OLD MUTUAL EMERGING MARKETS (OMEM)

King III Report 2016

INTEGRATED REPORTING IN OMEM

As reported last year we have taken steps to include more information in the Old Mutual Group Annual Report and have built our online content to be more integrated. The Positive Futures Plan has been developed and is available below. The Group remains committed to improving its integrated reporting and continues to look at both local and international best practice.

The Old Mutual Group uses the Global Reporting Initiative (GRI) G4 guidelines and framework to inform the way it measures and reports its environmental, social and economic performance. We track the Financial Reporting Council and International integrated reporting council recommendations and alongside King III look to utilise those factors that are material to us as a Group.

In the light of Group changes, Old Mutual Emerging Markets has appointed consultants to assist in driving the collation of an Integrated Report. We are developing the integrated reporting framework and report outline that will provide an effective and comprehensive solution for OMEM and its stakeholders.

View the Old Mutual Group Annual Report and Accounts. [PDF]

View the Group Positive Futures Plan. [PDF]

WHAT IS THE OMEM APPROACH TO GOVERNANCE?

Old Mutual Emerging Markets and its subsidiaries form part of the Old Mutual plc Group. Old Mutual plc's governance framework is set out in the OM plc Decision Making Framework and is based on an "active portfolio manager" model steered from OM plc. The Decision Making Framework describes how Old Mutual plc discharges its responsibilities as a shareholder of the businesses, and its objectives are:

- To establish clear operating parameters, including principles of delegation and escalation, designed to provide appropriate levels of assurance about the control environment, while retaining flexibility for the businesses to operate efficiently.
- To set out a clear and comprehensive governance framework – with appropriate procedures, systems and controls – facilitating the satisfactory discharge of the duties and obligations of regulated firms, directors and employees within Old Mutual plc.
- To articulate clearly what Old Mutual plc (as shareholder) expects from the business boards when exercising their powers as set out in their respective constitutions.
- To take due account of the regulatory requirement that boards of regulated entities maintain proper controls over the affairs of their respective businesses.
- To protect the interests of Old Mutual plc's various stakeholders, including its shareholders, creditors, policyholders and customers.

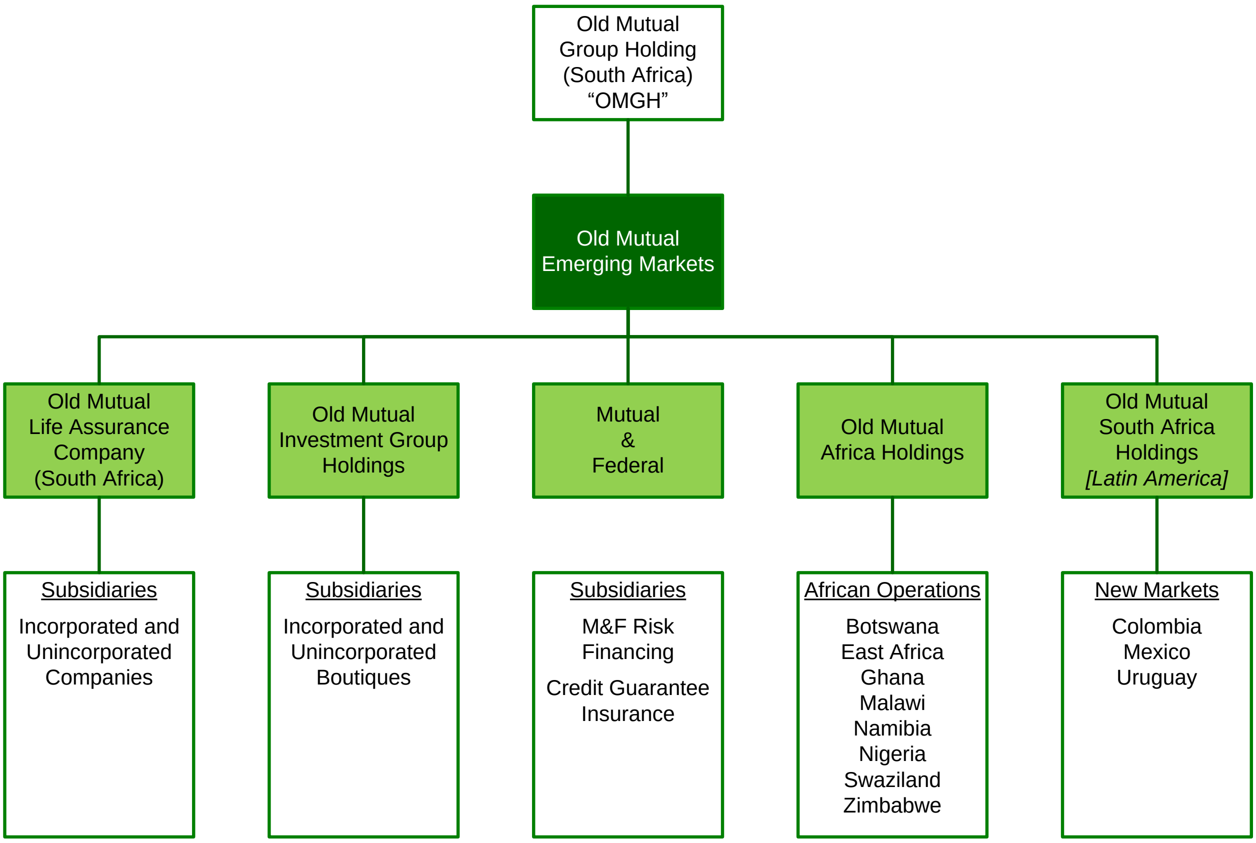
In 2010 we resolved to adhere to the operating parameters set by Old Mutual plc and to apply its requirements, as it articulates a governance framework for the promotion of efficiency and the mitigation of risks, in the interests of the wider Group and its subsidiaries, whilst still maintaining the primacy of the fiduciary duties of all the boards concerned. The OMEM corporate and risk governance frameworks are also informed by applicable regulatory requirements in South Africa and the King Report on Governance for South Africa, 2009 (King III). Regular review and assessment of our application of the King III principles indicate that OMEM generally conforms to all the principles recommended in the Code.

