



IOOF Holdings Ltd

ABN 49 100 103 722

30 June 2017

Annual Financial Report

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Directors' report

The Directors present their report together with the financial report of IOOF Holdings Ltd (the "Company" or "Parent") and of the IOOF Group, being the Company and its subsidiaries and the consolidated Group's interest in associates for the financial year ended 30 June 2017 and the auditor's report thereon.

Directors

The Directors of the Company during or since the end of the financial year were:

Name, qualifications and independence status	Experience, special responsibilities and other directorships
<p>Mr George Venardos BComm, FCA, FGIA, FAICD. Independent Non-Executive Director Director since 2009 Chairman since November 2016</p>	<p>An experienced Director with broad listed company experience across a range of different industries, including financial services, affordable leisure, oil and gas services and technology development. Over 30 years' experience in executive roles in financial services, insurance and funds management including 10 years as CFO of Insurance Australia Group and Chairman of the Insurance Council of Australia Finance and Accounting Committee. Other ASX listed directorships include Ardent Leisure Group since 2009, appointed Chairman in November 2016. Former Director of Miclyn Express Offshore Ltd from 2010 to 2013 and Bluglass Ltd from 2008 to 2016. Member of the Risk and Compliance Committee until 24 November 2016 and Chairman of the Remuneration and Nominations Committee until 24 November 2016. Member of the Group Audit and Remuneration Committees from 24 November 2016. Chairman of the Nominations Committee from 24 November 2016.</p>
<p>Dr Roger Sexton AM B.Ec. (Hons), M.Ec. Ph.D (Econ), FAICD, FAIM. SFFin, C. P Mgr, C.Univ Chairman and Independent Non-Executive Director Retired 24 November 2016</p>	<p>More than 30 years experience in senior management in finance and the investment banking industry. A specialist in the areas of corporate reconstruction, mergers and acquisitions, and asset management. Chairman of Beston Global Food Company Ltd. A Former Member of the Australian Accounting Standards Board. Chairman of the Remuneration and Nominations Committee and Chairman of Perennial Investment Partners Ltd. Member of the Group Audit and Remuneration and Nominations Committees. Director from 2012 to November 2016.</p>
<p>Mr Christopher Kelaher B.Ec, LL.B, F Fin. Managing Director Director since 2009</p>	<p>In 2009, Mr Kelaher became the Managing Director of the IOOF Group after its merger with Australian Wealth Management Limited (AWM), a company he had led since 2006. Prior to AWM, Mr Kelaher was the CEO of Select Managed Funds Limited for nine years, a private company which was brought to market in 2005 and in turn ultimately merged with AWM in 2006. In the following periods, he has been instrumental in executing multiple mergers and acquisitions that have added materially to the IOOF Group and its antecedent businesses. Mr Kelaher has extensive capital markets experience from his time during the late 1980s with Citicorp where he oversaw the establishment of Citicorp Investment Management and Global Asset Management businesses in Australia and New Zealand. Member of the Nominations Committee from 24 November 2016.</p>
<p>Mr Allan Griffiths B.Bus, DipLI. Independent Non-Executive Director Director since 2014</p>	<p>More than 30 years' experience with a deep understanding of the financial services industry. Mr Griffiths has held a number of executive positions within the industry most notably as Chief Executive Officer Aviva Australia and later, Managing Director South Asia, Aviva Asia Pte Ltd based in Singapore. Prior to joining Aviva Mr Griffiths held executive positions with Colonial Ltd and Norwich Union. Chairman of the Risk and Compliance Committee until 24 November 2016. Member of the Group Audit and Risk and Compliance Committees. Chairman of the Remuneration Committee from 24 November 2016.</p>

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Directors' report

Directors (continued)

Ms Jane Harvey

B.Com, MBA, FCA, FAICD.

Independent Non-Executive Director

Director since 2005

Ms Harvey has more than 30 years' experience in the financial and advisory services industry. Prior positions include as a Partner at PricewaterhouseCoopers, a Director of David Jones Limited from 2012 to 2014, a Director of UGL Limited from 2015 to 2017, and as a Director of DUET Finance Limited, a stapled entity within the ASX Listed DUET Group from 2013 to 2017. Ms Harvey is currently a Director of BUPA ANZ. Ms Harvey is the Chairperson of the IOOF Group Audit Committee and member of the Risk and Compliance Committee. Member of Remuneration and Nominations Committee until 24 November 2016. Member of Nominations and APRA Regulated Entity Audit Committees from 24 November 2016.

Ms Elizabeth Flynn

LLB, Grad Dip App Corp Gov, FAICD, FFin, FGIA, FCIS.

Director since 2015

Ms Flynn has more than 30 years' experience in the financial services industry, including roles within law and corporate governance as well as executive responsibilities. From 1998 to 2010, Ms Flynn was the Chief Legal Counsel, Group Compliance Manager and Group Company Secretary of financial services group Aviva Australia, and a director of NULIS Nominees, Aviva Australia's superannuation trustee company. Prior to her time at Aviva, Ms Flynn spent 18 years as a commercial lawyer with Minter Ellison, including eight years as a Partner, specialising in managed funds, banking and securitisation and superannuation. Ms Flynn was a director of Bennelong Funds Management from 2010 to 2015. Member of the Group Audit Committee until 24 November 2016. Member of the Risk and Compliance Committee and appointed as Chairperson from 24 November 2016. Member of Remuneration and APRA Regulated Entity Audit Committees from 24 November 2016.

Mr John Selak

Dip Acc, FCA, FAICD

Appointed 14 October 2016

Mr Selak has over 40 years' experience in the financial and advisory services industry. From 2000 to 2016 Mr Selak was a Partner in the Corporate Finance Practice of Ernst & Young serving on their Global Corporate Finance Executive. From 2014 to 2017 Mr Selak was an advisory board member of Quest Apartment Hotels. Mr Selak is currently Chairman of Corsair Capital, a non-executive director of National Tiles and an advisory board member of Turi Foods. Chairman of APRA Regulated Entity Audit Committee from 24 November 2016 and member of Group Audit Committee from 24 November 2016.

All Directors held office during and since the end of the financial year, unless otherwise noted.

The Remuneration and Nominations Committees review the balance of skills, experience, independence, knowledge and diversity of Directors. This involves the creation of a board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.

During the year each Board member completed a skills matrix. The Board was satisfied that the skills matrix results demonstrate that the Board has the appropriate skills and experience necessary to oversee the operations and governance of the IOOF Group. The Board Skills Matrix is available as part of our Corporate Governance Statement which is available on the IOOF website.

Principal activities

The principal continuing activities of the IOOF Group during the financial year consisted of:

- financial advice and distribution;
- platform management & superannuation administration;
- investment management; and
- trustee services including estate planning and corporate trust.

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Directors' report

Operating and financial review

In accordance with current Australian Accounting Standards, the audited financial results of the benefit funds of IOOF Ltd are included in the consolidated results of the IOOF Group. The inclusion of the benefit funds has no impact on the profit after tax for the year (2016: \$nil), but results in offsetting pre-tax profit and income tax amounts not available to shareholders.

The following table, which has not been audited, provides a reconciliation between the reported results of the IOOF Group and underlying net profit after tax pre-amortisation (UNPAT), with the results of the benefit funds excluded. In calculating its UNPAT, the IOOF Group reverses the impact on profit of certain, predominantly non cash, items to enable a better understanding of its operational result. It is the UNPAT result which will be analysed in detail in this section of the Directors' Report. It should be noted, however, that the items reversed, and the rationale for that reversal, is also addressed in detail.

Shareholders can review the more detailed results presentation by visiting the Company website at www.ioof.com.au

	Note	2017 \$'000	2016 \$'000
Profit for the year from continuing operations		119,851	140,542
Less non-controlling interest		(3,861)	(2,620)
Profit attributable to Owners of the Company from continuing operations		115,990	137,922
Profit for the year from discontinued operation		-	58,924
Profit attributable to Owners of the Company - total		115,990	196,846
Underlying net profit after tax pre-amortisation (UNPAT) adjustments:			
<u>Reverse the impact of:</u>			
Amortisation of intangible assets	2-4	38,611	39,681
Termination and retention incentive payments	2-4	4,125	6,005
Gain on divestment of subsidiaries	2-2,2-3	(6,261)	(71,988)
Profit on divestment of assets	2-3	(11,930)	(8,125)
Non-recurring professional fees	2-4	2,013	5,061
Acquisition tax provision release		(5,707)	-
Impairment of goodwill	2-4	38,592	-
Unwind of deferred tax liability recorded on intangible assets		(10,056)	(10,056)
Acquisition and divestment transaction costs		-	1,516
Onerous contracts	2-4	-	951
Reinstatement of Perennial non-controlling interests		-	(825)
Income tax attributable		3,980	14,301
UNPAT		169,357	173,367
Discontinued operation		-	(2,097)
UNPAT from continuing operations		169,357	171,270

The IOOF Group services the needs of financial advisers and their clients through appropriately licensed and regulated entities. The pool of investable funds emanates predominantly from superannuation which has been supported by Australia's mandatory contributions regime since the early 1990s. Competition for service offerings to superannuants and investors (fund members) in the Australian market place is currently drawn from five main fund types with the following differentiating features:

Retail - privately operated trusts and other schemes. The majority of funds are channelled to administration services and investment management products through financial advisers. However, technological development is enabling an increasing range of offerings direct to fund members.

Industry Funds - superannuation entities which historically have provided for employees working in the same union, industry or group of related industries. Many industry funds now offer membership to members of the public. Industry funds generally administer these funds, but may outsource the management of investments.

Self-Managed - the fund member acts as Trustee for his or her pool of funds, which may include funds from a limited number of other family members and associates. These funds are predominantly utilised where the Trustee perceives they have the requisite time and expertise to manage their own investment strategy and a sufficient scale of funds to make the fixed administration costs economically justifiable.

Corporate - funds established for the benefit of employees of a particular entity or a group of related entities, with joint member and employer control.

Public Sector - funds which provide benefits largely for government employees or employees of statutory authorities, or are schemes established by a Commonwealth, State or Territory law

IOOF Annual Financial Report 2017

Directors' report

Operating and financial review (continued)

Self Managed Funds are regulated by the Australian Taxation Office (ATO) whereas all others above are regulated by the Australian Prudential Regulation Authority (APRA).

The IOOF Group administers and manages Retail funds. Australian Superannuation assets totalled \$2.3 trillion as at 30 June 2017. Over the 12 months to June 2017 there was an 10.0% increase in total superannuation assets and retail providers had a market share of approximately 25%. The IOOF Group's market share of that sub-set, as represented by our platform administration segment's flows to Funds Under Administration, was approximately 9%. There is a high degree of competition between the five fund types and fragmentation and competition among the participants within each fund type.

As at the end of June 2017, for funds with greater than four members, 49.8% of investments were invested in equities; with 22.8% in Australian listed equities, 22.9% in international listed equities and 4.0% in unlisted equities. Fixed income and cash investments accounted for 33.3% of investments; 20.9% in fixed income and 12.4% in cash. Property and infrastructure accounted for 13.3% of investments and 3.7% were invested in other assets, including hedge funds and commodities.

The IOOF Group operates in the Wealth Management sector. The sector has a substantial and growing pool of funds underpinned by government compulsion. The attraction of the sector is further enhanced by high regulatory and technological barriers to entry from new competitors. As an incumbent participant, we seek to grow our Funds Under Management, Administration, Advice and Supervision (FUMAS) faster than our competitors. In doing so, the portion of our revenue net of direct costs (gross margin) which is levied on asset balances may reasonably be expected to rise proportionately with FUMAS. This proportionate rise may be affected by the impact of differentiated product pricing and competitive pressure on management fee rates. In conjunction, we seek to leverage a cost base which is largely fixed relative to the scale of our FUMAS.

The IOOF Group's future FUMAS growth will be underpinned by organic and acquisition initiatives. Organic growth will be advanced through:

- increasing brand and product awareness to increase revenue;
- enhancing the adviser and fund client experience through continued technology development and experienced knowledgeable support staff;
- operating an open architecture environment which allows our advisers and clients to utilise the administration service which best meets their objectives irrespective of whether it is an IOOF Group proprietary service or a competitor's service. All options, however, generate a favourable economic return for the IOOF Group;
- enhanced training initiatives and leading minimum qualification standards to give our staff and advisers every opportunity to optimise the experience of our clients;
- establishing skilled teams and robust analytical processes to enhance the prospect of achieving above benchmark performance in investment management; and
- continuous improvement in process efficiency to minimise operating costs.

The IOOF Group also has a long-term strategy of pursuing growth through acquisitions and has completed several acquisitions in previous years. The IOOF Group will continue to pursue acquisitions within the Wealth Management sector on an opportunistic basis. However acquisitions will only be considered where they present a logical strategic fit with existing operations and are priced reasonably for the expected value accretion to shareholders. The funding of acquisitions will be considered on a case by case basis taking into account the relative cost of available funding sources and the impact on balance sheet structure overall.

On 14 June 2017, the IOOF Group announced its agreement with National Australia Bank Limited to acquire National Australia Trustees Limited (NATL). NATL is a significant provider of trustee services with a recognised history in Western Australia, New South Wales, Queensland and Victoria. NATL's offering is considered a strong strategic fit with the IOOF Group's existing trustee business, Australian Executor Trustees Limited (AET), as combined customers will benefit from greater scale and more specialist product offerings. Completion of the sale is subject to regulatory approval and is expected to be finalised in the next half-yearly reporting period. As such, there has been no impact on the IOOF Group's results for the current year.

The IOOF Group's UNPAT of \$169.4m for the year ended 30 June 2017 was materially in line with \$171.3m UNPAT from continuing operations in the prior year.

In the prior year Perennial Fixed Interest and Perennial Growth Management were divested to the Henderson Group plc (Henderson) for an upfront consideration of \$71.6m and a deferred component dependent on future business performance, payable after two and four years. \$0.7m has been recognised in statutory profit only as deferred consideration for the year ended 30 June 2017. The results of these businesses have been disclosed as a discontinued operation in the financial statements. These divestments allow the IOOF Group to concentrate on its core advice, superannuation, multimanager and trustee business. The proceeds from the divestment will fund congruent acquisitions.

Analysis of financial results - IOOF Group

Analysis of the IOOF Group's result excludes the divested Perennial businesses from the review and the impact on particular items of revenue or expense highlighted in discontinued operations disclosures. Variances compare the year to 30 June 2017 with the year to 30 June 2016.

Operating and financial review (continued)

Gross margin decreased \$9.6m

During the current year, average Funds Under Management, Administration and Advice (FUMA) were \$109.5b, an increase of 5.5% on the prior year average. The increases were derived largely from equity market performance in the current year augmented by organic growth in advice based funds. Platform and advice flows of \$4.2b were up 131% on prior year. Organic growth benefited from higher levels of flows across the sector and better penetration of the IOOF Group's existing client base. As far as the latter is concerned, the transfer of clients from the Bridges aligned TPS platform to the IOOF Group's contemporary, more marketable, Pursuit offering was the prime cause of this positive outcome. The improvement on prior year was also impacted by the loss of a single low margin corporate account which had an outsize impact in that prior year.

The revenue impact from higher average funds was offset by negative impacts from product mix on earning rates or margins. It should be noted, however, that margins improved significantly across the two halves of the current year. Within platform administration, the lower rates for the current year principally reflected the ability of clients transferred via platform rationalisation to access lower fee scales. In addition, there is a continuing trend for a higher proportion of funds to be directed towards more contemporary platforms with lower fees, but commensurately lower attributable overheads. Notwithstanding, higher platform margins were achieved in the second half of the current year due to service fee repricing. Investment management margins were stable, with an improved second half of the current year driven by consolidation of underlying fund managers and resultant lower costs. In financial advice, Shadforth margins declined due to divestment and service mix impacts whilst new business from incoming advisers was dilutive on segment margin overall.

Other revenue increased \$2.7m

The IOOF Group's broking businesses', (Ord Minnett and Bridges) contributions were up in comparison to prior year due to improved equity market conditions for new issues and traded volumes more broadly. In comparison to prior year, service charges to associated entities were reduced in line with the significant number of divested holdings enacted in 2015 and 2016.

Operating expenditure decreased by \$9.0m

The decrease in operating expenditure excludes the impact of expenditure items identified as reversed in calculating UNPAT. As a financial services provider, labour represents the IOOF Group's most material cost. Labour costs have reduced by \$2.1m despite higher rates of pay due to lower staff numbers following realisation of efficiencies through platform rationalisation. This rationalisation, in addition to a strategic imperative to build enhanced functionality in the prior year, has also seen computer expenditure reduce by approximately \$8.8m relative to prior year. Professional fees have increased largely because specialist advisers have been engaged to assess significant acquisition opportunities. In addition, the IOOF Group has outsourced a significant component of its research capability which has the effect of increasing professional fees, but lowering staff numbers.

Net financing costs stable

Net financing costs have not varied materially as there has been a reasonably stable interest rate environment over the two years to 30 June 2017 in addition to similar patterns of sources and applications of funds over that period.

Other profit impacts decreased by \$1.7m

Non-controlling interests excluded Perennial entities due to classification as discontinued operations and was \$1.2m higher in line with Ord Minnett's increased profitability. Share of associates profits declined \$1.4m relative to prior year as a result of mandate outflows and higher costs within the Perennial Value Management (PVM) Group. Share-based payments expense was \$0.7m lower due to the roll off of non-employee stakeholder plans.

Income tax increased by \$2.4m

Income tax expense relative to prior year reflected a \$4.1m lower spend on treasury shares to fulfil employee share plans (\$1.2m tax impact). This was due principally to a wind down in scale and breadth of plans overall. Assessable income, as opposed to accounting profit before tax, was higher than the prior year and R&D claims lower on the back of lower software development expenditure.

Analysis of financial results - Segments (excluding discontinued operations)

	2017	2016	Movement	
	\$'000	\$'000	\$'000	%
Financial advice and distribution				
Net operating revenue	261,808	261,667	141	0.1%
Other revenue (incl equity accounted profits)	3,856	4,700	(844)	(18.0%)
Operating expenditure	(148,755)	(147,715)	(1,040)	(0.7%)
Net financing	560	731	(171)	(23.4%)
Net non-cash items	(3,221)	(3,967)	746	18.8%
Income tax expense and non-controlling Interest	(37,894)	(36,981)	(913)	(2.5%)
Underlying Profit after Tax	76,354	78,435	(2,081)	(2.7%)

- Average funds growth has been offset by Shadforth fee mix impacts and divestments of owned advice business into owner operated dealer groups. The addition of advisers has brought new revenue streams into the IOOF group, albeit at a dilutive margin in percentage of average funds terms.

Operating and financial review (continued)

Analysis of financial results - Segments (excluding discontinued operations) (continued)

Financial advice and distribution (continued)

- Operating expenditure has been impacted by redistribution of corporate charges in the wake of significant divestments in the prior year. In particular, there has been significant re-weighting toward front line support for advisers under the IOOF Group's Client First initiatives.

