilities at 31 December 2013	(6,498)	(3)	6,501	-
Movement in the year	-	(94)	94	-
(Asset)/ liabilities at 31 December 2014	(6,498)	(97)	6,595	-

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. The 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. Trading losses are available to carry forward without expiry subject to the continuation of the trade.

Reductions in the corporation tax rates from 1 April 2014 (21%) and 1 April 2015 (20%) have been enacted and are therefore taken into account in the above deferred tax figures.

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**19 DEFERRED FEE INCOME**

	2014 £'000	2013 £'000
Opening balance	56,436	90,583
Capitalisation of deferred fee income	-	220
Amortisation of deferred fee income	(20,847)	(34,367)
Change in deferred fee income	<u>(20,847)</u>	<u>(34,147)</u>
Closing balance	<u>35,589</u>	<u>56,436</u>
Current	18,022	27,025
Non-current	<u>17,567</u>	<u>29,411</u>
	<u>35,589</u>	<u>56,436</u>

The reduction of capitalisation of deferred fee income in 2014 is as result of the new RDR compliant pricing structure as described in note 12.

**20 OTHER PROVISIONS**

	Provision for rectifications £'000
<b>Balance at 1 January 2013</b>	96
Utilisation	<u>(79)</u>
<b>Balance at 31 December 2013</b>	17
Additions in the year	707
Utilisation	<u>(17)</u>
<b>Balance at 31 December 2014</b>	<u>707</u>

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

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

**NOTES TO THE FINANCIAL STATEMENTS**  
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**21 OTHER PAYABLES**

	2014 £'000	2013 £'000
Due to group undertakings (see note 24)	11,970	10,613
Trade creditors	12,245	12,302
Accruals	2,333	3,647
Other taxes and social security costs	1,443	1,214
	<u>27,991</u>	<u>27,776</u>

Trade creditors principally comprise amounts due to clients and investment settlements outstanding. The directors consider that the carrying amount of trade and other payables approximates their fair value. All trade and other payables are current, short-term and interest free. Amounts due to group companies are unsecured, interest free and current.

**22 FINANCIAL AND CAPITAL COMMITMENTS**

The company is committed to £15.0m of expenses (2013: £nil), of which £10.0m is expected to arise in 2015 and £5.0m in 2016. This relates to the outsourcing of IT architecture to IFDS as described in the strategic report.

**23 CONTINGENT LIABILITIES**

There are no contingent liabilities as at 31 December 2014 (2013: £nil).

**24 RELATED PARTY TRANSACTIONS**

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

	2014 £'000	2013 £'000
Fellow group undertaking - rebates received	<u>11,226</u>	<u>11,797</u>

The company receives rebates of annual fund management charges from a fellow group undertaking where it acts as introducer. These are taken to the income statement.

	2014 £'000	2013 £'000
Management fees paid to fellow group undertaking (see note 7)	<u>98,814</u>	<u>85,166</u>

Management services and fixed assets in the current and prior period are provided by Old Mutual Wealth Business Services Limited (formerly Skandia Life 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 after addition of a mark up.

Amounts due from or to group undertakings at the reporting date are included in notes 14 and 21. Balances are settled in cash on a quarterly or monthly basis.

Details of transactions with key management personnel are provided in note 8.

Old Mutual Wealth Limited

**NOTES TO THE FINANCIAL STATEMENTS**  
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**24 RELATED PARTY TRANSACTIONS (continued)**

The company's ISA and unit trust portfolio account products are available to the directors and staff of the Old Mutual Wealth Management Limited group on preferential staff terms. The impact of this on the financial statements is immaterial.

**25 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