OMEM is currently in the process of reviewing the King IV Report on Corporate Governance for South Africa 2016 (King IV) published in November 2016. This work is expected to be finalised during the course of 2017.

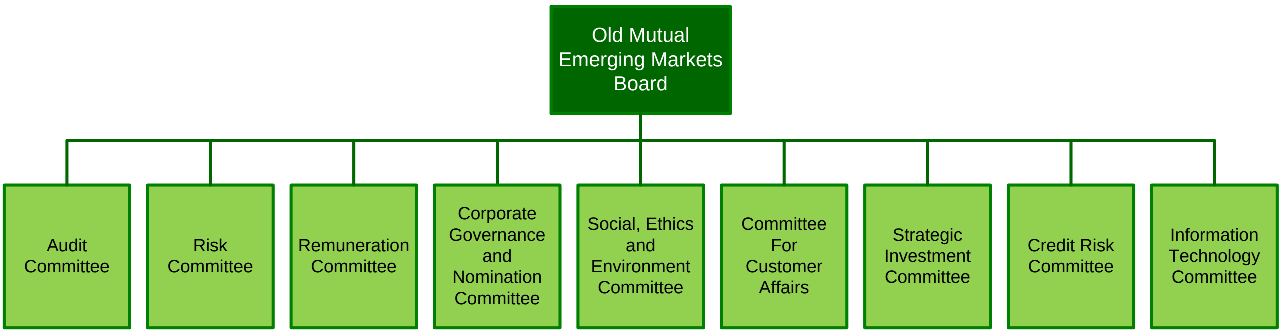
Furthermore, the announcement of the Managed Separation strategy in March 2016 resulted, *inter alia*, in the Group Corporate Governance model being reviewed. The outcomes of this review will inform the future Board governance structures for the Group. This work is expected to be finalised during 2017.

OUR OWNERSHIP AND STRUCTURE

An overview of the structure of OMEM and its principal subsidiaries:



OUR BOARD GOVERNANCE AND OVERSIGHT STRUCTURE



Nedbank is another fellow company in the Old Mutual Group, with its own report.

OMEM is committed to investing the funds it manages responsibly and has adopted Responsible Investment Guidelines.

WHAT IS THE OLD MUTUAL EMERGING MARKETS BOARD MANDATE?

The Board of OMEM, in its capacity as holding company and as mandated by Old Mutual plc, acts as strategic controller and provides oversight in respect of all the Business Operations forming part of Old Mutual Emerging Markets, collectively referred to as the OMEM Insurance Group. The OMEM Insurance Group includes all the entities owned or controlled by OMGH (excluding the investment in Nedbank Group Limited) and OMEM, particularly the Long-term and Short-term Insurance Operations in South Africa and their related businesses, the New Markets Operations (with current activities in Colombia, Mexico, Panama, Uruguay, China and India), the African Operations (with activities in Botswana, Ghana, Kenya, Malawi, Namibia, Nigeria, Swaziland and Zimbabwe) as well as the Asset Management Operations owned and managed by Old Mutual Investment Group Holdings (Pty) Ltd.

We realise that, under the expected future regulatory regime, OMEM will be classified as a Controlling Company for the Insurance Group and therefore, the Board will be responsible for ensuring that the Insurance Group maintains its business in a financially sound condition. We will also have to ensure that the structure of the Insurance Group does not impede the financial soundness of any of the insurance companies in the Insurance Group or the ability of the regulatory authority to determine the risk profile of the Insurance Group and the manner in which its internal risk management is organised and conducted.

Our Board has adopted a charter which defines its functions, responsibilities and relationship with Old Mutual plc and separates this from the role of management. This revised governance structure set out above, has been in operation since July 2013. Our Board assisted by, and through its committees, discharges its responsibilities, including that of corporate governance, within an ethical framework and provides leadership in the best interests of the Company.

Our Selection and Succession Planning

The selection and appointment of our directors is effected through a formal and transparent process and is a matter for the Board as a whole, assisted by recommendations from the Corporate Governance and Nomination Committee. We emphasise achieving a balance of diversity, skills, relevant business experience and knowledge. We have a formal orientation programme to familiarise incoming directors with the company's operations, senior management and its business environment and to induct them in their fiduciary duties and responsibilities.

Our Directors' Rotation and Retirement

Newly appointed directors may hold office only until the next annual general meeting at which point they retire and become available for re-election by the shareholders, on the recommendations of the Corporate Governance and Nomination Committee and the Board. Giving due consideration to good governance guidelines, all our directors are subject to retirement by rotation and re-election by the shareholders at least once every three years. Our executive directors have no fixed term of appointment, but are subject to short-term notice periods. They retire from the Board at age 61, while non-executive directors retire at age 71.

Our Board Performance and Assessment

The OMEM Board met eight times in 2016. This included sessions specifically devoted to strategy and business planning as well as people and customer issues. Our Board may also meet as and when required to deal with specific matters that may arise between scheduled meetings. The Board conducted a self-evaluation review, facilitated by a third party, to assess our Board's effectiveness. The results of the reviews were satisfactory and there were no material issues that needed to be addressed. All our independent and non-executive directors, other than nominees of Old Mutual plc, are remunerated for their services to the Board and its committees.

Our Directors' Access to Company Resources

Our directors have access to management, including the Group Company Secretary, and to such information as they need to carry out their duties and responsibilities fully and effectively. Our Group Company Secretary provides support to the Board to ensure its effective functioning and the proper administration of Board proceedings. We have a formal communication process through which the Group Company Secretary ensures that the independent and non-executive directors are kept informed of latest developments regarding the company's business and industry-wide issues through a formal communication process.

The Roles of our Chairman and Chief Executive

Our Chairman and Chief Executive Officer roles are separate. Our Chairman is not independent but a representative of Old Mutual plc, in terms of our Group Operating Model. In accordance with best practice governance Mr P G de Beyer was appointed Lead Independent Director.

The executive management of the company is the responsibility of the Chief Executive Officer.

WHAT BOARD COMMITTEES DO WE HAVE AT OMEM?