	2017 \$'000	2016 \$'000	Movement	
			\$'000	%
Platform management and administration				
Net operating revenue	212,450	218,161	(5,711)	(2.6%)
Other revenue (incl equity accounted profits)	-	375	(375)	(100.0%)
Operating expenditure	(95,865)	(99,409)	3,544	3.6%
Net financing	1	2	(1)	(50.0%)
Net non-cash items	(5,380)	(5,288)	(92)	(1.7%)
Income tax expense and non-controlling Interest	(33,939)	(34,820)	881	2.5%
Underlying Profit after Tax	77,267	79,021	(1,754)	(2.2%)

- Average funds benefited from significantly improved organic growth. Improvements in fund flows in the sector more generally, the transfer of Bridges' clients to Pursuit and the administration of increased native title and compensation funds from the trustee segment were the key drivers of this outcome. This growth was complemented by positive investment returns.
- Net operating revenue decrease was driven primarily by lower pricing tiers for Bridges' clients following the rationalisation of two flagship retail platforms to one and a full year of MySuper pricing on higher balance accounts.
- Significantly reduced operating expenditure resulted primarily from reduced staff numbers and technology support and license costs following platform rationalisation. In addition, there was higher IT investment in the prior year in order to facilitate higher levels of on-line transacting in future periods.

	2017 \$'000	2016 \$'000	Movement	
			\$'000	%
Investment management				
Net operating revenue	57,508	57,719	(211)	(0.4%)
Other revenue (incl equity accounted profits)	2,737	5,572	(2,835)	(50.9%)
Operating expenditure	(14,284)	(19,769)	5,485	27.7%
Net financing	436	1,236	(800)	(64.7%)
Net non-cash items	(723)	(1,383)	660	47.7%
Income tax expense and non-controlling Interest	(12,967)	(11,996)	(971)	(8.1%)
Underlying Profit after Tax	32,707	31,379	1,328	4.2%

- Net operating revenue was stable with broadly equivalent average funds and margins across both years. Other revenue was affected by PVM performance.
- Decreased operating expenditure resulted from lower allocation of IOOF Group service costs following the divestment of Perennial.

	2017 \$'000	2016 \$'000	Movement	
			\$'000	%
Trustee services				
Net operating revenue	28,490	27,422	1,068	3.9%
Other revenue (incl equity accounted profits)	-	-	-	n/a
Operating expenditure	(18,341)	(18,601)	260	1.4%
Net financing	-	-	-	n/a
Net non-cash items	(578)	(246)	(332)	LARGE
Income tax expense and non-controlling Interest	(2,876)	(2,578)	(298)	(11.6%)
Underlying Profit after Tax	6,695	5,997	698	11.6%

- Net operating revenue has increased in line with higher client numbers; in particular, an improved contribution from the compensation trust and native title trust businesses resulted from an investment in capability and service delivery.
- Reduced operating expenditure resulted from efficiencies following stronger alignment with the broader IOOF Group operating model.

Operating and financial review (continued)

Financial Position

The IOOF Group held cash and cash equivalents of \$208.2m at 30 June 2017 (30 June 2016: \$187.0m). Cash is held to satisfy regulatory net asset requirements and also to ensure adequate liquidity given management fee receipts are less frequent than payroll and service fee cash outflows.

The overall debt to equity ratio stood at 13% at 30 June 2017 (30 June 2016: 13%). Net debt, borrowings less cash, stood at 0.0 times underlying earnings before interest, tax, depreciation and amortisation. This compares favourably to a covenant ratio upper limit of 2.5 times. Cash flow forecasting is conducted monthly which indicates that the IOOF Group's debt levels are able to be serviced from current business operations. We also conduct stress testing of lending covenants when assessing acquisition opportunities and monitor adherence to licence conditions monthly.

Risks

The IOOF Group manages a number of risks in conducting its operations and implementing its strategy. An in depth discussion of risks and sensitivities is outlined in Section 1 of the financial statements. Material risks faced by the IOOF Group include, but may not be limited to, the following:

(i) Changes in investment markets

The IOOF Group derives a significant proportion of its earnings from fees and charges based on the level of FUMAS. The level of FUMAS will reflect (in addition to other factors such as the funds flowing into and out of FUMAS) the investment performance of those funds. Therefore, changes in domestic and/or global investment market conditions could lead to a decline in FUMAS, adversely impacting the amount we earn in fees and charges. Deterioration in investment market conditions could also lead to reduced consumer interest in the IOOF Group's financial products and services. The principal response to this risk has been to establish comprehensive investment governance committees, policies and procedures which are subject to continuous monitoring and oversight.

(ii) Competition

There is substantial competition for the provision of financial services in the markets in which the IOOF Group operates. A variety of market participants in specialised investment fund management, wealth advice and corporate trustee services compete vigorously for customer investments and the provision of wealth management services. These competitive market conditions may adversely impact earnings and assets. The IOOF Group manages this risk by continuously investing in product design, stakeholder relationships and continuous improvement initiatives.

(iii) Information technology

The IOOF Group relies heavily on information technology. Therefore, any significant or sustained failure in the IOOF Group's core technology systems could have a materially adverse effect on operations in the short term, which in turn could undermine longer term confidence and impact the future profitability and financial position of the IOOF Group. The IOOF Group has implemented a next-generation firewall, pursues continuous improvements to protect user devices and imposes segregation of duties between technology environments. More broadly, the IOOF Group uses policies and procedures which are subject to continuous monitoring and oversight, maintains a significant complement of experienced staff and employs specialist advisers. Information technology controls are highly complementary to those employed to minimise cyber security risks.

(iv) Cyber security

There is a risk of significant failure in the IOOF Group's operations and/or material financial loss as a result of cyber attacks. To manage this risk, the IOOF Group has followed the recommendation of ASIC and adopted the United States government's National Institute of Standards and Technology cybersecurity framework. In doing so, the IOOF Group has implemented measures and controls that cover identification, detection, monitoring and response in relation to cyber threats. More broadly, we have developed and tested our disaster recovery capability and procedures, implemented high availability infrastructure and architectures, conducted mandatory staff training which is focused on cyber risk and continually monitor our systems for signs of poor performance, intrusion or interruption. Cyber security controls are highly complementary to those employed to minimise information technology risks.

(v) Brands and reputation

The IOOF Group's capacity to attract and retain financial advisers, employees, clients and FUMAS depends to a certain extent upon the brands and reputation of its businesses. A significant and prolonged decline in key brand value or group reputation could contribute to lower new business sales, reduced inflows of investment funds and assets, damage to client strategies and may impact adversely upon our future profitability and financial position. The IOOF Group actively monitors media and other public domain commentary on its affairs as well as proactively promoting the value of its services, products and community initiatives and building a customer centric culture.

(vi) Provision of investment advice

The IOOF Group's financial advisers and authorised representatives provide advice to clients and may be exposed to litigation if this advice is judged to be incorrect or if the authorised representative otherwise becomes liable for client losses. This risk is managed by having high educational, compliance and training standards for the IOOF Group's advisers whilst its potential financial impact is generally mitigated by taking out appropriate insurance cover.

Operating and financial review (continued)

Risks (continued)

(vii) Operational risks

Operational risk is the risk arising from the daily functioning of the IOOF Group's businesses. The IOOF Group has specific operational exposures relevant to the industry in which we operate including exposures in connection with product disclosure statements, investment management, tax and financial advice, legal and regulatory compliance, product commitments, process error, fraud, system failure, failure of security and physical protection systems and unit pricing errors. This risk is minimised via policies and procedures which are subject to continuous monitoring and oversight. The IOOF Group maintains a significant complement of experienced staff, builds a positive culture and utilises specialist advisers to carry out such monitoring.

(viii) Conduct risk

Conduct risk is the risk of failure of the IOOF Group's frameworks, product design or practices to prevent inappropriate, unethical or unlawful conduct (either by negligence or deliberate actions) on the part of the IOOF Group's management, employees, contractors or representatives. The IOOF Group's culture of honest and ethical behaviour is supported by the IOOF Code of Conduct and its Compliance Manual for Authorised Representatives, which set out the tenets of professional and personal conduct with which directors, employees, contractors, Authorised Representatives, agents and consultants are required to comply. These include promoting a healthy and safe environment, protecting private and confidential information, acting at all times within the law and acting in the best interests of the IOOF Group, its shareholders, clients and investors. As an additional safeguard, the IOOF Group's Whistleblower Policy protects employees from detrimental action where employees disclose, in good faith and with reasonable grounds, any unethical, illegal, fraudulent or undesirable conduct.

(ix) Credit risk

Credit risk refers to the risk that a counterparty will fail to meet its contractual obligations resulting in financial loss that arises from receivables, loans and other receivables. The IOOF Group's counterparties generally do not have an independent credit rating. The IOOF Group assesses the credit quality of the debtor taking into account its financial position, past experience with the debtor, and other available credit risk information.

(x) Cash flow and interest rate risk

Interest rate risk is the risk to the IOOF Group's earnings and capital arising from changes in market interest rates. The financial instruments held that will be impacted by interest rate risk consist of cash and cash equivalents, loans, and borrowings. Short and long-term investment mixes and loans to related entities are influenced by liquidity policy requirements. Interest rates (both charged and received) are based on market rates, and are closely monitored by management. They are primarily at variable rates of interest, and will expose the IOOF Group to cash flow interest rate risk.

(xi) Liquidity risk

Liquidity risk relates to the IOOF Group having insufficient liquid assets to cover current liabilities and unforeseen expenses. The IOOF Group manages liquidity risk exposure by maintaining sufficient liquid assets and an ability to access a committed line of credit. The liquidity requirements for licensed entities in the IOOF Group is also regularly reviewed and carefully monitored in accordance with those licence requirements.

(xii) Reliance on Australian Financial Services Licence, Registrable Superannuation Entity and other licences

In order to provide the majority of its services in Australia, a number of the IOOF Group's controlled entities are required to hold a number of licences, most notably AFS or RSE licences. If any of those entities fails to comply with the general obligations and conditions of its licence, this could result in the suspension or cancellation of the licence. While it is not expected to occur, a breach or loss of licences could have a material adverse effect on business and financial performance. AFS and RSE licences also require the licence holder to maintain certain levels of capital. These capital requirements may change from time to time. Earnings dilution may occur where a higher capital base is required to be held.

(xiii) Insurance

The IOOF Group holds insurance policies, including errors and omissions (professional indemnity) and directors' and officers' insurance, which are commensurate with industry standards, and adequate having regard to our business activities. These policies provide a degree of protection for the IOOF Group's assets, liabilities, officers and employees. However, no assurance can be given that any insurance that the IOOF Group currently maintains will:

- be available in the future on a commercially reasonable basis; or
- provide adequate cover against claims made against or by the IOOF Group, noting that there are some risks that are uninsurable (e.g. nuclear, chemical or biological incidents) or risks where the insurance coverage is reduced (e.g. cyclone, earthquake, flood, fire).

The IOOF Group also faces risks associated with the financial strength of its insurers to meet indemnity obligations when called upon which could have an adverse effect on earnings. If the IOOF Group incurs uninsured losses or liabilities, its assets, profits and prospects may be adversely affected.

Operating and financial review (continued)

Risks (continued)

(xiv) Unit pricing errors

Systems failures or errors in unit pricing of investments are issues affecting the broader funds management industry that may result in significant financial losses and brand damage to a number of financial services organisations. A unit pricing error made by the IOOF Group or its service providers could cause financial or reputation loss. This risk is minimised via policies, procedures and contractual enforcement which are subject to continuous monitoring and oversight. The IOOF Group maintains a significant complement of experienced staff and utilises specialist service providers to maintain robust systems and accurate inputs.

(xv) Dependence on key personnel

The IOOF Group's performance is dependent on the talents and efforts of key personnel. The IOOF Group's continued ability to compete effectively depends on our capacity to retain and motivate existing employees as well as attract new employees. The loss of key executives or advisers could cause material disruption to operations in the short to medium term. While equity incentives of key personnel align their interests with the IOOF Group's future performance, they do not provide a guarantee of their continued employment. The IOOF Group utilises succession planning to manage this risk.

(xvi) Dependence on financial advisers

The success of the IOOF Group's advice and platform business is highly dependent on the quality of the relationships with its financial advisers and the quality of their relationships with their clients. The IOOF Group's ability to retain productive advisers is managed by monitoring and, where necessary, improving service levels, technological capability, suitability of product offerings and the quality and relevance of professional training.

(xvii) Acquisitions

Acquisition transactions involve inherent risks, including:

- accurately assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquired businesses;
- integration risks including the risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated;
- diversion of management attention from existing business;
- potential loss of key personnel and key clients;
- unanticipated changes in the industry or general economic conditions that affect the assumptions underlying the acquisition; and
- decline in the value of, and unanticipated costs, problems or liabilities associated with, the acquired business.

Any of these risks could result in a failure to realise the benefits anticipated to result from any acquisition of new business and could have a material adverse impact on our financial position. The IOOF Group maintains a significant complement of experienced staff and holds relationships with specialist advisers to assess acquisition opportunities. This is designed to ensure the Board is fully informed of the risks and opportunities associated with any potential individual acquisition.

(xviii) Dilution

The IOOF Group's need to raise additional capital in the future in order to meet its operating or financing requirements, including by way of additional borrowings or increases in the equity of any of the consolidated entity's companies, may change over time. Future capital raisings or equity funded acquisitions may dilute the holdings of particular shareholders to the extent that such shareholders do not subscribe to additional equity, or are otherwise not invited to subscribe in additional equity. This risk will be managed by examination of relevant factors and circumstances prevailing at that time.

(xix) Regulatory and legislative risk and reform

The financial services sectors in which the IOOF Group operates are subject to extensive legislation, regulation and supervision by a number of regulatory bodies in multiple jurisdictions. The regulatory regimes governing the IOOF Group's business activities are complex and subject to change. The impact of future regulatory and legislative change upon the IOOF Group cannot be predicted. In addition, if the amount and complexity of new regulation increases, so too may the cost of compliance and the risk of non-compliance. The IOOF Group maintains a significant complement of experienced staff and holds relationships with specialist advisers to minimise this risk.

Shareholder returns

The IOOF Group dividend is calibrated to provide shareholders with a benefit which reflects performance and offers an attractive yield when assessed against a range of other external economic factors and investment options. The Board also understands that dividend payments should not hinder future organisational plans. The Board has therefore determined that a pay-out ratio range of 60% - 90% of UNPAT is generally appropriate, but not binding. Based on historical precedent, the occasions on which this range is not met or exceeded are expected to be infrequent.

Total Shareholder Return (TSR) measures the change in share value over a specified period together with the return by way of dividends received. The IOOF Group's TSR for the twelve months to 30 June 2017 was 31.9% with 99% of UNPAT paid as dividends augmented by strong share price growth of 25.2%. The market valuation of the IOOF Group remained reflective of movements in global equity markets generally. TSR in the 5 year period from 1 July 2012 was 103% in total and 15.3% on a compounding annualised basis. The IOOF Group is in a strong financial position with low gearing and significant free cash.

IOOF Annual Financial Report 2017

Directors' report

Operating and financial review (continued)

Shareholder returns (continued)

	2017	2016	2015	2014	2013
Profit attributable to owners of the Company (\$'000s) ⁽¹⁾	115,990	196,846	138,371	101,285	79,769
Profit for the year from continuing operations (\$'000s)	119,851	140,542	140,527	103,378	80,432
Basic EPS (cents per share)	38.7	65.7	47.7	43.7	34.4
Diluted EPS (cents per share)	38.6	65.4	47.4	43.1	34.1
Basic EPS (continuing operations) (cents per share)	38.7	46.0	45.8	43.7	34.4
UNPAT (\$'000s)	169,357	173,367	173,758	123,047	108,756
UNPAT EPS (cents per share)	56.5	57.8	59.9	53.1	46.9
UNPAT EPS (continuing operations) (cents per share)	56.5	57.1	58.6	53.1	46.9
Dividends declared (\$'000s)	159,071	163,573	159,070	127,260	97,485
Dividends per share (cents per share)	53.0	54.5	53.0	47.5	42.0
Opening share price	\$ 7.83	\$ 8.99	\$ 8.40	\$ 7.36	\$ 6.05
Closing share price at 30 June	\$ 9.80	\$ 7.83	\$ 8.99	\$ 8.40	\$ 7.36
Return on equity (non-statutory measure) ⁽²⁾	12.1%	12.3%	13.4%	15.0%	13.2%

⁽¹⁾ Profit attributable to owners of the Company has been calculated in accordance with Australian Accounting Standards.

⁽²⁾ Return on equity is calculated by dividing UNPAT by average equity during the year.

Returns to shareholders increase/decrease through both dividends and capital growth/decline. Dividends for 2017 and prior years were fully franked.

Items excluded from underlying net profit after tax pre-amortisation (UNPAT)

Amortisation of intangible assets: Non-cash entry reflective of declining intangible asset values over their useful lives. Intangible assets are continuously generated within the IOOF Group, but are only able to be recognised when acquired. The absence of a corresponding entry for intangible asset creation results in a conservative one sided decrement to profit only. It is reversed to ensure the operational result is not impacted. The reversal of amortisation of intangibles is routinely employed when performing company valuations. However, the amortisation of software development costs is not reversed in this manner.

Termination and retention incentive payments: Facilitation of restructuring to ensure long term efficiency gains which are not reflective of conventional recurring operations.

Gain on divestment of subsidiaries: During the year, the IOOF Group divested its interests in Perennial Investment Management Limited to Perennial Value Management Ltd. The IOOF Group also partially divested a subsidiary (2016: Perennial Fixed Interest and Perennial Growth Management).

Profit on divestment of assets: Divestments of non-core businesses, client lists and associates.

Non-recurring professional fees: Costs relating to specialist service and advice providers enlisted to assist the IOOF Group in better informing key stakeholders. These services were required following negative media allegations. In particular, but not limited to, process review, senate inquiry support, government relations, litigation defence and communications advice. It is not anticipated that this type and level of support will be required on a recurrent basis. Costs were predominantly in the prior year.

Acquisition tax provision release: The acquisition of DKN in the 2012 financial year necessitated recognition of a provision related to an uncertain tax position. This was recognised at estimated fair value, however the provision was released during the current year as it was adjudged that a present obligation no longer existed. This was a one-off, non-cash, non-operational increment to the IOOF Group's statutory profitability.

Impairment of goodwill: A non-cash impairment of \$38.6m has been recognised in relation to goodwill allocated to PVM and its subsidiaries. Reduced profitability from both lower revenue and higher costs has led to calculated value-in-use declining to below the carrying value of the aggregate goodwill and investment balances. Revenue decline has arisen due to institutional outflows. These outflows reflect changing market dynamics where larger institutions now weight a greater proportion of funds to indexed products. This has combined with below benchmark performance in 2012 which adversely affected 3 and 5 year fund performance numbers. Higher costs resulted from an absence of operations scale and subsidisation following the divestment of other Perennial entities as PVM moved to virtually complete autonomy during the current year.

Unwind of deferred tax liability recorded on intangible assets: Acquired intangible asset valuations for AASB 3 Business Combinations accounting are higher than the required cost base as set under tax consolidation rules implemented during 2012. A deferred tax liability (DTL) is required to be recognised as there is an embedded capital gain should the assets be divested at their accounting values. This DTL reduces in future years at 30% of the amortisation applicable to those assets which have different accounting values and tax cost bases. The recognition of DTL and subsequent reductions are not reflective of conventional recurring operations and are regarded as highly unlikely to be realised due to the IOOF Group's intention to hold these assets long term.

Operating and financial review (continued)

Items excluded from underlying net profit after tax pre-amortisation (UNPAT) (continued)

Acquisition and divestment transaction costs: In 2016, one off payments to external advisers in pursuit of corporate transactions, such as the divestment of certain Perennial subsidiaries, which were not reflective of conventional recurring operations.

Onerous contracts: In 2016, non-cash entry to record the estimated present value of expected costs of meeting the obligations under terminated information technology contracts associated with platform rationalisation. For these contracts, the costs exceed the economic benefits expected to be received.

Reinstatement of Perennial non-controlling interests: In 2016, embedded derivatives existed given the IOOF Group's obligation to buy-back shareholdings in certain Perennial subsidiaries if put under the terms of their shareholders' agreements. International Financial Reporting Standards deems the interests of these non-controlling holders to have been acquired. Those interests must therefore be held on balance sheet as a liability to be revalued to a reserve each reporting year. In calculating UNPAT, the non-controlling interest holders share of the profit of these subsidiaries is subtracted from the IOOF Group result as though there were no embedded derivatives to better reflect the current economic interests of Company shareholders in the activities of these subsidiaries.

Income tax attributable: This represents the income tax applicable to certain adjustment items outlined above.

Dividends

In respect of the financial year ended 30 June 2017, the Directors declared the payment of a final dividend of 27.0 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares to be paid on 1 September 2017. This dividend will be paid to all shareholders recorded on the Register of Members on 18 August 2017.

The Directors declared the payment of an interim dividend of 26.0 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares paid on 30 March 2017.

In respect of the financial year ended 30 June 2016, a final dividend of 26.0 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 13 October 2016.

Environmental regulation

The IOOF Group is not subject to significant environmental regulation.

Events occurring after balance date

The Directors have declared the payment of a final dividend of 27.0 cents per ordinary share franked to 100% based on tax paid at 30%, to be paid on 1 September 2017.

The Directors are not aware of any other matter or circumstance not otherwise dealt with in this report, or the accompanying financial statements and notes thereto, that has arisen since 30 June 2017 that has significantly affected, or may significantly affect:

- the IOOF Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the IOOF Group's state of affairs in future financial years.

Lead auditor's independence declaration

The lead auditor's independence declaration is included on page 30 of the annual financial report and forms part of the Directors' Report for the year ended 30 June 2017.

Company secretary

The Company Secretary is Mr A Paul M Vine LLB FGIA FCIS GAICD. Mr Vine was appointed to the position in December 2015 and is also the General Manager Legal, Risk and Compliance, with over 25 years' experience in legal and governance roles in public companies and leading law firms.

IOOF Annual Financial Report 2017

Directors' report

Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

Director	Directors Meetings		Committee Meetings					
	Meetings attended	Meetings held	Remuneration Committee		Nominations Committee		Remuneration & Nominations Committee ⁽¹⁾	
			Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held
C Kelaheer	13	13	n/a	n/a	2	2	n/a	n/a
G Venardos	13	13	2	2	2	2	2	2
R Sexton	8	8	n/a	n/a	n/a	n/a	2	2
J Harvey	12	13	n/a	n/a	2	2	2	2
A Griffiths	13	13	2	2	n/a	n/a	n/a	n/a
E Flynn	13	13	2	2	n/a	n/a	n/a	n/a
J Selak	7	7	n/a	n/a	n/a	n/a	n/a	n/a

Committee Meetings (continued)						
Director	Group Audit Committee		APRA Regulated Entity Audit Committee ⁽²⁾		Risk and Compliance Committee ⁽²⁾	
	Meetings attended	Meetings held	Meetings attended	Meetings held	Meetings attended	Meetings held
C Kelaheer	n/a	n/a	n/a	n/a	n/a	n/a
G Venardos	2	2	n/a	n/a	6	7
R Sexton	6	6	n/a	n/a	n/a	n/a
J Harvey	8	8	3	3	7	7
A Griffiths	8	8	n/a	n/a	7	7
E Flynn	6	6	3	3	7	7
J Selak	2	2	3	3	n/a	n/a

(1) The Remuneration and Nominations Committee was reorganised into two separate Committees effective 24 November 2016.

(2) These Committees include additional members that are not Directors of IOOF Holdings Ltd.

Meetings held represents the number of meetings held during the time the Director held office.

The Directors meetings are those held for IOOF Holdings Ltd. This does not include the meetings held and attended by Directors for the various subsidiary companies. Major subsidiaries averaged a further 7 meetings each during the year.

In addition to the meetings attended during the year, a number of matters were considered and addressed separately via circular resolution.

Shares issued on exercise of options

During the financial year, the IOOF Group did not issue any ordinary shares of the Company as a result of the exercise of options. All plans were satisfied from the purchase of shares.

Unexercised options over shares, performance rights and deferred shares

At the date of this report unexercised options over shares of the Company under deferral arrangements and performance rights are:

Performance rights		Deferred shares	
Vesting date	Number of rights	Vesting date	Number of shares
30 Jun 18	135,000	31 Jul 18	35,420
30 Jun 19	329,567		35,420
31 Dec 19	30,000		
	494,567		

Shares allocated on vesting will rank equally with all other ordinary shares on issue.

These performance rights do not entitle the holder to participate in any share issue or receive dividends of the Company.

IOOF Annual Financial Report 2017

Directors' report

Indemnification and insurance

Rule 84 of the IOOF Holdings Ltd Constitution requires the Company to indemnify to the extent permitted by law, each Director and Secretary against liability incurred in, or arising out of the conduct of the business of the Company or the discharge of the duties of the Director or Secretary. The Directors and Secretary named in this Directors' Report have the benefit of this requirement, as do individuals who formerly held one of those positions.

In accordance with this requirement the Company has entered into Deeds of Access, Indemnity and Insurance (Deeds of Indemnity) with each Director and Secretary. During the financial year, the IOOF Group paid insurance premiums to insure against amounts that the IOOF Group may be liable to pay the Directors and Secretary pursuant to Rule 84. The insurance policy also insures the Directors and Secretary of the Company and its controlled entities, and the general officers of each of the companies in the IOOF Group. Details of the amount of the premium paid in respect of the insurance contract have not been disclosed as such disclosure is prohibited under the terms of the contract.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the IOOF Group and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage to themselves or someone else or to cause detriment to the Company.

Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument amounts in the financial report are rounded off to the nearest thousand dollars, narrative disclosures are expressed in whole dollars or as otherwise indicated.

Non-audit services

The Directors are satisfied that the provision of non-audit services during the year of \$499,958, by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Non-audit services are managed as follows:

- fees earned from non-audit work undertaken by KPMG are capped at 1.0 times the total audit fee;
- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the IOOF Group, acting as advocate for the IOOF Group or jointly sharing economic risks and rewards.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

Remuneration Report

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The information in this report is in accordance with AASB 124 Related Party Disclosures and section 300A of the Corporations Act 2001, and has been audited as required by Section 308(3C) of the Corporations Act 2001 unless otherwise stated.

IOOF Annual Financial Report 2017

Directors' report

Remuneration Report (continued)

Executive Summary

This report details the remuneration framework and outcomes for Key Management Personnel (KMP) of the IOOF Group for the year ended 30 June 2017. The Board of Directors is committed to a remuneration strategy that aligns remuneration practices with the creation of shareholder value. A number of amendments have been made to the policies over the past few years to ensure that the policies have remained aligned with shifts in the IOOF Group's business strategy and focus. The key principles of the IOOF Group's remuneration policy remain unchanged from last year.

This report aims to communicate our remuneration practices, and their link to the creation of shareholder value, in a clear, concise and transparent way and demonstrate how these practices

- align to our strategic objectives;
- are sufficient to attract, motivate and retain an ambitious and highly talented executive team; and
- support an appropriate governance culture to minimise risks to our clients and shareholders.

2017 profitability was broadly equivalent to 2016's record result from continuing operations, with sustained returns to shareholders over the last three years. These strong results have been reflected in the short and long term incentive outcomes received by the KMP.

The IOOF Group's Total Shareholder Return (TSR) performance over the three years to 30 June 2017 was 36.9%, placing it at the 58th percentile relative to the ASX 200. Return on Equity (RoE) for the year to 30 June 2017 was 12.1%. The impact of these outcomes on the Managing Director and other executive KMP Long Term Incentives is detailed at sections 3.2.2 and 4.1.2 below. Following an independent remuneration consultant review completed during the year, Non-Executive Directors received an increase in fees to align with comparable peers in the financial services sector. The remuneration for all Non-Executive Directors remains within the shareholder approved limits.

1. Overview

1.1 Key Management Personnel

This report covers the IOOF Group's KMP. KMP are the people who have the authority and responsibility for planning, directing and controlling the activities of the IOOF Group:

Name	Position	Term as KMP
Managing Director		
Mr C Kelaher	Managing Director	Full year
Other Executive KMP		
Mr D Coulter	Chief Financial Officer	Full year
Mr S Merlicek ¹	Chief Investment Officer	Full year, retired 3 July 2017
Mr R Mota	Group General Manager - Wealth Management	Full year
Mr G Riordan	Group General Counsel & General Manager Trustee Services	Full year

¹ Mr D Farmer has taken on this role from 4 July 2017.

The Non-Executive Directors of the IOOF Group are also required to be disclosed as part of this report and are listed below:

Non-Executive Directors		
Mr G Venardos	Independent Non-Executive Director & Chairman	Full year, appointed as Chairman 24 November 2016
Dr R Sexton AM	Independent Non-Executive Director & Chairman	Retired 24 November 2016
Ms J Harvey	Independent Non-Executive Director	Full year
Mr A Griffiths	Independent Non-Executive Director	Full year
Ms E Flynn	Independent Non-Executive Director	Full year
Mr J Selak	Independent Non-Executive Director	Appointed 14 October 2016

1.2 Summary - Key Management Personnel remuneration

The IOOF Group uses a total remuneration package approach in determining remuneration that comprises both "fixed" and "at risk" components. These components reflect an employee's contribution to the IOOF Group, their skills and qualifications, market benchmarks and the remuneration environment.

The remuneration arrangements for KMP comprise three key components:

- a base package which is a fixed amount and is reviewed on an annual basis with consideration given to cost of living increases (CPI), market movements or changes in the scope of the individual's role and responsibilities;
- a Short Term Incentive (STI) amount which is tied to the successful achievement of a set of performance scorecard objectives (including financial, strategic, customer, people and governance objectives) for the annual performance period. STI awards are considered "at risk" components of an individual's remuneration and can be awarded as either cash or share-based arrangements; and
- a Long Term Incentive (LTI) which is intended to provide incentives to KMP to remain with the IOOF Group to enhance the sustainable performance of the IOOF Group over the long term. LTI awards are considered "at risk" components of an individual's remuneration and are all share-based arrangements.

IOOF Annual Financial Report 2017

Directors' report

Remuneration Report (continued)

1. Overview (continued)

1.2 Summary - Key Management Personnel remuneration (continued)

The following table sets out the remuneration received by the Managing Director and other executive KMP for the financial year ended 30 June 2017 and the prior year to 30 June 2016. The share-based payments shown below are not amounts actually received by KMP during the year, as they include accounting values for unvested share awards. Actual share-based payment amounts received are shown as cash remuneration. Further details are disclosed in sections 2 to 7 below.

Element of Remuneration		Salary	Bonus ⁽¹⁾	Non-monetary ⁽²⁾	Post employment	Share-based payments ⁽³⁾	Total	Cash remuneration ⁽⁴⁾	Remuneration components as a % of total remuneration	
					Superannuation	Performance Rights			Fixed	At risk ⁽⁵⁾
Component of Remuneration		Fixed	At risk	Fixed	Fixed	At risk	\$	\$	%	%
Managing Director										
C Kelahe	2017	1,211,363	697,765	5,898	19,616	1,102,138	3,036,780	2,886,590	41	59
	2016	1,187,756	651,891	8,877	19,308	1,051,796	2,919,628	5,005,194	42	58
Other Executive KMP										
D Coulter	2017	420,384	300,000	4,904	19,616	130,138	875,042	810,747	51	49
	2016	383,066	200,000	4,918	20,052	130,884	738,920	786,618	55	45
S Merlicek ⁽⁶⁾	2017	406,948	63,645	4,904	17,352	18,495	511,344	649,300	84	16
	2016	411,744	225,000	4,918	20,052	80,167	741,881	869,796	59	41
R Mota	2017	480,384	350,000	9,218	19,616	130,138	989,356	870,747	51	49
	2016	453,016	200,000	4,918	20,052	130,884	808,870	876,567	59	41
G Riordan	2017	447,048	140,000	1,961	19,616	130,138	738,763	777,411	63	37
	2016	438,287	140,000	801	19,308	130,884	729,280	801,095	63	37
Executive KMP - Former										
M Farrell ⁽⁷⁾	2016	224,764	70,000	830	11,510	29,599	336,703	559,524	70	30
Total	2017	2,966,127	1,551,410	26,885	95,816	1,511,047	6,151,285	5,994,795		
	2016	3,098,633	1,486,891	25,262	110,282	1,554,214	6,275,282	8,898,794		

(1) The bonus reflects amounts provided under the STI program in relation to the financial year. One third of the bonus awarded to Mr Kelahe has been deferred into shares which will vest in July 2018 subject to a "look back." This component of the STI is included as a share-based payment expense. The expected payment value of the bonuses is the amount shown and includes any amounts that may be sacrificed into superannuation.

(2) Non-monetary benefits include company funded benefits and fringe benefits tax payable on those benefits, typically car parking.

(3) Share-based payments include accruals in relation to the Executive Performance Share Plan and accruals in relation to other grants of performance rights over shares in the Company. The value of the number of shares and options expected to vest has been apportioned over the term from grant date to vesting date.

(4) This non-statutory disclosure provides shareholders with a view of the cash and other benefits received by KMP. Cash remuneration includes all remuneration paid during the financial year, including superannuation and STIs which were awarded for performance in previous financial years. In addition, any shares received by the KMP during the year are included at the value the shares were or could have been converted to cash on the date they were received. This value has been determined as the cash received by the employee where known, or the closing share price on the date the shares were allocated to the KMP less any consideration paid.

(5) As payment of the at-risk component is at the discretion of the Board, the minimum value is nil and the maximum is the total amount paid.

(6) S Merlicek ceased employment with the IOOF Group on 3 July 2017 and received a termination payment of \$160,077. Performance rights due to vest in 2018 and future financial years have lapsed.

(7) M Farrell ceased employment with the IOOF Group on 22 January 2016. On 26 November 2015, the Board resolved to approve early vesting of 50% of the 2015 rights on the date of Mr Farrell's cessation of employment. All other rights awarded to Mr Farrell have lapsed. Mr Farrell received a termination payment of \$29,407.

IOOF Annual Financial Report 2017

Directors' report

Remuneration Report (continued)

1. Overview (continued)

1.3 Summary - Non-Executive Directors remuneration

The total fees paid to the Chairman and the Non-Executive Directors (including fees paid for their involvement on Board committees) have been determined within the total amount for Non-Executive Directors as approved by shareholders. Following an independent remuneration consultant review completed during the year, Non-Executive Directors received an increase in Directors' fees to align with comparable peers in the financial services sector.

		Short-term benefits		Post-employment benefits	Shareholder approved remuneration	Post-employment benefits	Total
		Directors' fees ⁽¹⁾	Non-monetary	Superannuation		Retirement ⁽²⁾	
		\$	\$	\$	\$	\$	\$
G Venardos	2017	221,800	-	17,692	239,492	-	239,492
	2016	148,832	-	14,139	162,971	-	162,971
J Harvey	2017	155,297	-	14,753	170,050	-	170,050
	2016	148,832	-	14,139	162,971	-	162,971
A Griffiths	2017	155,924	-	14,126	170,050	-	170,050
	2016	149,826	-	13,145	162,971	-	162,971
E Flynn	2017	155,297	-	14,753	170,050	-	170,050
	2016	115,255	-	10,949	126,204	-	126,204
J Selak ⁽³⁾	2017	111,064	-	10,551	121,615	-	121,615
Former Non-Executive Directors							
R Sexton	2017	105,379	2,980	8,722	117,081	-	117,081
	2016	251,531	-	20,052	271,583	-	271,583
I Griffiths ⁽⁴⁾	2016	38,584	2,871	3,666	45,121	-	45,121
Total	2017	904,761	2,980	80,597	988,338	-	988,338
	2016	852,860	2,871	76,090	931,821	-	931,821

(1) Directors' fees includes any fees sacrificed into superannuation funds.

(2) Non-Executive Directors appointed after 13 April 2003 are not entitled to retirement benefits. Non-Executive Directors appointed prior to this date accrued retirement benefits. Where entitled, the provision was based on the average emoluments of Non-Executive Directors over the previous three years' of service. The benefit accrued after three years of service and varied according to the number of years of service, reaching twice the average annual emoluments after ten years of service. R Sexton was paid \$475,000 on his retirement on 24 November 2016. This amount was accrued at 30 June 2016 and relates to Director appointment pre 13 April 2003. Refer to 'post employment benefits' in section 8.2 for further details.

(3) Mr J Selak was appointed as Non-Executive Director effective 14 October 2016.

(4) Mr I Griffiths resigned as Non-Executive Director effective 2 October 2015.

2. Remuneration Framework

2.1 Objectives

The Board of Directors is committed to a remuneration strategy that aligns remuneration practices with the creation of shareholder value. To realise this objective, the Board is committed to remuneration practices which align to the IOOF Group's strategic objectives, are sufficient to attract, motivate and retain an ambitious and highly motivated executive team and promote an appropriate governance culture in line with the IOOF Group's risk appetite.

2.2 Remuneration governance

The Board of Directors oversees the IOOF Group's remuneration policies on recommendation from the Remuneration Committee. The Board and the Remuneration Committee review the remuneration policies of the IOOF Group annually to ensure that they support the IOOF Group's objectives.

The IOOF Group's Remuneration Framework, established by the Remuneration Committee, considers the adequacy of remuneration policies and practices within the IOOF Group on an annual basis, including;

- determination of Managing Director and other executive remuneration arrangements;
- ensuring that succession planning and development plans are in place for KMP and their potential successors;
- on-going review and monitoring of short-term and long-term incentive schemes;
- setting key performance indicators and assessment of the Managing Director's and the IOOF Group's performance against those key performance indicators;
- overall compensation arrangements of the IOOF Group;
- ensuring remuneration policies are appropriate to Non-Executive Directors;
- ongoing review of the composition, skill base and performance of Non-Executive Directors; and
- compliance with regulatory requirements including the ASX Listing Rules and the associated ASX Corporate Governance Principles and meeting both ASIC and APRA requirements.

Remuneration Report (continued)

2. Remuneration Framework (continued)

2.2 Remuneration governance (continued)

The Remuneration Committee reviews and makes recommendations to the Board on the remuneration structure and policies applicable to the KMP and Non-Executive Directors of the IOOF Group.

The Remuneration Committee's charter is available on the Corporate Governance page of the Company's website at www.ioof.com.au

2.3 Committee Members

The Remuneration and Nominations Committee was in existence until 24 November 2016. Separate committees were formed for these functions post this date. The members of the Remuneration and Nominations Committee were Mr George Venardos (Chairman), Ms Jane Harvey and Dr Roger Sexton.

The Remuneration Committee was established on 24 November 2016. The Committee is comprised solely of Non-Executive Directors, all of whom are independent. The members of the Remuneration Committee during 2017 were Mr Allan Griffiths (Chairman), Mr George Venardos and Ms Elizabeth Flynn.