THE PURPOSE OF OUR BOARD COMMITTEES

Our OMEM Board has established a number of committees to assist it in discharging its responsibilities. All board committees have formally delegated terms of reference and report to the Board and to the respective board committees of Old Mutual plc where relevant. The committees are chaired by independent non-executive directors, supported by our Group Company Secretary or her delegate. Our committees are free to take independent professional advice as and when necessary. In terms of the revised mandates approved for the OMEM Board and its Committees, the OMEM Committees also receive reports from the key subsidiaries (Old Mutual Investment Group, Mutual & Federal, Old Mutual Africa Holdings, New Markets and Old Mutual Life Assurance Company (South Africa)) to assist them in providing the necessary oversight over the wider Old Mutual Operations in our Emerging Markets businesses.

AUDIT COMMITTEE

Members:

Ms CWN Molope (Chairman), Mr PG de Beyer, Mr PGM Truyens. Mr PC Baloyi and Mr P J Golesworthy were both appointed from 1 January 2017

The committee is chaired by Ms CWN Molope, an independent director, and is comprised of independent directors only, and meets as often as necessary, with a minimum of four times annually. During the year, the committee met five times.

Principal Functions

The committee ensures the integrity of our Company's financial statements, effectiveness of our systems of governance, risk management and internal control and monitoring. The audit committee reports annually on its duties as part of the Annual Financial Statements. Annually, via a review, the committee is assured of the expertise, resources and experience of the Company's finance function.

In addition to having its own statutory responsibilities, our Audit Committee is also a committee of the Board of directors, and provides advice to the Board and assists the directors in discharging their duties relating to the safeguarding of assets, the operation of adequate systems, risk management and internal controls, the review of financial information and the preparation of the annual financial statements. This includes satisfying the Board that adequate internal, operating and financial controls are in place for the OMEM Insurance Group. This committee also reviews, on behalf of the OMEM Board, matters escalated to it from reports received from the key subsidiary company audit committees. The committee works closely with the OMEM Risk Committee, which reviews risk management and compliance initiatives and monitors the effectiveness of the risk, compliance and control infrastructure of the OMEM Insurance Group.

The committee members are regularly updated on developments affecting their responsibilities, and may at any time consult with specialists or consultants on matters of concern.

RISK COMMITTEE

Members:

Mr PGM Truyens (Chairman), Mr PC Baloyi, Mr PG De Beyer, Mr AK Essien, Ms NT Moholi, Ms CWN Molope, Mr RG Tomlinson and Mr IG Williamson.

The committee is chaired by Mr PGM Truyens, an independent director and comprises of independent, non-executive and executive directors. It meets as often as necessary, with a minimum of four times. During the year, the committee met six times.

Principal Functions

The committee reviews management's recommendations on risk management, in particular in relation to the structure and implementation of the risk strategy, model, framework and methodologies, the quality and effectiveness of related internal processes, controls and reporting, risk appetite limits and exposure, and the overall risk profile of the business.

REMUNERATION COMMITTEE

Members:

Ms NT Moholi (Chairman), Mr PG De Beyer, Mr I Kgaboesele, Mr R G Tomlinson. Mr Hanratty and Ms Maynard resigned from the Committee.

The committee is chaired by Ms NT Moholi, an independent director and comprises independent and non-executive directors and meets as often as necessary, but at least six times a year. During the year, the committee met seven times.

Principal Functions

The committee assists the Board in discharging its governance duties by guiding and directing the implementation of remuneration strategy, policies, principles, related proposals and structures. Furthermore, the committee on behalf of the Board, monitors and controls remuneration and benefit structures and provides input into talent management and succession planning. We have put in place Remuneration Governance structures to ensure the required oversight over subsidiary remuneration. This includes cross-membership on subsidiary company Remuneration Committees, as well as the adoption of a Remuneration Governance Framework, in accordance with which certain material decisions within the OMEM Group are escalated to the OMEM Remuneration Committee for approval.

CORPORATE GOVERNANCE AND NOMINATION COMMITTEE

Members:

Mr PG de Beyer (Chairman), Mr PC Baloyi, Mr JB Hemphill and Mrs GT Serobe.

The committee, chaired by Mr PG de Beyer, an independent director, includes both independent and non-executive directors, and meets as often as necessary but at least twice a year. During the year, the committee met four times.

Principal Functions

The committee regularly reviews the structure, size, diversity and mix of skills and experience of the Board and its committees and makes recommendations to the Board. The committee identifies and nominates candidates to fill Board and committee vacancies, reviews the continuation in service of those directors who have reached the end of their term of office or retirement age and considers directors retiring by rotation for re-election. The committee also assists the Board in ensuring that an adequate and effective process of corporate governance is established and maintained. Since July 2013, the Committee also considers the composition of the key subsidiary boards, which should support the OMEM Board in its strategic controller role in the OMEM Insurance Group.

SOCIAL, ETHICS AND ENVIRONMENT COMMITTEE

Members:

Ms NT Moholi (Chairman), Mr BM Rapiya and Mr F Robertson.

The committee is chaired by Ms NT Moholi, an independent director, and includes independent and non-executive directors, meets as often as necessary, but a minimum of four times annually. During the year, the committee met four times.

Principal Functions

The committee provides input to the development of business strategy in respect of external stakeholders, excluding customers, in particular Government relations and transformation issues. It is expected to review and to provide input into the consideration of the political and regulatory environment. The committee has further taken on oversight responsibilities for social and ethics issues as prescribed by the Companies Act for all entities in the OMEM Insurance Group, excluding M&F which has its own committee.

COMMITTEE FOR CUSTOMER AFFAIRS

Members:

Mr PGM Truyens (Chairman), Mr PG de Beyer, Mr G Maina and Mr BM Rapiya.

The committee is chaired by Mr PGM Truyens, an independent director, and comprises only independent directors, meets as often as necessary. During the year, the committee met four times.

Principal Functions

This committee was established to review and monitor the implementation of the OMEM Insurance Group's overarching Customer Strategy and the contribution of such to the OMEM Insurance Group's strategic goals and financial targets, in accordance with the long-term strategy of the OMEM Insurance Group.

STRATEGIC INVESTMENT COMMITTEE

Members:

Mr T Manuel (Chairman), Mr PC Baloyi, Mr AK Essien, and Mrs GT Serobe.