The Board considers that the members of the Remuneration Committee provide an appropriate mix of skills to undertake its terms of reference, having regard to qualifications, knowledge of the financial services industry and experience in business management.

In order to ensure that it is fully informed when making remuneration decisions, the Remuneration Committee receives regular reports and updates from the Company Secretary and the Group General Manager, People and Culture and other members of management invited by the Remuneration Committee to attend meetings when appropriate. The Remuneration Committee can also draw on services from a range of external sources, including access to benchmarking material and remuneration consultants. This enables the IOOF Group to remain competitive with relevant competitors in the financial services sector and the broader spectrum of public companies of similar size, revenue and profitability.

2.4 How remuneration is determined

Executive remuneration comprises a number of components including total fixed remuneration (TFR), STIs, partially (cash) deferred STI (for the Managing Director only) and LTIs in the form of deferred shares (Managing Director only) and performance rights over ordinary shares. LTIs are subject to appropriate, pre-determined performance hurdles. Each of these forms of remuneration are described in detail below.

Total Fixed Remuneration (TFR)

TFR includes a combination of base salary, employer superannuation contributions and other fringe benefits that an individual employee could choose to salary sacrifice (e.g. superannuation, motor vehicle). TFR is based on what is appropriate to the position taking into consideration expertise, responsibility, knowledge, experience and market competitiveness.

Short Term Incentive (STI)

The STI opportunity is a cash-based incentive forming part of each KMP's total remuneration package, the value of which is tied to the successful achievement of a set of performance objectives, as outlined below. STI opportunities vary for each individual. For the Managing Director, the maximum STI is up to 100% of TFR. The Chief Investment Officer had up to 100% of TFR if additional KPIs on the performance of the investment management business were satisfied (ie. top quartile performance). Other executive KMP's maximum STI opportunity for 2017 is up to 50% of TFR, however variations to STIs may be awarded at the discretion of the Managing Director, subject to Board approval.

Objectives are drawn from the following categories:

- **Financial**
Performance measures include Underlying Profit After Tax (UNPAT), TSR and RoE.
- **Business excellence**
Performance measures for the year ended 30 June 2017 included operational targets such as long-term structural reductions to the cost base of the IOOF Group, balance sheet and liquidity initiatives and improvements to the performance of business units.
- **Strategy**
Measurable progress towards achieving longer term strategic goals. This includes, but is not limited to, implementation of major platform consolidation, regulatory adherence, growth through acquisition, divestment of non-core assets and product rationalisation initiatives.
- **Governance adherence**
KMP are provided with a number of targets at the beginning of the performance period that are set and agreed with the Managing Director. KMP have included in their targets an objective relating to risk management, regulatory and IOOF Group compliance and ensuring that outcomes from internal and external audit are actioned. In addition, KMP have specific targets relating to their businesses to ensure they are working towards the IOOF Group's overall objectives.

Remuneration Report (continued)

2. Remuneration Framework (continued)

2.4 How remuneration is determined (continued)

Long Term Incentive (LTI)

The Board considers a long-term performance-related incentive component to be an important element of the executive reward framework. The IOOF Group utilises equity based incentives in the form of deferred shares (Managing Director only) and performance rights. These LTIs are subject to the achievement of a gateway qualifying condition (Managing Director only), minimum service periods and appropriate performance hurdles. The LTI element of the Managing Director's remuneration is described in detail in section 3 of this report.

Early vesting may occur in certain circumstances, subject to the performance hurdle being achieved and Board approval received:

- on a person/entity acquiring more than 20% of the voting shares in the Company pursuant to a takeover bid that has become unconditional;
- on the termination of employee due to death or permanent disability; or
- in other exceptional circumstances where the Board determines appropriate.

The performance hurdle for current LTI plans has been linked to IOOF Group TSR compared to S&P ASX200 companies at the date of grant. TSR represents the change in the value of a share plus the value of dividends paid. TSR was chosen as the most appropriate comparative measure as it focuses on the delivery of shareholder value and is a well understood and tested metric of performance.

The Remuneration Committee engaged the services of an independent external organisation (Value Adviser Associates) to calculate the IOOF Group's performance against the TSR performance hurdles.

Deferral arrangements

The Board has implemented deferral arrangements and "look back" provisions on a portion of the STI (cash payment) for the Managing Director. The deferral element of the Managing Director's remuneration is described in detail in Section 3.2 of this report.

Hedging of unvested securities

The IOOF Group Policy - Personal Trading in IOOF Holdings Limited Securities contains a restriction on KMP and other employees entering into a hedging transaction to remove the "at risk" aspect of securities that have been granted to them as part of their remuneration package and which have not vested subject to performance conditions and/or which are still subject to forfeiture conditions. Employees are provided with a copy of this policy and are required to provide annual certification that they have complied with the policy. Failure to comply with the policy may result in disciplinary action, including forfeiture of the securities, suspension or termination of employment.

Remuneration mix

The table below shows the TFR and target and actual performance base remuneration as a proportion of the total of all forms of remuneration for the 2017 financial year:

Position		TFR %	STI %	LTI %
Managing Director	Target	35	34	31
	Actual ⁽¹⁾	41	23	36
Chief Investment Officer	Target	49	49	2
	Actual	84	12	4
Other Executives	Target	56	28	16
	Actual	55	29	15

(1) Actual STI for the Managing Director includes one third of the STI awarded for the 2017 year settled in deferred shares.

2.5 Services from consultants

The Remuneration Committee seeks and considers advice from independent, external remuneration consultants where appropriate. Remuneration consultants are engaged directly by and report to the Remuneration Committee. Egan Associates Pty Ltd were engaged in July 2016 to provide advice on Non-Executive Director remuneration and benchmarking data on Managing Director remuneration at a cost of \$7,881. Following these reviews, the Remuneration Committee resolved to recommend to the Board an increase of 2% for the Managing Director and 8% for the Non-Executive Directors respectively to align fees with comparable peers in the financial services sector. The Board is satisfied that this review was made free from undue influence as the recommendation relied on peer data.

2.6 Consequences of performance on shareholder wealth

In considering the IOOF Group's performance and benefits for shareholder wealth, the Remuneration Committee has regard to the following indices in respect of the current financial year and the previous four financial years.

IOOF Annual Financial Report 2017

Directors' report

Remuneration Report (continued)

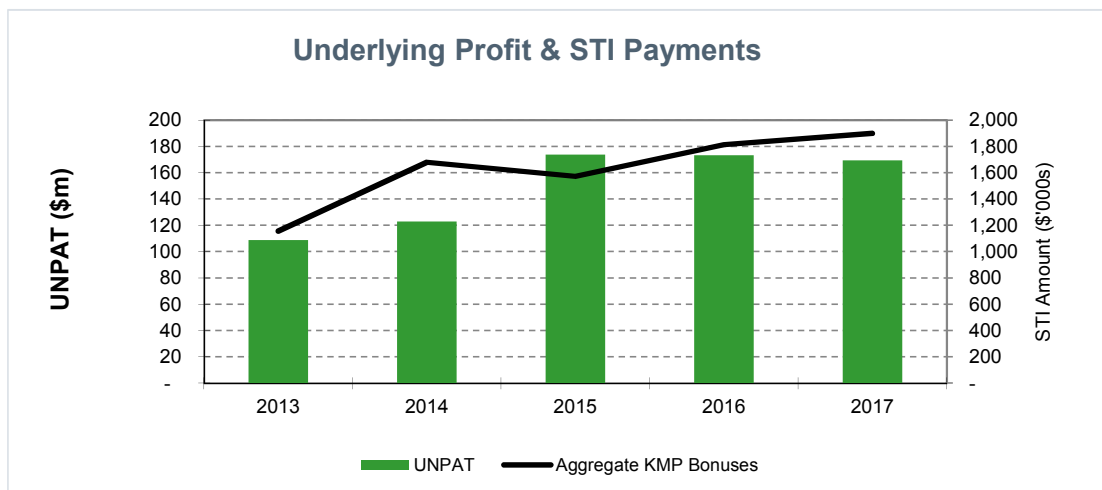
2. Remuneration Framework (continued)

2.6 Consequences of performance on shareholder wealth (continued)

	2017	2016	2015	2014	2013
Profit attributable to owners of the Company (\$'000s)	115,990	196,846	138,371	101,285	79,769
UNPAT (\$'000s) ⁽¹⁾	169,357	173,367	173,758	123,047	108,756
UNPAT EPS (cents per share)	56.5	57.8	59.9	53.1	46.9
Basic EPS (cents per share)	38.7	65.7	47.7	43.7	34.4
Basic EPS (continuing operations) (cents per share)	38.7	46.0	45.8	43.7	34.4
Share price at start of year	7.83	8.99	8.40	7.36	6.05
Share price at end of year	9.80	7.83	8.99	8.40	7.36
Change in share price	1.97	(1.16)	0.59	1.04	1.31
Dividends per share (cents per share)	53.0	54.5	53.0	47.5	42.0
Return on equity (non-statutory measure) ⁽²⁾	12.1%	12.3%	13.4%	15.0%	13.2%
Total STIs paid to key management personnel (\$'000s)	1,900	1,813	1,573	1,681	1,156

⁽¹⁾ UNPAT is reconciled to profit attributable to owners of the Company in the Operating and Financial Review at page 3 of the Directors' Report.

⁽²⁾ RoE is calculated by dividing UNPAT by average capital on issue during the year.



STI payments awarded to KMP are commensurate to the IOOF Group's increased levels of profitability and scale of operations. As is consistent with the IOOF Group's adherence to effective cost management, STI levels from 2013 to 2017 recognise KPIs specific to individuals rather than being solely determined by profitability.

3. Managing Director Remuneration

3.1 Summary of Managing Director remuneration outcomes for 2017

Performance outcomes for the Managing Director for 2017 were as follows:

- the maximum opportunity for STI in 2017 was 100% of base salary. Assessment against Key Performance Indicators (KPIs) resulted in awarding 85% of the Managing Director's base salary. Two thirds of this payment was paid in cash (\$697,765) and one third in 35,420 deferred shares;
- the Remuneration Committee performed a look-back for the 41,895 deferred shares awarded in July 2016 and determined it was still appropriate to award the deferred shares. The Remuneration Committee recommended this to the Board. These were released to Mr Kelaher in August 2017; and
- the performance rights awarded in 2015 were subject to performance testing during 2017. The IOOF Group's TSR of 36.9% over the three year performance period placed it at the 58th percentile relative to the ASX 200 as a comparator group. This percentile ranking means that 66%, or 49,500 of the 75,000 performance rights awarded to Mr Kelaher, have vested.

Remuneration Report (continued)

3. Managing Director Remuneration (continued)

3.2 Managing Director remuneration

During the financial year ended 30 June 2017, Mr Kelaher received a remuneration package comprising TFR of \$1,231,350. Mr Kelaher was entitled to a total STI opportunity of up to a maximum of \$1,231,350 (100% of TFR) based on achievement of superior performance against set targets determined by the Board on recommendation from the Remuneration Committee, as outlined in section 3.2.1. In August 2017 the Remuneration Committee assessed Mr Kelaher's performance against those targets and recommended an STI amount of \$1,046,648, being 85% of the eligible amount, which was approved by the Board.

The STI opportunity was settled two thirds by cash and one third in the form of deferred shares. The number of deferred shares granted to Mr Kelaher was determined on the basis of the STI deferral amount divided by the five day Volume Weighted Average Price up to and including 30 June 2017, which was \$9.85. The number of deferred shares to be issued accordingly was 35,420 (capped at 75,000 annually) and there is no consideration payable for the grant of the deferred shares.

The Board has determined that the portion of STI awarded as deferred shares will be subject to Board "look back" arrangements. This means the Board will conduct a review of Mr Kelaher and the IOOF Group's performance in July 2018 and assess whether any significant unexpected or unintended consequences have occurred that were not foreseen by the Remuneration Committee when it made its recommendation in August 2017, and whether it is still appropriate to award the deferred shares.

During August 2017, the Remuneration Committee performed a "look back" review in regards to the 41,895 deferred shares issued in July 2016. The Remuneration Committee recommended that all of the deferred shares should vest in accordance with the terms of the arrangement and this was approved by the Board. The 41,895 shares have since been transferred to Mr Kelaher.

3.2.1 Short term incentive: targets and outcomes

The key areas of focus for the Managing Director's STI targets/objectives for the 2017 performance period are shown below. The targets/objectives which were set for the 2016/2017 year included both objective and subjective measures. The Board through its Remuneration Committee assessed each of the Managing Director's targets and awarded an STI amount of \$1,046,648. The STI awarded represents 85% of the total opportunity for the 2017 performance period.

KPI	Measure	Outcome
Customer	Improve key processes and implement new operating model from ClientFirst strategy	Achieved - significant progress on ClientFirst and improvement in Wealth Insights ranking
Operations	Continue to simplify the business and drive productivity improvements	Achieved - implementation of Project Unite, product rationalisations and business restructures
Growth/Strategy	Drive organic growth initiatives, net flows and consider appropriate acquisitions	Achieved - net flows improvement. Consideration of various potential acquisitions, with National Australia Trustees transaction successful
Leadership and people	Employee alignment and engagement, governance KPIs, leadership of the executive team	Achieved - launch of IOOF purpose and strategy on a page and action planning on employee engagement initiatives
Compliance and risk	Testing of implementation of review recommendations	Achieved - all recommendations successfully implemented

The Managing Director received a higher overall STI than in the prior financial year in large part for the significant progress on customer initiatives, financial performance during a period of significant change, organic growth, cost reduction and a continued disciplined approach to potential acquisition opportunities.

3.2.2 Long term incentive: targets and outcomes

The Managing Director is eligible for an LTI payment, with the amount to be determined each year by the Board. The LTI amount is paid via performance rights, subject to a gateway qualifying condition and TSR hurdle.

Performance rights - gateway condition

Notwithstanding the gateway qualifying condition and TSR hurdle, the awarding of performance rights or similar remuneration bonuses remains at the discretion of the Board.

For consideration to be given to the awarding of any performance rights to the Managing Director, the IOOF Group must achieve a minimum RoE of 1.5 times the Long Term Bond Rate (10 year bond yield) (LTBR). Only when this gateway condition is met, is consideration given to the TSR hurdle and the potential vesting of performance rights. That is, if less than 1.5 times the LTBR is achieved, no performance rights are eligible to vest. If 1.5 and up to 2.0 times the LTBR is achieved, 50% of the performance rights are eligible to vest. If 2.0 to up to 2.5 times is met, then 75% of the performance rights will be eligible to vest and 100% will be eligible to vest if 2.5 times (or above) the LTBR is achieved. The RoE gateway condition has been developed by the Board to ensure that an LTI is not paid in a period of low or negative performance.

Remuneration Report (continued)

3. Managing Director Remuneration (continued)

3.2.2 Long term incentive: targets and outcomes (continued)

RoE is calculated by dividing UNPAT pre-amortisation by average equity on issue during the year. Summary of RoE performance against the LTBR over the past 5 years is outlined below:

	2017	2016	2015	2014	2013
IOOF RoE v LTBR	4.5 x	3.8 x	3.9 x	4.0 x	3.3 x
Performance rights eligible to be tested against hurdles	100%	100%	100%	100%	100%

Performance rights - 2017 series performance hurdle

As noted above, only once the gateway qualifying condition is satisfied, will the performance hurdle be assessed.

The performance hurdle relates to the IOOF Group's TSR over a three year period from 1 July 2016 to 30 June 2019 measured against the TSR of a group of companies comprising the S&P ASX 200 as at 1 July 2016. The performance rights are subject to a TSR hurdle whereby the IOOF Group's TSR must be greater than the median TSR of S&P/ASX200. The TSR hurdle has progressive vesting on a straight line basis, such that 2% of LTI awards vest for each 1% ranking increase from 50th percentile. All vest if 75th percentile is achieved.

As approved at the Annual General Meeting on 24 November 2016, Mr Kelaher is entitled to participate in an LTI program offering a maximum reward opportunity of 120,000 performance rights in respect of the 1 July 2016 to 30 June 2019 performance period. The number of rights submitted to the AGM for approval was determined on 28 July 2016 by the Remuneration and Nominations Committee based on the face value of the shares, up to a maximum of 90% of the Managing Directors base salary. On that date, the face value of IOOF shares was \$9.00, hence 120,000 performance rights were granted for a total maximum value of \$1,080,000 (89% of total base salary).

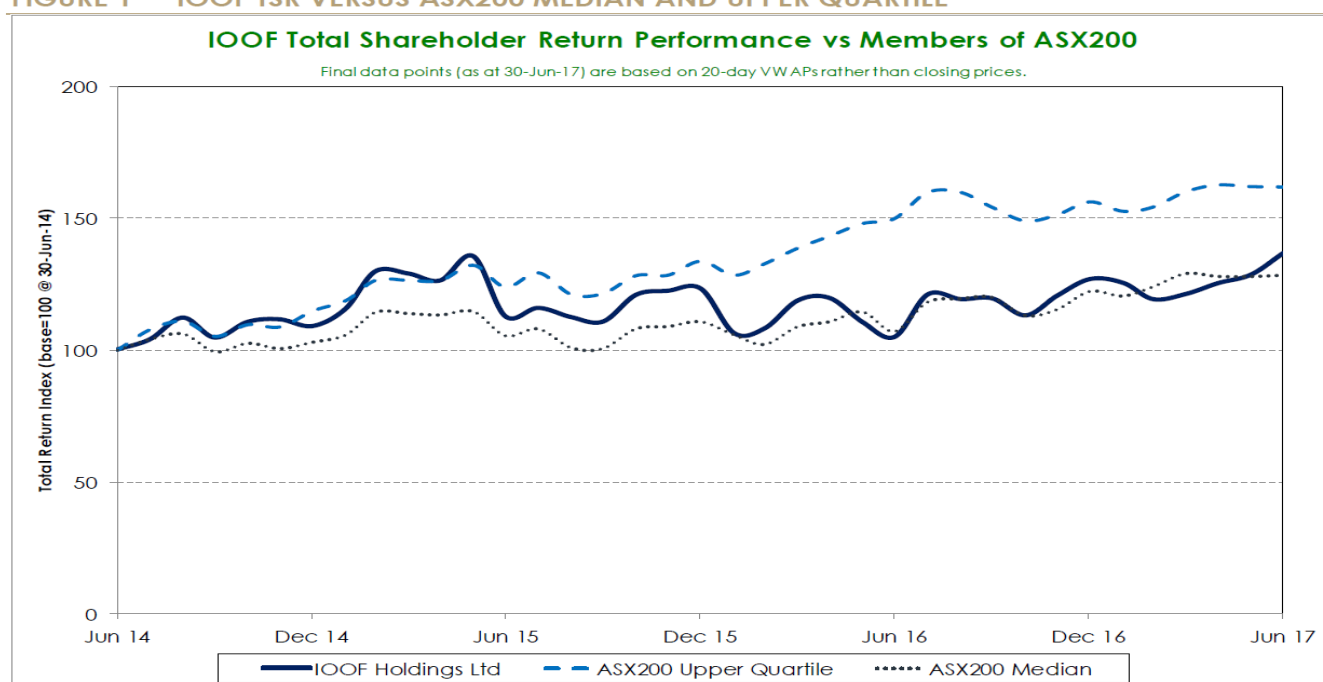
A summary of the current performance rights on issue to Mr Kelaher is as follows:

Year	Performance Hurdle	Grant date	Performance period	Rights eligible to vest	Vesting date
2017	TSR greater than median TSR of the S&P/ASX200 (progressive vesting)	24 Nov 16	2017-2019	120,000	30 Jun 19
2016	TSR greater than median TSR of the S&P/ASX200 (progressive vesting)	26 Nov 15	2016-2018	75,000	30 Jun 18
2015	TSR greater than median TSR of the S&P/ASX200 (progressive vesting) (66% satisfied)	25 Nov 14	2015-2017	49,500	30 Jun 17

2015-2017 performance results (2015 series performance rights)

The below figure compares IOOF's TSR performance against the median TSR of the ASX 200 over the 2015 to 2017 performance period.

FIGURE 1 IOOF TSR VERSUS ASX200 MEDIAN AND UPPER QUARTILE



The IOOF Group's TSR performance over the period was 36.9% placing it at the 58th percentile relative to the ASX 200. This resulted in 66% or 49,500 of 75,000 performance rights vesting in July 2017.

Remuneration Report (continued)

3. Managing Director Remuneration (continued)

3.2.2 Long term incentive: targets and outcomes (continued)

2018 Series Approval to be sought at the November 2017 Annual General Meeting - Managing Director

Approval will be sought at the 24 November 2017 Annual General Meeting for the issue of 122,500 performance rights. The gateway qualifying condition and performance hurdles will remain the same as those selected for the 2015, 2016 and 2017 grants. The performance period will be from 1 July 2017 to 30 June 2020, with vesting to occur on 1 July 2020. The number of rights was determined on 1 August 2017 by the Remuneration Committee and Board based on the face value of the shares, up to a maximum of 100% of the Managing Director's base salary. On that date, the face value of IOOF shares was \$10.04, hence 122,500 performance rights were granted for a total maximum value of \$1,231,350 (100% of total base salary).

3.3 Change of control and cessation of employment

The Board has determined that, if there is a change of control, any unvested LTIs may vest subject to the approval of the Board. If the Board so determines, any unvested performance rights may become exercisable. On cessation of employment, unvested LTIs will be dealt with as follows:

Reason for termination	Treatment of unvested LTIs
Termination of employment by IOOF by notice	The Board has discretion to waive the performance hurdles or determine that the proportion (if any) of unvested LTIs that will vest
Termination of employment by IOOF for cause	Unvested performance rights and share options are forfeited
Resignation by Mr Kelaher	The Board has discretion to waive the performance hurdles or determine that the proportion (if any) of unvested LTIs that will vest
Dismissal for serious misconduct (eg fraud)	Unvested performance rights and share options are forfeited

3.4 Remuneration for the year ended 30 June 2018

The Board, on the recommendation of the Remuneration Committee, has increased the Managing Director's total fixed annual remuneration to \$1,257,208 for the financial year commencing 1 July 2017.

STI terms will be the same as for the year ended 30 June 2017, with an opportunity of up to 100% of total fixed remuneration, with specific performance hurdles relating to: the continuing growth of the business, product development, achievement of management efficiencies, succession planning, profitability, compliance, risk management and corporate governance. The STI deferral arrangements remain unchanged with two thirds of the STI award to be paid in cash shortly after the performance assessment has been completed at year end, and one third will be used to purchase Company shares which will vest in July 2019 after a "look back" review.

4. Key Management Personnel Remuneration

4.1 Key Management Personnel remuneration

The remuneration of other executive KMP is determined by the Managing Director, recommended by the Remuneration Committee and approved by the Board. Details of the total value of fixed, STI and LTI for each other executive KMP is provided in section 1 of this report.

4.1.1 Short term incentive: targets and outcomes

At the end of the year, their targets were assessed by the Managing Director and considered and approved by both the Remuneration Committee and the Board. The outcome of each assessment is set out below:

	TFR	STI opportunity	STI awarded	% awarded in year	% forfeited in year
	\$	\$	\$		
Other Executive KMP					
D Coulter ⁽¹⁾	440,000	220,000	300,000	136%	0%
S Merlicek	424,300	424,300	63,645	15%	85%
R Mota ⁽¹⁾	500,000	250,000	350,000	140%	0%
G Riordan	466,800	233,400	140,000	60%	40%

(1) Total STI awarded exceeded the maximum STI opportunity at the discretion of the Managing Director, as approved by the Board.

4.1.2 Long term incentive: targets and outcomes

A summary of the current performance rights on issue to key management personnel is as shown below. Vesting of performance rights is subject to serving a three year employment period commencing on the date of grant. 50% of the grant is then subject to a TSR progressive vesting scale. This scale is the same as applies to the Managing Director as outlined in section 3.2.2 of this report. In July 2017, the other executive KMP each had 8,250 of 12,500 performance rights vest under this TSR measure and a further 12,500 each vested on the basis of fulfilling a three year service period obligation. The aggregated vested performance rights for other executive KMP was 83,000.

IOOF Annual Financial Report 2017

Directors' report

Remuneration Report (continued)

4. Key Management Personnel Remuneration (continued)

4.1.2 Long term incentive: targets and outcomes (continued)

Year	Performance period	Grant date	IOOF TSR for the period %	Ranking relative to ASX200	Vesting status at 30 Jun 2017	Vesting date
2018	2018-2020	21 Aug 17	Performance period not complete			30 Jun 20
2017	2017-2019	10 Jul 16	Performance period not complete			30 Jun 19
2016	2016-2018	02 Jul 15	Performance period not complete			30 Jun 18
2015	2015-2017	18 Jul 14	36.9%	58th	66% vested	30 Jun 17

5. Remuneration tables

5.1 Deferred shares and performance rights over equity instruments granted as compensation during 2017

Details of deferred shares and performance rights over ordinary shares in the Company that were granted as compensation to each Executive during the reporting year are as follows:

Name	Type of instrument	Number granted	Grant date	Vesting date	Instrument fair value	Vested during 2017
Managing Director						
C Kelaher	LTI performance rights	120,000	24-Nov-16	30-Jun-19	\$ 4.50	-
	STI deferred shares	35,420	30-Jun-17	01-Jul-18	\$ 9.85	-
Other Executive KMP						
D Coulter	LTI performance rights	30,000	09-Sep-16	30-Jun-19	\$ 6.10	-
S Merlicek ⁽¹⁾	LTI performance rights	30,000	09-Sep-16	30-Jun-19	\$ 6.10	-
R Mota	LTI performance rights	30,000	09-Sep-16	30-Jun-19	\$ 6.10	-
G Riordan	LTI performance rights	30,000	09-Sep-16	30-Jun-19	\$ 6.10	-

⁽¹⁾ Rights lapsed on 30 June 2017.

In addition to a continuing employment service condition, the ability to exercise the performance rights is conditional on the IOOF Group achieving certain performance hurdles. Details of the performance criteria are included in the performance rights hurdles at sections 3 and 4 of the Remuneration Report.

The following series performance hurdles were tested during the financial year:

Name	Type of instrument	% vested in year	% forfeited in year ⁽¹⁾
Managing Director			
C Kelaher	2015 deferred shares ⁽²⁾	100.0%	0.0%
	2015 rights ⁽³⁾	66.0%	34.0%
Other Executive KMP			
D Coulter	2015 rights ⁽³⁾	66.0%	34.0%
S Merlicek	2015 rights ⁽³⁾	66.0%	34.0%
R Mota	2015 rights ⁽³⁾	66.0%	34.0%
G Riordan	2015 rights ⁽³⁾	66.0%	34.0%

⁽¹⁾ The percentage forfeited in the year represents the reduction from the maximum number of options or performance rights available to vest due to performance criteria not being achieved.

⁽²⁾ The Remuneration and Nominations Committee performed a "look back" for these deferred shares and determined it was still appropriate to award them.

⁽³⁾ These performance rights are subject to a TSR hurdle. Refer section 2.4 for further details.

IOOF Annual Financial Report 2017

Directors' report

Remuneration Report (continued)

5. Remuneration tables (continued)

5.2 Summary of Key Management Personnel deferred shares and performance rights holdings

There have been no alterations to the terms of share-based payment transactions during the current or the prior reporting years. Details on deferred ordinary shares and performance rights in the Company that were granted as compensation to each key management person during the reporting year and details on the vesting profiles of each are as follows:

Name	Type of instrument	Grant date	Number granted ⁽¹⁾	Balance as at 1 Jul 16	Granted as compensation	Exercised	Forfeited/ Lapsed	Balance as at 30 Jun 17	Deferred shares vested during the year	Financial years in which grant vests/vested
Managing Director										
C Kelaher	2017 rights	24-Nov-16	120,000	-	120,000	-	-	120,000	-	2019
	2016 rights	26-Nov-15	75,000	75,000	-	-	-	75,000	-	2018
	2015 rights	25-Nov-14	75,000	75,000	-	-	(25,500)	49,500	-	2017
	2014 rights	26-Nov-13	100,000	54,000	-	(54,000)	-	-	-	2016
	2012 rights	1-Jul-11	150,000	32,175	-	(32,175)	-	-	-	2015-2017
	2017 deferred shares ⁽²⁾	30-Jun-17	35,420	-	35,420	-	-	35,420	-	2019
	2016 deferred shares	30-Jun-16	41,895	41,895	-	-	-	41,895	41,895	2018
	2015 deferred shares	19-Aug-15	26,984	26,984	-	(26,984)	-	-	-	2017
Other Executive KMP										
D Coulter	2017 rights	9-Sep-16	30,000	-	30,000	-	-	30,000	-	2019
	2016 rights	2-Jul-15	15,000	15,000	-	-	-	15,000	-	2018
	2015 rights	18-Jul-14	25,000	25,000	-	-	(4,250)	20,750	-	2017
	2014 rights	22-Aug-13	25,000	19,250	-	(19,250)	-	-	-	2016
S Merlicek	2017 rights	9-Sep-16	30,000	-	30,000	-	(30,000)	-	-	2019
	2016 rights	2-Jul-15	15,000	15,000	-	-	(15,000)	-	-	2018
	2015 rights	18-Jul-14	25,000	25,000	-	-	(4,250)	20,750	-	2017
R Mota	2017 rights	9-Sep-16	30,000	-	30,000	-	-	30,000	-	2019
	2016 rights	2-Jul-15	15,000	15,000	-	-	-	15,000	-	2018
	2015 rights	18-Jul-14	25,000	25,000	-	-	(4,250)	20,750	-	2017
	2014 rights	22-Aug-13	25,000	19,250	-	(19,250)	-	-	-	2016
G Riordan	2017 rights	9-Sep-16	30,000	-	30,000	-	-	30,000	-	2019
	2016 rights	2-Jul-15	15,000	15,000	-	-	-	15,000	-	2018
	2015 rights	18-Jul-14	25,000	25,000	-	-	(4,250)	20,750	-	2017
	2014 rights	22-Aug-13	25,000	19,250	-	(19,250)	-	-	-	2016

(1) Exercise price at grant date is \$nil.

(2) In August 2017, Mr Kelaher was awarded an STI amount of \$1,046,648 for the 2017 financial year of which one-third was settled in the form of deferred shares. The number of deferred shares issued was 35,420 which will vest in July 2018 subject to Board look-back provisions.

IOOF Annual Financial Report 2017

Directors' report

Remuneration Report (continued)

5. Remuneration tables (continued)

5.3 Performance rights granted since the end of the financial year

The Board resolved on 1 August 2017 to offer the following performance rights to Other Executive KMP:

Name	Type of instrument	Number granted	Vesting date	Exercise price \$
D Coulter	LTI performance rights	30,000	30-Jun-20	\$nil
R Mota	LTI performance rights	30,000	30-Jun-20	\$nil
G Riordan	LTI performance rights	20,000	30-Jun-20	\$nil

In addition to continued service to the IOOF Group, the performance hurdle remains unchanged from previous TSR hurdle over three years as outlined in section 3.2.2.

6. Summary of Key Management Personnel Contracts

Details of the employment contracts, as applied during the financial year, are as follows:

Executive	Term	Termination notice period - IOOF ⁽¹⁾⁽²⁾	Termination notice period - Executive
Managing Director			
C Kelaher	Ongoing	12 months	3 months
Other Executive KMP			
D Coulter	Ongoing	6 months	3 months
S Merlicek	Ongoing	6 months	3 months
R Mota	Ongoing	7 months	5 weeks
G Riordan	Ongoing	6 months	6 months

(1) Termination provisions - the IOOF Group may elect to make a payment in lieu of part or all of the notice periods, incorporating unpaid leave entitlements and pro-rated entitlement to STI (if applicable).

(2) The Board has discretion regarding treatment of unvested short and long-term incentives.

7. Shareholdings of Key Management Personnel

The relevant interest of KMP in the shares issued by the Company, is as follows:

Ordinary shares		Balance at 1 July No.	Received on vesting of performance No.	Net other change No.	Balance at 30 June ⁽¹⁾ No.
Managing Director					
C Kelaher	2017	3,305,290	113,159	25,000	3,443,449
	2016	4,856,291	352,817	(1,903,818)	3,305,290
Other Executive KMP					
D Coulter	2017	252,043	19,250	-	271,293
	2016	242,043	25,000	(15,000)	252,043
S Merlicek	2017	170,000	-	(70,000)	100,000
	2016	141,805	25,000	3,195	170,000
R Mota	2017	93,009	19,250	(9,250)	103,009
	2016	68,009	25,000	-	93,009
G Riordan	2017	25,000	19,250	-	44,250
	2016	-	25,000	-	25,000

(1) The equity holdings for the above individuals is inclusive of both direct and indirect shareholdings.

8. Non-Executive Directors' Remuneration

8.1 Overview

Non-Executive Directors are remunerated for their skilled input, time responsibilities and commitment to the IOOF Group through the payment of a fixed fee inclusive of superannuation. Non-Executive Directors do not receive additional fees for service on individual Board Committees or subsidiary companies.

To ensure that independence and impartiality is maintained, fees to Non-Executive Directors are not linked to the performance of the Company and Non-Executive Directors are not eligible to participate in any of the IOOF Group's incentive arrangements.

Remuneration Report (continued)

8. Non-Executive Directors' Remuneration (continued)

8.2 Terms of appointment

All Non-Executive Directors have letters of appointment detailing the terms under which they are engaged. The term of appointment for each is open-ended, subject to the provisions of the Corporations Act and the Company's Constitution. Under the Constitution, one-third of Directors must retire from office each year and may seek re-election by shareholders at the Annual General Meeting of the Company.

The Company's Constitution requires that the aggregate remuneration paid or provided to all Non-Executive Directors in any financial year by the Company, its subsidiaries and associated entities may not exceed an amount approved by shareholders. This ceiling amount includes all remuneration provided to Non-Executive Directors, including superannuation but not including retirement benefits. The current limit of \$1,250,000 per annum was approved by shareholders at the 2013 Annual General Meeting and the remuneration for all Non-Executive Directors remains within the shareholder approved limits.

Elements	Details
Current Board fees	2016/2017 Fees per annum were: IOOF Holdings Board Chairperson fee \$ 285,000 IOOF Holdings Board Non-Executive Director fee \$ 170,000

Post-employment benefits

Superannuation contributions are made at a rate of 9.5% (up to the Government's prescribed maximum contributions limit) which satisfies the IOOF Group's statutory superannuation contributions and are included in the base fee.

The Board withdrew the retirement benefit from the potential remuneration for new Non-Executive Directors. The program continued for Directors appointed prior to 13 April 2003 to fulfil the terms of an historical agreement. However the maximum payment available was capped at \$475,000. This benefit provided for a cash based payment to Non-Executive Directors at the time of their retirement and, subject to the cap noted above, was calculated as follows:

Period of service as a Non-Executive Director	Benefit Value ⁽¹⁾
0 to < 3 years	Nil
3 to 5 years	AAE times 1.0
> 5 years to 10 years	AAE times 1.5
> 10 years	AAE times 2.0

⁽¹⁾ "AAE" = Annual Average Emoluments over the last 3 years of service to date of retirement.

The retirement benefits plan sole participant was R Sexton and a payment of \$475,000 was paid upon his retirement on 24 November 2016. This plan is no longer in operation.

8.3 Shareholdings of Non-Executive Directors

The relevant interest of each Non-Executive Director in the shares issued by the Company, as notified by the Directors to the ASX in accordance with s.205G(1) of the Corporations Act 2001 is as follows:

Name	Balance as at 1 Jul 2016	Shares from changes during the year	Balance as at 30 Jun 2017 ⁽¹⁾	Balance as at report sign-off date
G Venardos	41,816	10,000	51,816	51,816
J Harvey	23,578	-	23,578	23,578
A Griffiths	30,000	-	30,000	30,000
E Flynn	20,000	-	20,000	20,000
J Selak	-	25,000	25,000	25,000

⁽¹⁾ The following shares (included in the holdings above) were held on behalf of the Non-Executive Directors (ie. indirect beneficially held shares) as at 30 June 2017: G Venardos - 51,816; J Harvey - 23,578; A Griffiths - 30,000; E Flynn - 20,000; and J Selak - 25,000.

Remuneration Report (continued)

9. Payments to persons before taking office

No Director or member of senior management appointed during the year received a payment as part of his or her consideration for agreeing to hold the position.

This Directors' report is signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the Corporations Act 2001.

This report is made by a resolution of the Directors:



Mr George Venardos
Chairman
29 August 2017

IOOF Annual Financial Report 2017

Directors' declaration

1. In the opinion of the Directors of the Company:

- (a) the consolidated financial statements and notes set out on pages 35 to 83, and the Remuneration Report, set out on pages 14 to 28 in the Directors' Report, are in accordance with the Corporations Act 2001 including:
 - (i) giving a true and fair view of the IOOF Group's financial position as at 30 June 2017 and its performance for the financial year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2017.
3. The Directors draw attention to section 7-2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:



Mr George Venardos

Chairman

Melbourne

29 August 2017



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of IOOF Holdings Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of IOOF Holdings Ltd for the financial year ended 30 June 2017 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

KPMG

DM Waters

Partner

Melbourne

29 August 2017

KPMG

KPMG

Rachel Milum

Partner

Melbourne

29 August 2017

Independent Auditor's Report

To the members of IOOF Holdings Ltd

Opinion

We have audited the **Financial Report** of IOOF Holdings Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the **Group's** financial position as at 30 June 2017 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2017;
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

The **Key Audit Matter** we identified is:

- Valuation of Goodwill and Intangible Assets

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of Goodwill and Intangible Assets - \$954.8m and \$441.1m

Refer to Note 4-3 Goodwill and 4-2 Intangible Assets to the Financial Report

The key audit matter	How the matter was addressed in our audit
<p>A key audit matter was whether the Group's value in use models for goodwill and intangible assets impairment included assumptions that were supportable and appropriate under accounting standards. Specific intangible assets we focussed on related to customer relationships and brand names.</p> <p>The size of the goodwill and intangible assets relative to the total assets of the Group (being 34.7% and 16.0% respectively) and the level of judgement required by the Group, contributed to this being a key audit matter.</p> <p>The models and forecast assumptions incorporated significant judgement in respect of key factors such as discount rates, revenue growth, and forecasted funds under management, as well as economic assumptions such as inflation rates. Changes in the underlying assumptions can significantly impact the recoverable amount of the relevant intangible assets and can therefore give rise to impairment.</p> <p>The Group recorded an impairment charge of \$38.6m against goodwill. This related to the Perennial Cash Generating Unit ("CGU") as a result of reduced profitability from both lower revenue due to institutional outflows, and higher costs due to the absence of operational scale and subsidisation following the divestment of other Perennial entities. This increased the sensitivity of the model to small changes and further increased our audit effort in this key audit area.</p> <p>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p>	<p>Working with our valuation specialists, our procedures included:</p> <ul style="list-style-type: none"> • Testing of key controls, such as the review and approval of internal forecasts, to evaluate the Group's goodwill and intangible asset valuation process; • We considered the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill and intangibles for impairment against the requirements of the accounting standards. • For goodwill, customer relationships and brand names we challenged the Group's key assumptions, in particular those relating to discount rates, revenue growth and forecasted funds under management by analysing historical data and taking into consideration expected future events, and corroborating the key market related assumptions to external data, through the following procedures: <ul style="list-style-type: none"> - We compared relevant data in the models to the latest Board approved forecasts. - We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models. - We independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors specific to the Group's CGUs and the industry they operate in. - We assessed the integrity of the value in use models used, including the accuracy of the underlying calculation formulas. - We considered the sensitivity of the models by varying key assumptions such as revenue growth and discount rates, within a reasonably possible range, to identify those CGUs at higher risk of impairment and to focus our further procedures. - We assessed the key assumptions for consistent application across the Group. • We recalculated the impairment charge from the Perennial CGU model against the recorded amount and reconciled it to the amount disclosed; and • We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.