The committee is chaired by *Mr T Manuel*, an independent director and comprises independent and non-executive directors. It meets as often as necessary, and during the year, the committee met five times.

Principal Functions

The committee assists the Board in developing the investment strategy of the OMEM Group of companies within the ambit of the strategy approved by Old Mutual plc for the Old Mutual Group in Africa, Latin America and Asia, and guiding the OMEM Group in relation to the implementation of the OMEM investment strategy and monitoring the achievement of the investment objectives.

INFORMATION TECHNOLOGY COMMITTEE

Members:

Ms NT Moholi (Chairman), Mr PG de Beyer, Mr D Macready, Ms CWN Molope and Mr IG Williamson.

This committee is chaired by Ms NT Moholi, an independent director, and comprises independent, non-executive and executive directors. It meets as often as necessary, but a minimum of four times annually. During the year, the committee met six times.

Principal Functions

This Committee was established to provide strategic oversight and governance of OMEM's strategic investment in information technology, in accordance with the long-term IT and business strategies of the OMEM Insurance Group. The Committee reports on its activities to the OMEM and the OMEM, Old Mutual Life Insurance Company (South Africa) Board.

CREDIT RISK COMMITTEE

Members:

Mr PC Baloyi (Chairman), Mr AK Essien, Mr P Golesworthy, Ms CWN Molope and Mr PGM Truyens.

The committee is chaired by Mr PC Baloyi, an independent director and comprises independent and non-executive directors. It meets as often as necessary, but a minimum of four times annually. During the year, the committee and met five times.

Principal Functions

The committee assists the Board in setting the credit policy and to monitor compliance with it and credit risk within the OMEM Group. The Committee reports on its activities to the OMEM Board.

DIRECTOR PROFILES

Our Board believes that it currently retains the requisite mix of experience and skills to suitably direct the Company's strategic direction. The Boards of the various key subsidiaries also have suitable skills to address the challenges of the businesses they provide oversight for, with individuals with specific skills having been identified and selected for appointment. In respect of both Executive and Non-Executive directors, succession planning is performed on a formal and informal basis, through both the Remuneration Committee and the Corporate Governance and Nomination Committee. View more information on our Directors here.

HOW WE MANAGE REMUNERATION

We have remuneration policies that are aligned to the strategy of the business, and linked to individual performance and to the delivery of business results. To ensure fairness and marketability of pay, we benchmark our remuneration at all levels on an annual basis using appropriate and reputable remuneration surveys, and against appropriately determined peer-group organisations.

We have consistent and defined practices around the structuring of remuneration between guaranteed and variable pay, risk and retirement benefits and share-based and/or other long-term incentives.

Our incentive schemes support the delivery of business results and reward individual contributions to business success. Share schemes support the retention of talent in the business. However, we recognise that the retention of talent relies on a broad and integrated employee value proposition (EVP), and so we consistently strive to provide employees with a compelling and attractive EVP. The success of our approach has been recognised through a variety of best employer awards in South Africa, Rest of Africa and Latin America.

Our OMEM Remuneration Committee plays a key and active role in the oversight of all aspects of remuneration policy in the business, with special focus on executive remuneration and appointments. There are clear delegations and required escalations in place around approvals relating to remuneration.

Our shareholder, Old Mutual plc, has representation on the OMEM Remuneration Committee, and through this oversees and agrees the remuneration policy of OMEM.

Rigorous oversight of the Group's remuneration and HR policies (including specific conditions) has been formalised through the GOM. Disclosure of the remuneration of each individual director and prescribed officer is made in the Annual Financial Statements of the Company.

We set our non-executive directors' fees in line with peer-group appropriate market benchmarks and with due regard to their accountabilities and number of meetings required in the year. Fees are paid on a retainer basis only, with no per-meeting fees in place.

WHAT ARE THE MAIN PRINCIPLES OF OUR RISK MANAGEMENT?

Enterprise Risk Management is a systematic approach to decision making based on the principles of cooperation, participation, mitigation and sustainability adopted to achieve more effective risk management.

Our risk management system is the construct of how our company's structures, processes and people relate to each other in order to enable optimal risk decisions. Our risk management system provides assurance to our various stakeholders that our businesses are being prudently managed in the context of value creation for all.

Our risk management system includes:

- A clearly defined and documented risk strategy
- A risk governance model based on the Three Lines of Defence
- Defined accountabilities, roles and responsibilities for boards, management and employees
- Defined risk policies that set the requirements for managing material risks
- Standard processes, procedures and methodologies for identifying, assessing, monitoring, managing and reporting on material risks, including processes for risk-based decision-making
- A common risk categorization model and metrics
- Stress testing, and contingency and crisis planning
- A system of internal control including risk, compliance, actuarial oversight and internal audit control functions

BOARD RESPONSIBILITY FOR RISK MANAGEMENT

The primary purpose of the OMEM Board Risk Committee (BRC) is to review, challenge and debate management's recommendations on risk management and to make recommendations to the OMEM Board for approval. The BRC terms of reference require that the board must periodically assess the effectiveness of the risk management system.

MANAGEMENT RESPONSIBILITY FOR RISK

The OMEM Chief Executive Officer (CEO), supported by the OMEM Executive Management Committee (Exco), has overall responsibility for the identification and management of all risks facing OMEM, and their respective functional and statutory management teams in turn support them.

The Exco meets monthly and manages the execution of strategic objectives. It is responsible for the setting of risk appetites, risk limits, the strategy for managing risk and the system of internal control.

Management and staff within each constituent business have the primary responsibility for risk management and ensuring the system of internal control is adequate and operating effectively. They take ownership for identification, assessment, measuring, monitoring, reporting and management of financial and non-financial risks arising within their areas of responsibility, as part of their day-to-day management responsibilities and processes.

OUR RISK STRATEGY

Our risk strategy provides a link between the business strategies, risk appetite and risk limits framework. It serves the following main purposes:

- To clearly articulate the company's risk strategy, and hence provide a common starting point for risk strategy discussions.
- To act as guidance to business when taking on and managing risk or restructuring operations to optimise risk adjusted return.
- To demonstrate that we have a structured and formalised way to approach risk and capital management.

We have a risk appetite framework that sets targets and limits against which risk exposures are compared to ensure that risk-taking remains in line with strategic objectives.

OUR RISK PROCESSES

Risks are considered in the context of pre-defined business objectives, firstly at an inherent (gross) level, i.e. in the absence of any controls or management actions and secondly at a residual (net) level, i.e. based on the adequacy and effectiveness of specific controls or management actions.

We have eight well-defined stages in our risk process:

Risk identification: Risk identification is the responsibility of management. We identify risks using a combination of bottom-up and top down approaches and considering various factors including organisational objectives, the business environment, identified control breakdowns and risk events, audit reports and the applicable regulatory environment. We validate and review identified risks via management and board risk committees.

Risk assessment: Management assesses risks using a risk scoring matrix which consists of a likelihood and impact scale. The net risk is managed in accordance with set risk appetites and thresholds with an accountable risk owner appointed to manage the risk.

Risk monitoring: Risk monitoring is a function of all three Lines of Defence in their respective areas of responsibility. We monitor risk by using risk indicators, modelling tools and methodologies to measure whether outcomes are within an acceptable range, as determined by risk appetite and tolerance thresholds.

Risk recording: OMEM is currently in the process of replacing the previous Old Mutual plc risk tool with a new integrated risk, compliance and audit tool.

Risk escalation: We escalate risks and issues that meet the escalation threshold to the OMEM Exco and to Old Mutual plc as soon as possible after identification.

Risk reporting: Boards receive risk information to enable directors to understand the overall risk profile and focus on the material and strategic implications for the business. The risk reporting structure is hierarchical and cyclical. Formal risk reporting takes place quarterly at business level after which the key risks, trends and mitigating actions are reported at the business risk committees and the Exco Risk Committee, prior to the quarterly OMEM Board Risk Committee meetings. The OMEM Board Risk Committee has oversight over all risk types other than credit risk which is overseen by the newly established Board Credit Risk Committee. We also have specialist management risk committees in place that focus on specific risk types.

Stress Testing: We perform stress and scenario testing as well as sensitivity analysis to monitor the robustness of our regulatory and economic capital position. The assessments help to inform management's understanding of the capital that would be required in the event of the scenarios materialising. The output of these tests assists management to prepare for significant changes in the environment and the impact of such changes would be within risk appetite limits and thresholds.

Contingency and Crisis Planning: We have formal contingency and business continuity plans in place to ensure our ability to operate on an ongoing basis and limit losses in the event of severe business disruption. Management periodically reviews these plans and these are tested periodically to ensure that we would be able to execute the plans in the unlikely event of a severe business disruption.

RISK ASSURANCE

We obtain independent risk assurance through the OMEM Internal Audit function and our external auditors. This includes determining whether OMEM's systems of governance, risk management and internal control, as designed and operated by management, are adequate and effective.

None of the parties in this third line of defence function have responsibility for the day-to-day management of risks to the business, nor for the adequacy and effectiveness of the internal control environment, both of which is the direct responsibility of management in the first line of defence.

HOW WE GOVERN INFORMATION TECHNOLOGY

Information technology is integrated into our Group's Risk Management Framework and the OMEM Board Risk Committee ensures that IT governance is appropriately addressed within the context of the strategy of the Group. IT governance is an agenda item at a Board level.

In order to ensure that the IT strategy, developments and investments are driven by the business strategy, a sub-committee of OMEM Board is in place. The Information Technology (IT) Committee's mandate is to perform this role on behalf of OMEM, OMLACSA and Africa Boards. The role of this Board committee includes oversight of the strategic investment in technology and to report to the OMEM Board Risk committee in respect of the management of the associated strategic execution risk.

The approval of all investment in technology is governed by the Old Mutual Group Operating Manual. All material agreements are reviewed by the OMEM Exco IT sub-committee and the OMEM Board IT Committee.

The OMEM Board has approved the IT governance framework. The IT governance framework has 5 pillars, namely strategic alignment, value delivery, performance management, resource management and risk management. Key metrics have been defined for each of the pillars and are monitored as part of the quarterly IT governance reports submitted to the OMEM Board.

Our IT risk policies are aligned to the Old Mutual plc policies and are approved at Board level. Compliance against these policies is assessed bi-annually.

Initiatives are underway for the effective governance of cyber security and information assets. These initiatives are supported by Information Technology and business.

HOW WE ENSURE COMPLIANCE WITH LAWS, CODES AND STANDARDS

Regulatory compliance is the management discipline of designing and implementing effective steps to ensure that an organisation complies with the laws, codes and regulations relating to its operations. Such compliance with applicable laws, codes and regulations is an ethical imperative for Old Mutual. Our Group's Code of Conduct requires all our employees to annually affirm compliance with these applicable laws, codes and regulations.

Regulatory compliance within OMEM forms an integral part of our risk management function and oversight of current and emerging compliance risk has been delegated by our Board to our Group Compliance Officer (GCO). We have a well-established compliance framework in place across Old Mutual. Our GCO operates in the second line of defence and is responsible for co-ordinating and overseeing the compliance function across the Old Mutual Group in South Africa as well as Emerging Markets.

Compliance is a standing item on the Agenda of our Board Risk Committee which in turn provides assurance to the Board on the effectiveness of the controls around compliance with the applicable laws, codes and regulations. Our GCO attends the Board Risk Committee meetings on a regular basis and is also an attendee of the various Business Segment Risk and Compliance Committees. The GCO has direct access to the Chairman of the Board Risk Committee.

We actively promote regulatory compliance through the formal structured monitoring and reporting of our adherence to regulatory requirements. To achieve this, formal Compliance Risk Management and Monitoring Plans are drafted by our Business Unit Compliance Officers in the different business units. Our Board Risk Committee reviews, approves and signs-off these plans annually. We monitor and report progress against these plans on an ongoing basis, as well as tracking any specific actions taken and reviewing the outcomes.

The compliance programme we have in place within OMEM is underpinned by our published Compliance Policy and Philosophy as well as our Group Compliance Manual. This sets out the compliance processes and procedures which need to be adhered to by our various business units. Compliance also works closely with Risk and Internal Audit to ensure the necessary synergy in this regard.