Other Information

Other Information is financial and non-financial information in IOOF Holdings Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' report and Remuneration report. The remaining other information is expected to include: About IOOF, Our Major Brands, Chairman's Letter, Managing Director's Commentary, Our financial Performance, Divisional Updates and Shareholder Information and is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error
- assessing the Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_files/ar2.pdf. This description forms part of our Auditor's Report.



Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of IOOF Holdings Ltd for the year ended 30 June 2017, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 14 to 28 of the financial report for the year ended 30 June 2017.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

DM Waters
Partner

Melbourne
29 August 2017

KPMG

Rachel Milum
Partner

Melbourne
29 August 2017

IOOF Annual Financial Report 2017

Consolidated statement of comprehensive income

		2017 \$'000	2016 \$'000
Continuing operations	Note		
Revenue	2-3	907,519	907,882
Expenses	2-4	(724,745)	(713,217)
Share of profits of associates accounted for using the equity method		3,478	4,831
Finance costs		(6,828)	(7,353)
Profit before tax		179,424	192,143
Income tax expense	2-6	(59,573)	(51,601)
Statutory fund			
Statutory fund revenue*	5-4	65,016	62,937
Statutory fund expenses*	5-4	(52,124)	(58,200)
Income tax (expense)/benefit - statutory*	5-4	(12,892)	(4,737)
Statutory fund contribution to profit, net of tax		-	-
Profit for the year from continuing operations		119,851	140,542
Non-controlling interest		(3,861)	(2,620)
Profit attributable to Owners of the Company from continuing operations		115,990	137,922
Discontinued operation			
Profit for the year from discontinued operation	2-2	-	58,924
Profit for the year attributable to owners of the Company		115,990	196,846
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		3,770	3,648
Exchange differences on translating foreign operations		15	118
Income tax on other comprehensive income		(1,134)	(1,109)
Other comprehensive income/(expense) for the year, net of income tax**		2,651	2,657
Non-controlling interest		3,861	2,620
Total comprehensive income for the year		122,502	202,123
Profit attributable to:			
Owners of the Company		115,990	196,846
Non-controlling interest		3,861	2,620
Profit for the year		119,851	199,466
Total comprehensive income attributable to:			
Owners of the Company		118,641	199,503
Non-controlling interest		3,861	2,620
Total comprehensive income for the year		122,502	202,123
Earnings per share:			
Basic earnings per share (cents per share)		38.7	65.7
Diluted earnings per share (cents per share)		38.6	65.4
Earnings per share - continuing operations:			
Basic earnings per share (cents per share)		38.7	46.0
Diluted earnings per share (cents per share)		38.6	45.8

Notes to the consolidated financial statements are included on pages 40 to 83.

*A subsidiary of the Company, IOOF Ltd, is a friendly society in accordance with the Life Insurance Act 1995. The funds operated by IOOF Ltd, and any trusts controlled by those funds, are treated as statutory funds in accordance with the Life Insurance Act 1995. These statutory funds are required to be consolidated in accordance with accounting standards and are shown separately from shareholder funds in the financial statements.

**Total items that may be reclassified subsequently to profit or loss.

IOOF Annual Financial Report 2017

Consolidated statement of financial position

	Note	2017 \$'000	2016 \$'000
Assets			
Cash	1-1(d)	208,218	186,992
Receivables	1-1(d)	108,401	102,378
Other financial assets	1-1(d)	45,430	43,378
Prepayments		14,403	11,828
Deferred acquisition costs		1,913	2,482
Associates	4-1	21,081	22,667
Property and equipment		21,480	21,863
Intangible assets	4-2	441,079	480,169
Goodwill	4-3	954,867	991,712
Assets relating to statutory funds*	5-1	934,119	879,349
Total assets		2,750,991	2,742,818
Liabilities			
Payables	1-1(d)	60,007	68,781
Borrowings	3-2	206,948	206,975
Current tax liabilities		25,813	17,930
Contingent consideration	1-1(d)	1,839	1,491
Provisions	4-4	64,639	62,394
Deferred tax liabilities	2-6	92,949	101,163
Deferred revenue liability		1,800	2,499
Lease incentives		2,429	2,536
Liabilities relating to statutory funds*	5-2	934,119	879,349
Total liabilities		1,390,543	1,343,118
Net assets		1,360,448	1,399,700
Equity			
Share capital	3-3	1,434,459	1,436,460
Reserves	3-5	13,349	11,266
Accumulated losses		(97,048)	(57,501)
Total equity attributable to equity holders of the Company		1,350,760	1,390,225
Non-controlling interest		9,688	9,475
Total equity		1,360,448	1,399,700

Notes to the consolidated financial statements are included on pages 40 to 83.

*A subsidiary of the Company, IOOF Ltd, is a friendly society in accordance with the Life Insurance Act 1995. The funds operated by IOOF Ltd, and any trusts controlled by those funds, are treated as statutory funds in accordance with the Life Insurance Act 1995. These statutory funds are required to be consolidated in accordance with accounting standards and are shown separately from shareholder funds in the financial statements.

IOOF Annual Financial Report 2017
Consolidated statement of changes in equity

For the year ended 30 June 2017

	Ordinary shares	Treasury shares	Reserves	Accumulated losses	Total	Non- controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	1,439,276	(2,816)	11,266	(57,501)	1,390,225	9,475	1,399,700
Total comprehensive income for the year							
Profit for the year attributable to owners of the Company	-	-	-	115,990	115,990	3,861	119,851
Other comprehensive income for the year, net of income tax	-	-	2,651	-	2,651	-	2,651
Total comprehensive income for the year	-	-	2,651	115,990	118,641	3,861	122,502
<i>Contributions by and (distributions to) owners</i>							
Dividends to equity holders	-	-	-	(155,934)	(155,934)	(3,648)	(159,582)
Share-based payment expense	-	-	1,295	-	1,295	-	1,295
Operating Risk Financial Reserve	-	-	(144)	-	(144)	-	(144)
Transfer from employee equity-settled benefits reserve on exercise of options	1,322	-	(1,322)	-	-	-	-
Treasury shares transferred to recipients during the year	(1,997)	1,997	-	-	-	-	-
Transfer of lapsed share options to retained earnings	-	-	(397)	397	-	-	-
Purchase of treasury shares	-	(3,323)	-	-	(3,323)	-	(3,323)
Total transactions with owners	(675)	(1,326)	(568)	(155,537)	(158,106)	(3,648)	(161,754)
Balance at 30 June 2017	1,438,601	(4,142)	13,349	(97,048)	1,350,760	9,688	1,360,448

Notes to the consolidated financial statements are included on pages 40 to 83.

IOOF Annual Financial Report 2017
Consolidated statement of changes in equity

For the year ended 30 June 2016

	Ordinary shares	Treasury shares	Reserves	Accumulated losses	Total	Non- controlling interest	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2015	1,444,903	(7,146)	(8,918)	(66,224)	1,362,615	9,643	1,372,258
Total comprehensive income for the year							
Profit for the year attributable to owners of the Company	-	-	-	196,846	196,846	2,620	199,466
Other comprehensive income for the year, net of income tax	-	-	2,657	-	2,657	-	2,657
Total comprehensive income for the year	-	-	2,657	196,846	199,503	2,620	202,123
Transactions with owners, recorded directly in equity							
<i>Contributions by and (distributions to) owners</i>							
Dividends to equity holders	-	-	-	(169,430)	(169,430)	(2,788)	(172,218)
Share-based payment expense	-	-	1,966	-	1,966	-	1,966
Operating Risk Financial Reserve	-	-	2,799	-	2,799	-	2,799
Proceeds from exercise of options under executive and employee share option plan	210	-	-	-	210	-	210
Transfer from employee equity-settled benefits reserve on exercise of options	5,931	-	(5,931)	-	-	-	-
Treasury shares transferred to recipients during the year	(11,768)	11,768	-	-	-	-	-
Divestment of discontinued operation	-	-	18,728	(18,728)	-	-	-
Transfer of lapsed share options to retained earnings	-	-	(35)	35	-	-	-
Purchase of treasury shares	-	(7,438)	-	-	(7,438)	-	(7,438)
Total transactions with owners	(5,627)	4,330	17,527	(188,123)	(171,893)	(2,788)	(174,681)
Balance at 30 June 2016	1,439,276	(2,816)	11,266	(57,501)	1,390,225	9,475	1,399,700

Notes to the consolidated financial statements are included on pages 40 to 83.

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Consolidated statement of cash flows

	Note	2017 \$'000	2016 \$'000
Cash flows from operating activities			
Receipts from customers		967,166	1,004,844
Payments to suppliers and employees		(725,564)	(757,836)
Dividends from associates		3,966	2,757
Net stockbroking purchases		(55)	(596)
Non-recurring professional fees		(2,013)	(5,061)
Termination and retention incentive payments		(3,933)	(5,799)
Income taxes paid		(60,288)	(69,458)
Net cash provided by operating activities	2-5	179,279	168,851
Cash flows from investing activities			
Dividends and distributions received		823	839
Interest received		4,313	5,002
Net proceeds on divestment of discontinued operation, net of tax		-	54,586
Acquisition and divestment transaction costs		-	(1,516)
Interest and other costs of finance paid		(6,608)	(7,022)
Gain on divestment of subsidiaries		6,261	-
Purchase of shares in subsidiaries		(1,045)	-
Proceeds on divestment of other assets		14,814	5,868
Receipt/(payment) of deferred purchase consideration		325	(4,188)
Purchase of non-controlling interests in subsidiaries		-	(2,112)
Net proceeds from sales/(purchases) of financial assets		1,015	(944)
Payments for property and equipment		(7,440)	(8,390)
Amounts borrowed from other entities		18	352
Payments for intangible assets		(4,934)	(842)
Net cash provided by investing activities		7,542	41,633
Cash flows from financing activities			
Net borrowings repaid		(212)	(1,087)
Purchase of treasury shares		(3,323)	(7,438)
Proceeds from exercise of IFL share options		-	210
Dividends paid:			
- members of the Company		(155,934)	(169,430)
- non-controlling members of subsidiary entities		(3,648)	(2,788)
- shareholders entitled to contractual share buy-back		-	(1,698)
Net cash used in financing activities		(163,117)	(182,231)
Net increase in cash and cash equivalents		23,704	28,253
Cash and cash equivalents at the beginning of year		186,992	150,533
Cash and cash equivalents divested		(2,350)	-
Effects of cash reclassified as assets held for sale at 30 June 2015		-	5,314
Operating Risk Financial Reserve cash requirement	3-5	(144)	2,799
Effects of exchange rate changes on cash and cash equivalents		16	93
Cash and cash equivalents at the end of year		208,218	186,992

Notes to the consolidated financial statements are included on pages 40 to 83.

Section 1 - Financial instruments and risk management

The IOOF Group's activities expose it to a variety of financial and non-financial risks. Financial risks include: market risks (including price risk, currency risk and interest rate risk), credit risk, statutory fund and liquidity risk. The nature of the financial risk exposures arising from financial instruments, the objectives, policies and processes for managing these risks, and the methods used to measure them are detailed below. Key non-financial exposures, such as operational risk and a failure to meet regulatory compliance obligations, are discussed in detail in the Operating and Financial Review.

1-1 Risk management

IOOF risk management framework

Risk is defined as the chance of an event occurring that will have an impact on the strategic or business objectives of the IOOF Group, including a failure to exploit opportunities. The IOOF Group's risk management process involves the identification of material risks, assessment of consequence and likelihood, implementation of controls to manage risks, and continuous monitoring and improvement of the procedures in place.

The IOOF Group's objective is to satisfactorily manage its risks in line with the IOOF Group's Risk Management Policy set by the Board, and this aligns to International Standard ISO 31000. The IOOF Group's Risk Management Framework manages the risks faced by the IOOF Group, with approaches varying depending on the nature of the risk. The IOOF Group maintains a framework to ensure regulatory compliance obligations are managed in accordance with Australian Standard 3806 Compliance Programs. The IOOF Group's exposure to all material risks is monitored by the Risk Team and this exposure, and emerging risks, are regularly reported to the Risk and Compliance Committee, and the Board.

The IOOF Group's income and operating cash flows are indirectly impacted by changing market conditions. Its exposure is through the impact of market changes on the level of funds under management and administration, and consequently management fee and service fee revenue. Information has been provided below only on the direct impact of changing market conditions to the IOOF Group's income and operating cash flows.

Financial risk

The financial risk management objectives, policies and processes and the quantitative data about the exposure to risk at the reporting date, as set out in the remainder of this note, excludes the benefit funds and the controlled unit trusts. This is because the risks associated with financial instruments held by the benefit funds and controlled trusts are borne by the policyholders and members of those funds and trusts, and not the shareholders of the IOOF Group. There is no direct impact on the net profit or the equity of the IOOF Group as a consequence of changes in markets as they apply to financial instruments held by those funds and trusts at the reporting date.

Similarly the objectives, policies and processes for managing the risks of the IOOF Group are separate and distinct from those for the benefit funds and trusts. The funds and trusts are managed under extensive regulatory requirements, and in accordance with specific investment guidelines, risk management strategies, risk management plans, and product disclosure statements. The IOOF Group is managed under a set of separate corporate policies and review processes that are directed toward the interests of the shareholders of the IOOF Group.

Information in relation to financial risks associated with the benefit funds and controlled trusts is available in their Product Disclosure Statements and the individual annual financial reports of those trusts.

Further information in relation to the Australian Accounting Standards requirement to consolidate the benefit funds and controlled trusts in the consolidated financial statements of the IOOF Group is available in Note 7-3(b) Basis of consolidation.

(a) Market risk

(i) Price risk

Price risk is the risk that the fair value or future earnings of a financial instrument will fluctuate because of changes in market prices (other than from interest rate risk or currency risk, as described later). The financial instruments managed by the IOOF Group that are impacted by price risk consist of investment units held in trusts and available for sale financial assets.

The price risk associated with the units held in trusts is that the fair value of those units will fluctuate with movements in the redemption value of those units, which in turn is based on the fair value of the underlying assets held by the trusts. Available for sale financial assets are exposed to price risk as the share price fluctuates.

IOOF Group sensitivity

At 30 June 2017 had the price of the units / shares held by the IOOF Group in unlisted unit trusts / shares in other entities increased / decreased by 1% (2016: 1%) with all other variables held constant, post-tax profit for the year would increase / decrease by \$5,000 (2016: \$15,000) as a result of gains / losses recorded through profit or loss, and available-for-sale reserves would increase / decrease by \$178,000 (2016: \$147,000).

Section 1 - Financial instruments and risk management

1-1 Risk management (continued)

(a) Market risk (continued)

(ii) Currency risk

The IOOF Group is exposed to insignificant foreign exchange risk in relation to the financial instruments of its foreign activities in New Zealand and Hong Kong.

(iii) Cash flow and interest rate risk

Interest rate risk is the risk to the IOOF Group's earnings and capital arising from changes in market interest rates. The financial instruments held that are impacted by interest rate risk consist of cash, loans, and borrowings.

Short and long-term investment mixes and loans to related entities are influenced by liquidity policy requirements.

Interest rates (both charged and received) are based on market rates, and are closely monitored by management. They are primarily at variable rates of interest, and expose the IOOF Group to cash flow interest rate risk.

Management regularly assesses the appropriateness of the investment of surplus funds with the objective of maximising returns.

There is limited exposure to fair value interest rate risk because of the relatively short time frame of any fixed rate investments and borrowings.

IOOF Group sensitivity

At 30 June 2017, if interest rates had changed by +/- 100 basis points (2016: +/- 100 basis points) from the year-end rates with all other variables held constant, post tax profit for the year would have increased/decreased by \$1,448,000 (2016: \$1,451,000). Equity would have been higher/lower by the same amount.

(b) Credit risk

Credit risk refers to the risk that a counterparty will fail to meet its contractual obligations resulting in financial loss to the IOOF Group. Credit risk arises for the IOOF Group from cash, receivables and loans.

The IOOF Group mitigates its credit risk by ensuring cash deposits are held with high credit quality financial institutions and other highly liquid investments are held with trusts operated by the IOOF Group. Where investments are held in units in a trust operated by the IOOF Group, that trust is subject to the rules of the trust deed and the investment in underlying assets is subject to asset allocation guidelines.

Receivables consist of management fees receivable, service fees receivable and other amounts receivable from related parties. These counterparties generally do not have an independent credit rating, and the IOOF Group assesses the credit quality of the debtor taking into account its financial position, past experience with the debtor, and other available credit risk information. In relation to management fees receivable, the IOOF Group is contractually entitled to deduct such fees from investors' account balances, in accordance with the Product Disclosure Statements, and pass the fees to the Responsible Entity or Trustee. Due to this pass-through process the embedded credit risk is considered minimal. Other receivables are regularly monitored by line management.

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets as summarised in the table included in this note below. The IOOF Group does not hold any significant collateral as security over its receivables and loans, apart from its recourse to certain shares in subsidiaries in relation to loans to executives of subsidiaries.

There are no significant concentrations of credit risk within the IOOF Group.

The IOOF Group does not hold any financial assets whose terms have been renegotiated, but which would otherwise be past due or impaired.

The credit quality of the financial assets that are neither past due nor impaired as at balance date was consistent with that described above, and management assesses the credit risk associated with these reported balances as being minimal. Information in relation to impaired receivables and past due but not impaired receivables is included below.

Impaired receivables

As at 30 June 2017, \$3,447,000 trade receivables of the IOOF Group were past due or impaired (2016: \$3,495,000). The amount of the impairment provision was \$585,000 (2016: \$598,000).