The current regulatory environment in the South African Financial Services Industry is characterized by a plethora of new and pending legislation. In particular, the Insurance Industry is undergoing significant regulatory change which will necessitate major upgrades and enhancements to existing processes and procedures. In addition to the Solvency Assessment and Management (SAM) requirements, the industry is faced with implementing the Treating Customers Fairly (TCF) Outcomes, Retirement Fund Reform, the Insurance Bill Protection of Personal Information legislation, Twin Peaks regulatory reform as well as the requirements of the Retail Distribution Review (RDR) Paper. These requirements are over and above the requirements of the existing Financial Advisory and Intermediary Services (FAIS) and Financial Intelligence Centre (FIC) Acts which have been in place for some time now. Anti-Money Laundering legislation is also enjoying renewed focus with amendments to the Financial Intelligence Centre Act expected to become effective in 2017. This burden of increased regulation will be with the industry for the foreseeable future and Old Mutual is committed to ensuring compliance with all applicable regulation. However, whilst the Regulator is of the view that this increased regulation will lead to a decrease in mis-selling and better customer outcomes, the costs having both a Prudential and a Market Conduct Regulator as well as having to make major changes to systems and distribution models will place an increasing burden on available resources.

We recognise and accept the responsibility of ensuring compliance with laws and regulations in an industry that is ever more heavily regulated with a plethora of new legislation and regulation being promulgated on an annual basis. We appreciate that compliance is necessary to ensure that our stakeholders are provided with the assurance that their policies will be honoured, their pensions safeguarded and other cash savings and investments well looked after. Failure to ensure compliance with the laws and regulations governing these investments will lead to reputational risk and may even pose a threat to the financial soundness of our organisation. It is for these reasons that we manage compliance on the formal basis set out above.

HOW WE PROVIDE ASSURANCE

THE PURPOSE OF GROUP INTERNAL AUDIT

The purpose of Group Internal Audit (GIA) is to help the Board and Executive Management to protect the assets, reputation and sustainability of the Old Mutual Group. GIA does this by assessing whether all significant risks, both current and emerging, are identified and appropriately reported by management and the risk function to the Board and Executive Management; assessing whether they are adequately controlled; and by challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

ORGANISATIONAL STATUS AND INDEPENDENCE

The OMEM Board Audit Committee is responsible for overseeing internal audit.

Internal audit is strategically well positioned to achieve its objectives. The OMEM and M&F Audit Director (AD) is accountable to the Chairman of the OMEM Audit Committee (AC), reports to the Group Internal Audit Director and has access to the Chairman of the OMEM Board. GIA meets with the Audit Committee at least once a year without management being present, and has frequent interactions with the Chairman of the AC. We further maintain functional independence of the OMEM and M&F AD and the internal audit function as they do not directly report into executive management. Internal audit do however have unrestricted access to the OMEM Exco as individuals and in key meetings and forums, to provide challenge, input and feedback.

The internal audit function has financial independence through the OMEM AC approving a budget to allow GIA to meet the requirements of its mandate. GIA is functionally independent from the activities they audit and from the day-to-day internal control processes of the organisation. GIA is able to conduct assignments on its own initiative, with free and unfettered access to people and information, in respect of any relevant department, establishment or function of the organisation, including the activities of branches and subsidiaries and outsourced activities. Where GIA delivers a controls advisory service, we manage any perceived or actual conflict of interest.

HOW GIA FITS INTO OMEM'S GOVERNANCE STRUCTURE

As described above, Group Internal Audit is a third line of defence in the assurance model, and GIA provides independent assurance over the first and second line of defence operations and oversight functions.

We strive to not duplicate assurance effort, and where possible review opportunities for combined assurance. Examples related to the financial management and reporting risks and processes, with co-ordination between Internal Audit, Data Control and Governance and External Audit (KPMG). All parties have a clear view on the respective assurance plans and this allows for better planning and enables a more efficient assurance offering.

HOW WE MANAGE THE GIA SCOPE OF WORK

The scope of GIA's work is determined by the business strategy as well as an independent view of the key risks facing our business and how well those risks are being managed. There is no aspect of the organisation which GIA is restricted from looking at, although it is not the role of GIA to second guess the decisions made by the Board. GIA makes risk-based decisions on which areas it includes in scope but will not necessarily include all areas of high risk in the scope of its plan every year.

We continue to embed the recommendations made by the Chartered Institute of Internal Auditors related to the "Effective Internal Audit in the Financial Services Sector", targeted at internal audit functions within UK financial services organisations. We also aim to ensure we align to the requirements of internal audit functions in all the territories included in scope, including the most recent requirements as defined by Board Notice 158, defining the governance and risk management framework for insurers in South Africa.

To give effect to these requirements, we include in the plan ring-fenced audits that specifically address such requirements (e.g. Risk Management, Compliance function reviews).

WHAT ARE WE ACCOUNTABLE FOR

To deliver on our mandate, GIA is accountable for developing, delivering and reporting on an audit plan that covers the expectation of the internal audit scope as defined above. To enable our function to deliver on the plan, we are also accountable for the following:

- Comply with regulatory and corporate governance expectations of internal audit functions
- Keep the OMEM AC informed of emerging trends and successful practices in internal auditing
- Report periodically on the measurable performance of GIA, including plan delivery and financial performance
- Maintain and report on whether GIA has sufficient professional audit staff with the knowledge, skills, experience and professional qualifications to meet the requirements of this Charter and the audit plan
- Maintain an open and constructive relationship with regulators which supports the sharing of information
- Liaise with the External Auditors and other assurance providers to minimise any duplication of effort and thereby optimise the cost of coverage to the Group
- Establish an independent risk based Quality Assurance (QA) function and report the outcomes of QA work to the Group and OMEM AC annually
- Ensure that GIA is subject to an independent and objective external assessment at appropriate intervals, not exceeding five years.

HOW WE GOVERN STAKEHOLDER RELATIONSHIPS

INTRODUCTION

The Stakeholder Relations unit is considered to be a critical component of Corporate Affairs within Old Mutual, primarily responsible for the management and development of stakeholder relationships across OMEM.