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision for impairment of trade receivables) is used when there is objective evidence that the IOOF Group may not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulty of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 120 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

Section 1 - Financial instruments and risk management

1-1 Risk management (continued)

(b) Credit risk (continued)

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent year, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

Movements in the provisions for impairment of trade receivables are as follows:

Carrying value at 1 July
Provision for impairment provided/(written back) during the year
Receivables written back during the year as collectible

Carrying value at 30 June

Ageing of trade receivables that were not impaired at 30 June

Neither past due nor impaired
Past due 31-60 days
Past due 61-90 days
Past due 91-120 days

2017 \$'000	2016 \$'000
598	605
(13)	32
-	(39)
585	598
54,594	47,561
1,568	1,042
563	504
731	1,351
57,456	50,458
3,447	3,495

Trade receivables past due but not impaired

(c) Statutory Fund Risk

Financial risks are monitored and controlled by selecting appropriate assets to back policy liabilities. The assets are regularly monitored by the Investment Management Committee to ensure there are no material exposures and that liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits. The Investment Management Committee is chaired by an independent expert and its membership is drawn from appropriately skilled senior management. There are no Non-Executive Directors on this Committee.

The IOOF Group's friendly society operations are subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the type, quality and concentration of investments held. Procedures are in place to monitor compliance with these requirements. Refer to Section 5 - Statutory funds for further details.

(d) Liquidity risk

Liquidity risk relates to the IOOF Group having insufficient liquid assets to cover current liabilities and unforeseen expenses. The IOOF Group maintains a prudent approach to managing liquidity risk exposure by maintaining sufficient liquid assets and an ability to access a committed line of credit. It is managed by continuously monitoring actual and forecast cash flows and by matching the maturity profiles of financial assets and liabilities. Temporary surplus funds are invested in highly liquid, low risk financial assets.

The IOOF Group had access to undrawn bank borrowing facilities at the balance date, on the terms described and disclosed in section 3-2 Borrowings. The liquidity requirements for licensed entities in the IOOF Group are regularly reviewed and carefully monitored in accordance with those licence requirements.

Maturities of financial liabilities

The tables below analyse the IOOF Group's financial liabilities into relevant maturity groupings based on the remaining years at the balance date to the contractual maturity date. The amounts disclosed therein are the contractual undiscounted cash flows. Statutory funds are excluded on the basis that monies held in the benefit funds and controlled trusts are held for the benefit of the members of those funds, and are not available to shareholders or creditors.

Section 1 - Financial instruments and risk management

1-1 Risk management (continued)

(d) Liquidity risk (continued)

Maturities of financial liabilities (continued)

2017	Carrying Amount			Contractual cash flows			
	Current	Non-Current	Total	1 year or less	1-5 years	5+ years	Total contractual cash flows
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Financial liabilities							
Payables	60,004	3	60,007	60,004	3	-	60,007
Total payables	60,004	3	60,007	60,004	3	-	60,007
Borrowing facilities	90,000	116,908	206,908	90,000	116,908	-	206,908
Finance lease liabilities	40	-	40	40	-	-	40
Total borrowings	90,040	116,908	206,948	90,040	116,908	-	206,948
Contingent consideration	1,447	392	1,839	1,447	392	-	1,839
	151,491	117,303	268,794	151,491	117,303	-	268,794
Financial assets available to meet the above financial liabilities							
Cash	208,218	-	208,218	208,218	-	-	208,218
Trade receivables	57,456	-	57,456	57,456	-	-	57,456
Other receivables	44,838	718	45,556	44,838	718	-	45,556
Security bonds	-	5,389	5,389	-	-	5,389	5,389
Total receivables	102,294	6,107	108,401	102,294	718	5,389	108,401
<u>Fair value through profit or loss</u>							
Shares in listed companies	18	-	18	18	-	-	18
Unlisted unit trusts	-	679	679	-	679	-	679
<u>Available-for-sale investments</u>	-	25,445	25,445	-	-	25,445	25,445
<u>Loans and other receivables</u>							
Loans to directors and executives of associated entities	-	8,404	8,404	-	-	8,404	8,404
Receivables from statutory benefit funds	3,731	-	3,731	3,731	-	-	3,731
Seed capital receivable	-	7,153	7,153	-	-	7,153	7,153
Total other financial assets	3,749	41,681	45,430	3,749	679	41,002	45,430
	314,261	47,788	362,049	314,261	1,397	46,391	362,049
Net financial assets/(liabilities)	162,770	(69,515)	93,255	162,770	(115,906)	46,391	93,255

Section 1 - Financial instruments and risk management

1-1 Risk management (continued)

(d) Liquidity risk (continued)

Maturities of financial liabilities (continued)

2016	Carrying Amount			Contractual cash flows			
	Current \$'000	Non-Current \$'000	Total \$'000	1 year or less \$'000	1-5 years \$'000	5+ years \$'000	Total contractual cash flows \$'000
Financial liabilities							
Payables	68,778	3	68,781	68,778	3	-	68,781
Total payables	68,778	3	68,781	68,778	3	-	68,781
Borrowing facilities	-	206,730	206,730	-	206,730	-	206,730
Finance lease liabilities	192	53	245	192	53	-	245
Total borrowings	192	206,783	206,975	192	206,783	-	206,975
Contingent consideration	721	770	1,491	721	770	-	1,491
	69,691	207,556	277,247	69,691	207,556	-	277,247
Financial assets available to meet the above financial liabilities							
Cash	186,992	-	186,992	186,992	-	-	186,992
Trade receivables	50,458	-	50,458	50,458	-	-	50,458
Other receivables	44,761	1,785	46,546	44,761	1,785	-	46,546
Security bonds	-	5,374	5,374	-	-	5,374	5,374
Total receivables	95,219	7,159	102,378	95,219	1,785	5,374	102,378
<u>Fair value through profit or loss</u>							
Certificates of deposit	132	-	132	132	-	-	132
Shares in listed companies	181	-	181	181	-	-	181
Unlisted unit trusts	-	1,963	1,963	-	1,963	-	1,963
<u>Available-for-sale investments</u>	-	20,999	20,999	-	-	20,999	20,999
<u>Loans and other receivables</u>							
Loans to directors and executives of associated entities	-	8,409	8,409	-	-	8,409	8,409
Receivables from statutory benefit funds	4,541	-	4,541	4,541	-	-	4,541
Seed capital receivable	-	7,153	7,153	-	-	7,153	7,153
Total other financial assets	4,854	38,524	43,378	4,854	1,963	36,561	43,378
	287,065	45,683	332,748	287,065	3,748	41,935	332,748
Net financial assets/(liabilities)	217,374	(161,873)	55,501	217,374	(203,808)	41,935	55,501

(e) Accounting policies and fair value estimation

The fair values of financial assets and liabilities are equal to the carrying amounts shown in the statement of financial position with the exception of finance lease liabilities which are disclosed in note 3-2 Borrowings.

Offsetting assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the IOOF Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Section 1 - Financial instruments and risk management

1-1 Risk management (continued)

(e) Accounting policies and fair value estimation (continued)

Non-derivative financial assets

The IOOF Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the date at which the IOOF Group becomes a party to the contractual provisions of the instrument.

The IOOF Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the IOOF Group is recognised as a separate asset or liability.

The IOOF Group has the following non-derivative financial assets:

- cash;
- financial assets at fair value through profit or loss;
- loans and receivables; and
- available-for-sale financial assets.

Cash

Cash includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if the IOOF Group manages such investments and makes purchase and sale decisions in accordance with the IOOF Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Units in unlisted trusts are carried at the current unit price for redemption of those units with the trust.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets is the closing price.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the IOOF Group provides money, assets, or services directly to a debtor with no intention of selling the receivable. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method and closely approximate their estimated fair value due to their short-term nature.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets comprising principally marketable equity securities that are either designated in this category or are not classified in any of the other categories of financial instruments. Available-for-sale financial assets are recognised initially at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognised in other comprehensive income and presented within equity in the available-for-sale investment revaluation reserve. When an investment is derecognised, the cumulative gain or loss in equity is transferred to profit or loss.

Non-derivative financial liabilities

The IOOF Group initially recognises financial liabilities on the date at which the IOOF Group becomes a party to the contractual provisions of the instrument. The IOOF Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The IOOF Group has the following non-derivative financial liabilities:

- payables;
- borrowings (including finance leases); and
- other financial liabilities (including contingent consideration).

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

Payables

The carrying value of payables are assumed to approximate their fair values due to their short-term nature.

Borrowings and finance leases

Borrowings and finance leases are further explained in section 3-2 Borrowings.

Section 1 - Financial instruments and risk management

1-1 Risk management (continued)

(e) Accounting policies and fair value estimation (continued)

Contingent consideration

The contingent consideration amounts payable can rise and fall depending on performance hurdles achieved during the deferral period specific to each agreement which may include revenue targets, gross margin targets and/or FUMAS retention requirements.

Where contingent consideration is due for payment after 12 months, the estimated amounts payable are discounted. Assumptions used include pre-tax discount rates in the range of 3-4% which were based on market interest rates upon acquisition of related intangibles.

1-2 Financial Instruments

Fair value hierarchy

The fair values of financial assets and liabilities are equal to the carrying amounts shown in the statement of financial position with the exception of finance lease liabilities which are disclosed in note 3-2 Borrowings.

The table below analyses financial instruments carried at fair value, by valuation method.

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total
30 June 2017				
Financial assets measured at fair value				
Available-for-sale investments	25,445	-	-	25,445
Shares in listed companies	18	-	-	18
Unlisted unit trusts	-	679	-	679
	25,463	679	-	26,142
Financial liabilities measured at fair value				
Contingent consideration	-	-	1,839	1,839
	-	-	1,839	1,839
30 June 2016				
Financial assets measured at fair value				
Available-for-sale investments	20,999	-	-	20,999
Certificates of deposit	-	132	-	132
Shares in listed companies	181	-	-	181
Unlisted unit trusts	-	1,963	-	1,963
	21,180	2,095	-	23,275
Financial liabilities measured at fair value				
Contingent consideration	-	-	1,491	1,491
	-	-	1,491	1,491

The definitions of each level and the valuation techniques used are as follows:

- Level 1: quoted closing prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (ie. as prices) or indirectly (ie. derived from prices). Level 2 fair values for the over-the-counter foreign exchange and index swap are provided by the counterparty and verified by the IOOF Group. Fair values are derived from published market indices and include adjustments to take account of the credit risk of the IOOF Group entity and counterparty.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The IOOF Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting year during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the year ended 30 June 2017.

Reconciliation of movements in level 3 financial liabilities

Opening balance as at 1 July 2016
Acquisition of intangibles
Fair value gain from derecognition of contingent consideration payable
Unwinding of discount
Settlement of contingent consideration
Closing balance as at 30 June 2017

Contingent consideration \$'000
1,491
1,069
(209)
36
(548)
1,839

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Notes to the financial statements

Section 2 - Results for the year

This section focuses on the results and performance of the IOOF Group. On the following pages you will find disclosures explaining the IOOF Group's results for the year, segmental information, taxation and earnings per share.

Where an accounting policy is specific to a single note, the policy is described in the note to which it relates.

2-1 Operating segments

The IOOF Group has the following five strategic divisions, which are its reportable segments. All segments' operating results are regularly reviewed by the IOOF Group's Managing Director to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Financial advice and distribution

The provision of financial planning advice and stockbroking services supported by services such as investment research, training, compliance support and access to financial products.

Platform management and administration

The provision of administration and management services through master trust platforms, which offer a single access point to a range of investment products.

Investment management

The management and investment of monies on behalf of corporate, superannuation, institutional clients and private individual investor clients.

Trustee services

The provision of estate planning, trustee, custodial, agency and estate administration services to clients.

Corporate and other

Corporate and other costs include those of a strategic, shareholder or governance nature incurred in carrying on business as a listed entity managing multiple business units.

Information regarding the results of each reportable segment is included below. Performance is measured based on segment underlying profit before income tax as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

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Section 2 - Results for the period

2-1 Operating segments (continued)

	Financial advice and distribution		Platform management and administration		Investment management		Trustee services		Corporate and other		Total	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000
External management and service fee revenue	263,494	260,285	387,608	394,082	81,942	99,318	26,695	24,995	-	-	759,739	778,680
External other fee revenue	16,167	22,656	6,239	5,829	2,146	1,847	3,833	4,213	489	562	28,874	35,107
Service fees and other direct costs	(126,443)	(119,933)	(109,026)	(113,866)	(26,339)	(43,187)	(2,321)	(2,171)	398	419	(263,731)	(278,738)
Deferred acquisition costs	(372)	(603)	(157)	(517)	-	-	-	-	-	-	(529)	(1,120)
Gross Margin	152,846	162,405	284,664	285,528	57,749	57,978	28,207	27,037	887	981	524,353	533,929
Stockbroking revenue	85,478	73,841	-	-	-	-	-	-	-	-	85,478	73,841
Stockbroking service fees expense	(48,549)	(41,683)	-	-	-	-	-	-	-	-	(48,549)	(41,683)
Stockbroking net contribution	36,929	32,158	-	-	-	-	-	-	-	-	36,929	32,158
Inter-segment revenue ⁽ⁱ⁾	75,467	71,879	-	-	-	-	283	385	139	137	75,889	72,401
Inter-segment expenses ⁽ⁱ⁾	(3,434)	(4,775)	(72,214)	(67,367)	(241)	(259)	-	-	-	-	(75,889)	(72,401)
Net Operating Revenue	261,808	261,667	212,450	218,161	57,508	57,719	28,490	27,422	1,026	1,118	561,282	566,087
Other external revenue	3,028	3,537	-	375	75	1,887	-	-	1,197	549	4,300	6,348
Finance income	603	800	1	2	436	1,236	-	-	4,190	3,743	5,230	5,781
Inter-segment revenue ⁽ⁱ⁾	12	17	-	-	-	-	-	-	-	-	12	17
Share of net profits of associates	816	1,146	-	-	2,662	3,685	-	-	-	-	3,478	4,831
Operating and other expenditure	(148,755)	(147,715)	(95,853)	(99,392)	(14,284)	(19,769)	(18,341)	(18,601)	(40,682)	(41,477)	(317,915)	(326,954)
Share-based payments expense	(102)	(409)	(189)	(503)	(211)	(296)	(15)	(20)	(778)	(726)	(1,295)	(1,954)
Finance costs	(43)	(69)	-	-	-	-	-	-	(6,785)	(7,284)	(6,828)	(7,353)
Inter-segment expenses ⁽ⁱ⁾	-	-	(12)	(17)	-	-	-	-	-	-	(12)	(17)
Depreciation	(3,119)	(3,558)	(3,454)	(3,048)	(512)	(1,087)	(563)	(226)	-	-	(7,648)	(7,919)
Amortisation of intangible assets - IT Development	-	-	(1,737)	(1,737)	-	-	-	-	-	-	(1,737)	(1,737)
Non-controlling interests	(3,861)	(2,620)	-	-	-	-	-	-	-	-	(3,861)	(2,620)
Income tax expense	(34,033)	(34,361)	(33,939)	(34,820)	(12,967)	(11,996)	(2,876)	(2,578)	18,166	20,515	(65,649)	(63,240)
UNPAT from continuing operations	76,354	78,435	77,267	79,021	32,707	31,379	6,695	5,997	(23,666)	(23,562)	169,357	171,270
Discontinued Operations											-	2,097
UNPAT											169,357	173,367

⁽ⁱ⁾ Segment revenues, expenses and results include transfers between segments. Such transfers are priced on a commercial basis and are eliminated on consolidation.

Segment disclosures have been prepared on an underlying (UNPAT) basis as discussed in the Operating and Financial Review section of the Directors' Report. Comparatives have been restated to be on a comparable basis.

Section 2 - Results for the year

2-1 Operating segments (continued)

Reconciliation of reportable segment revenues and expenses

	Note	2017 \$'000	2016 \$'000
Profit for the year from continuing operations		119,851	140,542
Less non-controlling interest		(3,861)	(2,620)
Profit attributable to Owners of the Company from continuing operations		115,990	137,922
Profit for the year from discontinued operation		-	58,924
Profit attributable to Owners of the Company - total		115,990	196,846
<i>Underlying net profit after tax pre-amortisation (UNPAT) adjustments:</i>			
Amortisation of intangible assets	2-4	38,611	39,681
Termination and retention incentive payments	2-4	4,125	6,005
Gain on divestment of subsidiaries	2-2,2-3	(6,261)	(71,988)
Profit on divestment of assets	2-3	(11,930)	(8,125)
Non-recurring professional fees	2-4	2,013	5,061
Acquisition tax provision release		(5,707)	-
Impairment of goodwill	2-4	38,592	-
Unwind of deferred tax liability recorded on intangible assets		(10,056)	(10,056)
Acquisition and divestment transaction costs		-	1,516
Onerous contracts	2-4	-	951
Reinstatement of Perennial non-controlling interests		-	(825)
Income tax attributable		3,980	14,301
UNPAT		169,357	173,367
Discontinued operation		-	(2,097)
UNPAT from continuing operations		169,357	171,270

The significant accounting policies which apply to the major revenue and expense items below follow each of the notes. More general information on how these are recognised/measured can be found in note 7-2 *Basis of preparation*.

2-2 Discontinued operation

In the prior year Perennial Fixed Interest and Perennial Growth Management were divested to Henderson for an upfront consideration of \$71.6m and a deferred component dependent on future business performance, payable after two and four years. The divestment to Henderson was completed on 1 November 2015. \$735k has been recognised as deferred consideration at 30 June 2017. These components of the Perennial Group were previously classified as held-for-sale.

	4 months ended 1 Nov 15 \$'000
Results of the discontinued operation	
Revenue	9,486
Expenses	(5,435)
Results from operating activities	4,051
Income tax	(1,221)
Results from operating activities, net of tax	2,830
Gain on divestment of discontinued operation	71,988
Income tax on gain on sale of discontinued operation	(15,894)
Gain on divestment of discontinued operation, net of tax	56,094
Profit for the year	58,924
Basic earnings per share	19.7
Diluted earnings per share	19.6
Cash flows from the discontinued operation	
Net cash provided by operating activities	2,830
Net cash provided by investing activities	54,586
Net cash flow for the year	57,416

Section 2 - Results for the year

2-2 Discontinued operation (continued)

Accounting policies

A discontinued operation is a component of the IOOF Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the IOOF Group and which:

- represents a separate major line of business or geographic area of operations; and
- is part of a single co-ordinated plan to divest a separate major line of business or geographical area of operations.

Classification as a discontinued operation occurs at the earlier of divestment or when the operation meets the criteria to be classified as held for sale.

When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

2-3 Revenue

	Policy note	2017 \$'000	2016 \$'000
<u>Management and service fees revenue</u>	(i)	759,739	778,680
<u>Stockbroking revenue</u>	(ii)	85,478	73,841
<u>External other fee revenue</u>	(ii)	28,874	35,107
<u>Finance income</u>	(iii)		
Interest income on loans to Directors of controlled and associated entities		254	295
Interest income from non-related entities		4,098	4,661
Dividends and distributions received		824	839
Net fair value gains/(losses) on other financial assets at fair value through profit or loss		54	(14)
		5,230	5,781
<u>Other revenue</u>			
Service revenue charged to related parties		-	1,887
Profit on divestment of assets		11,930	8,125
Gain on divestment of subsidiaries		6,261	-
Other		10,007	4,461
		28,198	14,473
Total revenue from continuing operations		907,519	907,882

Accounting policies

Revenue is measured at the fair value of the consideration received or receivable.