The wide universe of our stakeholders includes, but is not limited to:

- Customers: policyholders, investors, corporate clients (both local and international)
- Shareholders
- Employees
- Distribution community: Independent Financial Advisors, brokers and other intermediaries
- Investment community
- Companies in which we are invested
- Suppliers
- Business Partners
- Government departments and State Owned Enterprises
- Regulators
- Trade Unions and Federations
- Industry Bodies
- Professional Associations

- All Political Parties
- Social institutions within our communities

In the past Stakeholder Relations has tried to organise these stakeholders by providing an annual update on the nature and status of Old Mutual's relationships with its "Top 25 Stakeholders". Going forward however Stakeholder Relations has adopted a new methodology to organising and managing these relationships informed by the "Stakeholder Tiers" approach.

METHODOLOGY AND APPROACH

The new methodology and approach adopted by Old Mutual in the mapping and prioritisation of stakeholders employs the linkage model

The Linkage Model

The linkage model has been adapted from the work of Gruning and Hunt to enable Old Mutual to better understand the complexity of its stakeholder organisational linkages. The linkage model classifies stakeholders into the following four categories

- *Enabling Resource Stakeholders* — Stakeholders that enable the organisation to exist and ultimately carry out its core business.
- *Value Creation Stakeholders* — Stakeholders that create tangible and intangible value for the organisation and tend to play significant role in the organisation's value chain.
- *Social Responsiveness Stakeholders* — Stakeholders that respond to or are impacted/affected by the organisations actions and behaviours.
- *Peer Structures Stakeholders* — Stakeholders that have similar or competing interests with those identified by the organisation.

Stakeholder Attributes

The typologies below are used to further organise and rank stakeholders by virtue of their materiality and their legitimacy.

- *Materiality* *"Transformational" vs "Transactional"* — Determined by the stakeholder's ability to influence the future of the organisation. The measure of materiality is guided by whether a stakeholder is believed to be "Transformational" or "Transactional".
- *Legitimacy* — Determined by the directness of the stakeholder's stake in the dealings of the organisation.

STAKEHOLDER PRIORITISATION

Main Principles

a) The Tier approach seeks to meet the needs of both the organisation and the needs of the stakeholder in a meaningful manner that creates value for both parties. The move to focusing more on "value exchange" is a marked shift from the previous approach which focused more on "value extraction" in stakeholder relationships.

b) Furthermore, built on the concept of materiality, the "Stakeholder Tiers" approach is heavily influenced by the stakeholder guidelines expressed in King IV. As a result, one of the marked benefits of adopting the new approach is that it will significantly improve our internal readiness and ability to adopt and employ the new principles of corporate governance in the area of Stakeholder Relations.

c) Finally, the "Stakeholder Tiers" approach enables us to proactively identify and engage stakeholders in a structured and strategic manner informed by a credible segmentation process as opposed to reactively engaging stakeholders on an ad-hoc basis inspired primarily by circumstance.

THE FIVE TIERS OF STAKEHOLDERS

There are five tiers of stakeholders identified in our initial work. Though robust qualitative methods have been employed in this process of organisation, the process is remains fundamentally subjective.

For this reason:

a) The frameworks employed in this process must be applied such that they take political, economic, social, environmental and technological factors into consideration; to the extent that they may substantially shift the business and stakeholder landscape;

b) The application of the frameworks must be able to account for changes in the organisation, business operations (internally and externally) and regulatory changes i.e. Managed Separation, TCF, RDR, RFR, etc. as they will impact the classification of stakeholders;

c) Different parts of the organisation may have differences in their tailored stakeholder Tiers as the Tiers are largely influenced by business objectives, levels of operations and business clout. i.e. the stakeholders in Tier One at an OMSA and OMEM level may therefore differ vastly from those in Tier One at the BU and segment level;

d) The relationship owners of certain stakeholders may also change through the Tiers as the nature of the engagement with the same stakeholder varies i.e. while PF may engage DIRCO at a provincial level for the purposes of driving a sales relationship, OMEM may engage DIRCO at a ministerial level on more substantive and strategic issues.

CONCLUSION

The "Stakeholder Tiers" approach to stakeholder management therefore replaces the concept of the "Top 25 Stakeholders" with that of "Tier One Stakeholders"; employing rationale that classifies stakeholders by way of materiality and legitimacy, taking into account factors such as "value exchange" and good corporate governance.

The new "Stakeholder Tiers" approach to managing our key stakeholders is more credible than the former "Top 25" approach and promises to yield better results for the Old Mutual in improving Stakeholder Relations. Not only does this approach introduce a qualitative legitimacy to our stakeholder management process, but it also better prepares us for adopting the updated the principles of corporate governance detailed in King IV. The findings of the Stakeholder Relations studies commissioned in 2016 will play a critical role in shaping Stakeholder Relations Strategy and Stakeholder Management Policy, which will both be completed in 2017.

HOW WE APPLY KING III IN THE REST OF AFRICA

HOW WE GOVERN AFRICAN OPERATIONS

One of the main subsidiaries of OMEM is Old Mutual Africa Holdings (Pty) Ltd (OMAH) through which all our non-South African subsidiaries in Africa are held, governed and managed.

We have specifically implemented the application of King III principles and practices in Old Mutual Africa (OMA) where appropriate, as a standard of good governance. As with all OMEM operations we regularly monitor our application of the principles and strive to continuously improve them.

Each country have a holding company / main board that is responsible for governance oversight of the operations in that country and each of those Boards has an established Audit, Risk and Compliance Committee (ARCC). Each ARCC Terms of Reference includes responsibility for the governance of risk and compliance. Key business operations in – country have their own boards and (in some instances), committees in line with local regulations.

A concerted effort was made during 2016 to ensure that the governance and risk management activities are appropriate to each business in the group. To this end a model of proportional governance was developed to reduce the administrative burden while still ensuring appropriate rigor.

Our Ethical Approach to Leadership and Corporate Citizenship

The OMAH Board reviews, approves and monitors the OMA strategy and objectives. When deliberating the OMA strategy and determining its priorities, the OMAH Board considers the full range of issues that influence the sustainability of our businesses including the social, environmental and ethical issues which in turn can directly impact on our viability. Social, ethics and environment issues are part of the OMAH Board meeting agenda with reporting into the OMEM Board Social, Ethics and Environment Committee.

The OMAH Board aims to ensure that its conduct and that of Management is aligned to the Old Mutual Group's values and Code of Conduct and Responsible Business Policy.

How our Boards and Directors Operate in Africa

Following the changes in South Africa, in other African countries we have changed the local country oversight boards from the Life Companies to the various Holding Companies in order to ensure that such Boards have overall responsibility for all legal entities in the particular country from a strategic and governance perspective and that the life company Boards can concentrate only on life company matters.

We have appointed additional non-executive directors, including local independent non-executive directors to various oversight boards as appropriate. This was also done at OMAH level, where OMAH currently has a total of eleven directors of which six are independent non-executive, four are non–executive and two are executive directors.

With the exception of Namibia, Nigeria, Kenya, Ghana and Zimbabwe, where specific company committees are established in line with local regulations, issues pertaining to the following OMEM Committees are covered by the oversight Board or its ARCC in each country:

- OMEM Remuneration Committee
- OMEM Corporate governance and Nominations Committee
- OMEM Social, Ethics and Environmental Issues Committee
- OMEM Customer Affairs Committee

- OMEM Strategic Investment Committee.

The main oversight board of the various country holding company boards is the OMAH Board and its subcommittees. In turn the OMEM Board and its committees perform the oversight role for the OMAH Board and its operations. We have promoted consistency of approach and standards throughout OMEM by ensuring that the role and functions of the various boards across the African countries in which we operate comply with Old Mutual Group requirements and standards in the following areas:

- Approach to governance
- Director selection and succession planning
- Director rotation and retirement
- Directors / Boards / Committees assessments
- Role of boards and the various committees
- Separation of the roles of Chairman and Managing Director.

Our Approach to Remuneration

The responsibility for remuneration affairs in Africa sits with the Country Boards supported by oversight from the OMAH Remuneration Committee. This Committee was chaired by Ralph Mupita (who has resigned from the OMAH Boards and Committees consequent to his resignation from Old Mutual), the OMEM CEO and it reports to the OMAH Board. A new chairman will be appointed in 2017. The Committee's mandate includes:

- guiding and directing the implementation of remuneration strategy, policies and OMA Group-wide remuneration principles taking into consideration local conditions
- monitoring and controlling the remuneration and benefit structures and their costs across OMA
- providing an effective channel of communication and approval in remuneration matters with the OMEM Remuneration Committee.

Kenya (for the East Africa businesses), Namibia, Malawi, and Zimbabwe have established local remuneration committees which report into the OMAH Remuneration Committee. In all other countries, remuneration issues are discussed and managed at the Board level with reporting into and oversight by the OMAH Remuneration Committee.

Audit Committees in Africa

GIA is the internal audit function for the Group including all of the businesses in Africa. The various countries oversight Board ARCC's responsibilities with respect to the combined audit function are to:

- Recommend the appointment of the External Auditors
- Approve the engagement terms of the External Auditor
- Review and assess the performance of the Internal and External Auditors
- Review and approve internal and external audit annual plans
- Review internal audit reports
- Where necessary, instruct management to take action as a result of findings in the internal audit reports.

The OMAH ARCC provides oversight and input from the local ARCCs across all these issues and receives reports from all the local ARCCs.

How Information Technology is Governed in Africa

The OMAH Board has ultimate responsibility for information technology governance, and operational and internal systems of control, and ensures that there is adequate governance and reporting on these issues by the various committees. It is responsible for ensuring that prudent and reasonable steps have been taken with regards to IT governance within each country of operation, including aligning the IT strategy to the OMA strategic objectives and performance targets.

Our current approach to IT in OMAH is premised on the following pragmatic strategic approach across two time horizons:

- Phase 1 until ~2016 followed a more regional IT strategy and focused on enabling East and West Africa growth aspirations
- Phase 2 > 2016 pursuing a strategy of greater cross-border standardisation and consolidation to extract cost synergies and ensure long term sustainable health, enabled by strong convergence of the OMA product set, business models and processes.

The Governance of Risk

The OMAH Board, working with country oversight boards, has ultimate responsibility for risk and capital management. The OMAH Board discharges its risk responsibilities through the OMAH ARCC. The OMAH ARCC provides independent oversight of risk and capital management across OMA by:

- reviewing and providing oversight in respect of the adequacy and effectiveness of risk management frameworks
- approving risk governance standards and policies
- approving OMA's risk appetite statements and monitoring OMA's risk profile
- monitoring of Information Technology risks.

The key responsibilities of the OMAH ARCC include the following:

- Review and recommend to the OMAH Board, the risk strategy for OMA, taking into account the overall OMEM risk strategy
- Monitor and express an opinion to the OMAH Board on the effectiveness of the OMEM risk management system that is in place
- Review OMA's risk management and regulatory compliance annual operating plans, ensuring the functions are adequately resourced and have appropriate standing within the organisation.

OMA is fully integrated into the OMEM Risk Management framework and methodology. In conjunction with the OMEM Risk function and through OMAH, the oversight Board in each country reviews and determines the risk tolerance annually. Systematic, documented, formal risk assessments are regularly conducted and reported to the OMAH Board through the various ARCCs.

HOW WE APPLY KING III IN LATIN AMERICA

Old Mutual (South Africa) Holdings (OMSAH) is a main subsidiary of OMEM through which our Latin-American (OM Latam) subsidiaries are held, governed and managed.

The operations of OM Latam are integrated into the OMEM Risk Management Framework and methodologies. As in the African Operations, we have boards in each country which are responsible for governance oversight of the operations in that country. By regulation regulated entities in Colombia and Mexico have audit committees and risk committees in place and undertake risk governance functions and activities defined by local laws. In Uruguay a local Audit, Risk and Compliance Committee (ARCC) is in place. In addition, for OMEM Group oversight purposes, an OM Latam management ARCC is in place to provide oversight of the OM Latam businesses. The ARCC Terms of Reference include responsibility for the governance of risk and compliance. The OM Latam Exco reviews, approves and monitors the strategy and objectives of the various operations. This Exco also considers the issues that may influence the sustainability of our businesses, including the social, environmental and ethical issues. OM Latam is aligned to the Old Mutual plc Group's values and OMEM Code of Conduct.