(i) Management and service fees revenue

The IOOF Group provide management services to unit trusts and funds operated by the IOOF Group at normal commercial rates. Management and service fees earned from the unit trusts and funds are calculated based on an agreed percentage of the respective funds under management or administration as disclosed in the respective product disclosure statements, and are recognised on an accruals basis.

Management and service fees revenue from the provision of financial advisory services together with revenue from the rendering of services are recognised at the time the service is provided.

(ii) Stockbroking revenue and external other fee revenue

Other fee revenue and stockbroking revenue from the rendering of services are recognised at the time the service is provided.

(iii) Finance income

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the divestment of available-for-sale financial assets and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the IOOF Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

Section 2 - Results for the year

2-4 Expenses

	Policy note	2017 \$'000	2016 \$'000
<u>Service Fees and other direct costs</u>	(i)		
Service and marketing fees expense		241,153	254,591
Stockbroking service fees expense		48,549	41,683
Other direct costs		22,578	24,147
		312,280	320,421
<u>Operating expenditure</u>			
Salaries and related employee expenses	(ii)	197,898	199,990
Employee defined contribution plan expense	(iii)	14,089	14,812
Information technology costs		41,532	50,296
Professional fees		10,959	7,492
Marketing		8,446	9,250
Office support and administration		17,120	18,539
Occupancy related expenses		21,989	20,335
Travel and entertainment		5,877	6,066
Other		5	-
		317,915	326,780
<u>Other expenses</u>			
Share-based payments expense	(iv)	1,295	1,954
Acquisition and divestment transaction costs		-	1,414
Termination and retention incentive payments	(v)	4,125	6,005
Depreciation of property and equipment		7,648	7,919
Amortisation of intangible assets	(vi)	38,611	39,681
Amortisation of intangible assets - IT development	(vi)	1,737	1,737
Loss on divestment of non-current assets		-	174
Impairment of goodwill	(vi)	38,592	-
Deferred acquisition costs	(vii)	529	1,120
Non-recurring professional fees		2,013	5,061
Onerous contracts		-	951
		94,550	66,016
Total expenses from continuing operations		724,745	713,217

Accounting policies

Expenses are recognised at the fair value of the consideration paid or payable for services received, further specific expense policies are listed below.

(i) Service Fees and other direct costs

Service fees and other direct costs include amounts paid to advisers, dealer groups and other suppliers in the course of operating and marketing products and services of the IOOF Group. Examples of direct costs include custodian fees, audit services and the printing and mailing of client statements and other communications. The values are recognised at the fair value of the consideration paid or payable for the goods or services received.

(ii) Salaries and related employee expenses

These entitlements including salaries, wages, bonuses, overtime, allowances, annual and long service leave, but exclude share-based payments. The accounting policies for the three major expense categories under this definition are as follows.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid if the IOOF Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Short-term incentive plans

A provision for employee benefits in the form of an incentive plan is recognised when there is no realistic alternative but to settle the liability, and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

Section 2 - Results for the year

2-4 Expenses (continued)

Accounting policies (continued)

(ii) Salaries and related employee expenses (continued)

Annual and long service leave benefits

The IOOF Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior years plus related on-costs.

Liabilities for long-term benefits that are expected to be settled beyond 12 months are discounted using rates attaching to high quality corporate bonds which most closely match the terms of maturity of the related liabilities at balance date.

In determining the liability for employee entitlements, consideration is given to future increases in wage and salary rates, experience with employee departures and years of service.

(iii) Employee defined contribution plan expense

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised in profit or loss in the years during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(iv) Share-based payments expense

The grant date fair value of share-based payment awards granted to employees is recognised as a share-based payment expense, with a corresponding increase in the share-based payments reserve, over the year that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value at grant date is independently determined where considered appropriate.

Shares held by the IOOF Equity Plan Trust will contribute to the employee allocation of shares on satisfaction of vesting performance hurdles. The IOOF Group has no right to recall placed shares. However, a subsidiary company acts as the Trustee of the Trust, and can direct the voting rights of shares held and strategic direction.

Non-Executive Directors have the opportunity to participate in the IOOF Deferred Share Purchase Plan. The plan provides a facility for Non-Executive Directors to sacrifice base salary or future incentive entitlements in order to acquire shares. As the purchase is funded by Directors' salary sacrifice, no additional expense is recorded by the IOOF Group.

(v) Termination and retention incentive payments

Termination benefits or redundancy costs are recognised as an expense when the IOOF Group is committed demonstrably, without realistic opportunity of withdrawal, to a formal detailed plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(vi) Amortisation and impairment

The value of intangible assets, with the exception of goodwill and brand names with indefinite useful lives, reduces over the number of years the IOOF Group expects to use the asset, the useful economic life, via an annual amortisation charge to profit and loss. The values and useful lives ascribed are reflective of arms-length transactions and independent expert advice thereon.

Where there has been a technological change or decline in business performance the Directors review the value of assets to ensure they have not fallen below their amortised value. Should an asset's value fall below its amortised value an additional one-off impairment charge is made against profit.

(vii) Deferred acquisition costs

Deferred acquisition costs relate to service fees paid, and are deferred as an asset in recognition that they relate to a future economic benefit. Deferred acquisition costs are initially measured at historical cost and are written down immediately to their recoverable amount if the carrying amount is greater than its estimated recoverable amount. Deferred acquisition costs are progressively amortised in profit or loss by a systematic allocation over the years the future economic benefits are expected to be received. The amortisation period is between 5 and 7 years.

Section 2 - Results for the year

2-5 Net cash provided by operating activities

Cash includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

This note reconciles the operating profit to the cash provided by operating activities per the cash flow statement.

	2017 \$'000	2016 \$'000
Profit for the year	119,851	199,466
Depreciation on property and equipment	7,648	7,919
Amortisation of intangible assets	40,348	41,418
Impairment of goodwill	38,592	-
(Profit)/loss on divestment of assets	(18,228)	(80,533)
Interest and other costs of finance	6,828	7,353
Interest received and receivable	(4,352)	(4,990)
Dividends and distributions received and receivable	(823)	(839)
Dividends received from associates	3,966	2,757
Share of profits of associates accounted for using the equity method	(3,478)	(4,831)
Share-based payments expense	1,295	1,966
Acquisition and divestment transaction costs	-	1,516
Other	1,144	(49)
Changes in net operating assets and liabilities:		
(Increase)/decrease in receivables	(7,575)	8,444
(Increase)/decrease in other assets	(833)	52
(Increase)/decrease in other financial assets	1,674	3,031
(Increase)/decrease in deferred acquisition costs	569	1,157
Increase/(decrease) in payables	(8,275)	(3,515)
Increase/(decrease) in deferred revenue liabilities	(699)	(1,238)
Increase/(decrease) in provisions	1,919	(6,078)
Increase/(decrease) in income tax payable	7,871	(11,219)
Increase/(decrease) in contingent consideration	1,089	(9)
Increase/(decrease) in other liabilities	103	(114)
Increase/(decrease) in deferred taxes	(9,355)	7,187
Net cash provided by operating activities	179,279	168,851

2-6 Income taxes

Current tax expense

Current year	70,408	61,494
Adjustment for prior years	(1,478)	(958)
	68,930	60,536

Deferred tax expense

Origination and reversal of temporary differences	(9,460)	(8,606)
Adjustments recognised in the current year in relation to the deferred tax of prior years	103	(329)
	(9,357)	(8,935)

Total income tax expense from continuing operations

	2017 \$'000	2016 \$'000
	59,573	51,601

Section 2 - Results for the year

2-6 Income taxes (continued)

Income tax recognised in other comprehensive income	2017 \$'000			2016 \$'000		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Available-for-sale financial assets	3,770	(1,131)	2,639	3,648	(1,105)	2,543
Exchange differences on translating foreign operations	15	(3)	12	118	(4)	114
	3,785	(1,134)	2,651	3,766	(1,109)	2,657

Reconciliation of effective tax rate	2017		2016	
	%	\$'000	%	\$'000
Profit before tax from continuing operations		179,424		192,143
Tax using the IOOF Group's domestic tax rate	30.0%	53,827	30.0%	57,643
Tax effect of:				
Share of tax credits with statutory funds	0.5%	978	0.7%	1,304
(Non assessable income)/Non-deductible expenses	(1.8%)	(3,264)	(1.5%)	(2,874)
Impairment of goodwill	6.5%	11,578	-	-
Share of net profits of associates	(0.6%)	(1,044)	(0.8%)	(1,449)
Assessable associate dividends	2.1%	3,771	2.2%	4,264
Imputation credits	(2.2%)	(4,012)	(2.3%)	(4,509)
Other	(0.5%)	(886)	(0.8%)	(1,491)
Under/(over) provided in prior years	(0.8%)	(1,375)	(0.7%)	(1,287)
	33.2%	59,573	26.9%	51,601

The IOOF Holdings Ltd tax consolidated group (the IOOF tax group) paid \$66.6m in income tax relating to the financial year ended 30 June 2016. In December 2016 the ATO published the tax information in respect of large public taxpayers in its tax transparency report. For the IOOF tax group the ATO published payment of \$78.9m in income tax relating to the financial year ended 30 June 2015.

For statutory reporting purposes, the Group had an effective tax rate of 33.2% on its continuing operations for the year ended 30 June 2017 (2016: 26.9%) compared to a statutory corporate tax rate of 30%. The rate difference in the year ended 30 June 2017 is primarily due to research and development tax offsets, tax offsets for fully franked dividend income and impairment of goodwill. For the year ended 30 June 2016, the rate difference is primarily due to research and development tax offsets and tax offsets for fully franked dividend income. Excluding these items IOOF's effective tax rate would be 30% across both years. The effective tax rate for New Zealand and Hong Kong operations was 29.7%, and 18.0% respectively.

Deferred tax assets and liabilities	2017 \$'000	2016 \$'000
Deferred tax asset balance comprises temporary differences attributable to:		
Salaries and related employee expenses	18,721	17,525
Provisions, accruals and creditors	3,349	4,642
Carry forward capital and revenue losses	99	102
Other	1,934	2,413
Deferred tax asset balance as at 30 June	24,103	24,682
Set-off of deferred tax liabilities pursuant to set-off provisions	(24,103)	(24,682)
Net deferred tax asset balance as at 30 June	-	-

Section 2 - Results for the year

2-6 Income taxes (continued)

	2017 \$'000	2016 \$'000
Deferred tax liability balance comprises temporary differences attributable to:		
Customer relationships	107,534	117,869
Unrealised gains	5,087	3,947
Fixed assets and computer software	1,230	1,987
Other	3,201	2,042
	117,052	125,845
Set-off of deferred tax liabilities pursuant to set-off provisions	(24,103)	(24,682)
Net deferred tax liability balance as at 30 June	92,949	101,163

	2017 \$'000	2016 \$'000
Reconciliation of movements		
Net carrying amounts at the beginning of the year	(101,163)	(92,527)
Acquisitions and divestments	(9)	-
Credited/(charged) to profit or loss	9,357	8,935
Discontinued operation	-	(16,459)
Temporary differences directly attributable to equity	(1,134)	(1,112)
Carrying amount at the end of the year	(92,949)	(101,163)

	2017 \$'000	2016 \$'000
Unrecognised deferred tax assets		
Tax losses	-	-
Potential tax benefit at the Australian tax rate of 30%	-	-

The deductible temporary differences and tax losses do not expire under current tax legislation. Deferred tax assets have not been recognised in respect of these items because it is not probable that future taxable profit will be available against which the IOOF Group can utilise the benefits there from.

Accounting policies

Income tax

Income tax comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates to the extent that the IOOF Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when deferred tax balances relate to the same taxation authority.

Section 2 - Results for the year

2-6 Income taxes (continued)

Accounting policies (continued)

Tax consolidation

IOOF Holdings Ltd and its wholly owned Australian resident entities (including IOOF Ltd benefit funds) are part of a tax-consolidated group under Australian taxation law. As a consequence, all members of the tax-consolidated group are taxed as a single entity.

Tax transparency

The IOOF Group is committed to tax transparency and integrity. It is a signatory to the Board of Taxation's Voluntary Tax Transparency Code (the Code), which was released on 3 May 2016.

The Code is a set of principles and 'minimum standards' to guide disclosure of tax information by businesses, encourage those businesses to avoid aggressive tax planning, and to help educate the public about their compliance with Australia's tax laws.

The IOOF Group provides a reconciliation of accounting profit to tax expense, and to income tax paid/payable including identification of material temporary and non-temporary differences and accounting effective company tax rates for the IOOF Groups Australian and global operations.

Information about international related party dealings

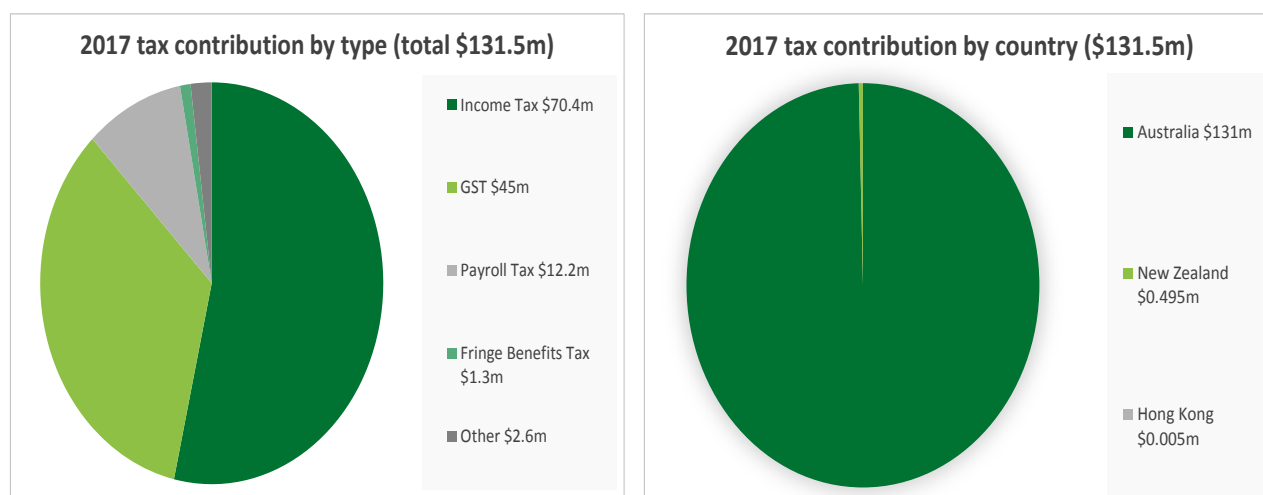
The IOOF Group conducts foreign activities in New Zealand, via IOOF New Zealand, and in Hong Kong, via share broking business, Ord Minnett. Each of those entities is subject to the local tax regime and effective tax rates are disclosed with the IOOF Group's effective tax rate. Related party dealings between the IOOF Group's Australian and foreign jurisdictions are supported by transfer pricing documentation.

Approach to tax strategy and governance

Tax governance is part of the IOOF Group's overall risk management framework, as well as being part of an overall tax strategy. The overall tax strategy drives the IOOF Group's approach to tax risk management and is aimed at good corporate tax compliance and reporting, ability to meet and be prepared for regulatory changes, and in ensuring shareholder value. Tax governance is continuously monitored and in line with the IOOF Group's strategy. The IOOF Group regards its relationship with the ATO as effective and open thereby maintaining transparency and collaboration.

Tax contribution analysis

The IOOF Group contributed a total of \$131.5m in taxes to Australian, New Zealand and Hong Kong governments (state and federal) in the 2017 tax year. \$131.0m or 99.6% of this amount was attributable to the Australian Government. The below tables provide an analysis of the types of taxes the IOOF Group is liable for and those payable in Australia versus those in foreign jurisdictions.



Further taxes paid by the IOOF Group on behalf of others, including employees and members, are not directly borne by the Group. These include income tax, GST, pay-as-you-earn withholding taxes, and local duties, which total a further \$76.0m.

Section 2 - Results for the year

2-7 Dividends

After 30 June 2017 the following dividends were declared by the directors. The dividends have not been provided for and there are no income tax consequences.

	Cents per share	Total amount \$'000	Date of payment	Franked / unfranked
Final 2017 dividend	27.0	81,036	1 September 2017	Franked

Dividend franking account

30 per cent franking credits available to shareholders of IOOF Holdings Ltd for subsequent financial years

2017 \$'000	2016 \$'000
84,469	83,923

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- (a) franking credits that will arise from the payment of the current tax liabilities; and
- (b) franking credits that the IOOF Group may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends declared after the balance date but not recognised as a liability is to reduce it by \$34,730,000 (2016: \$33,443,000).

The following dividends were declared and paid by the IOOF Group during the current and preceding financial year:

	Cents per share	Total amount \$'000	Date of payment	Franked / unfranked
2017				
Interim 2017 dividend	26.0	78,035	30 March 2017	Franked
Final 2016 dividend	26.0	78,035	13 October 2016	Franked
	52.0	156,070		
2016				
Interim 2016 dividend	28.5	85,538	07 April 2016	Franked
Final 2015 dividend	28.0	84,037	15 October 2015	Franked
	56.5	169,575		

Franked dividends declared or paid during the year were franked at the tax rate of 30 per cent. Dividend amounts shown are inclusive of any dividends paid on treasury shares.

2-8 Earnings per share

Basic earnings per share

Diluted earnings per share

Continuing operations

Basic earnings per share

Diluted earnings per share

2017 Cents per share	2016 Cents per share
38.7	65.7
38.6	65.4
38.7	46.0
38.6	45.8

Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2017 \$'000	2016 \$'000
Profit for the year attributable to owners of the Company	115,990	196,846
Earnings used in the calculation of basic EPS	115,990	196,846

Section 2 - Results for the year

2-8 Earnings per share (continued)

Weighted average number of ordinary shares

Weighted average number of ordinary shares (basic)
Effect of unvested performance rights
Effect of share options on issue
Weighted average number of ordinary shares (diluted)

2017	2016
No. '000	No. '000
299,820	299,838
673	1,011
-	4
300,493	300,853

Accounting policies

The IOOF Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury shares held.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for treasury shares held, for the effects of all dilutive potential ordinary shares, which comprise performance rights and share options granted to employees.

At 30 June 2017, there were no options outstanding.

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the year.

Section 3 - Capital management and financing

This section outlines how the IOOF Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The IOOF Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to maintain an optimal structure to reduce the cost of capital.

3-1 Capital management

In order to maintain or adjust the capital structure, the IOOF Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, buy back its shares on market, issue new shares, sell assets, or otherwise adjust debt levels.

The IOOF Group monitors capital on the basis of investment capital, working capital and regulatory capital.

Investment capital is the IOOF Group's capital that is not required for regulatory and working capital requirements of the business. The investment capital is invested in:

- bank bills and deposits;
- subsidiaries;
- available-for-sale assets;
- unit trusts, as investments; and
- IOOF Group operated unit trusts, as seed capital.

The investment capital is available to support the organic development of new businesses and products and to respond to investment and growth opportunities such as acquisitions, as they arise. Seed capital is primarily available to support the business in establishing new products and is also used to support capital adequacy requirements of the benefit funds.

Working capital is the capital that is required to meet the day to day operations of the business.

Regulatory capital is the capital which the IOOF Group is required to hold as determined by legislative and regulatory requirements in respect of its friendly society and financial services licensed operations. During the year, the IOOF Group has complied with all externally imposed capital requirements to which it is subject.

Section 3 - Capital management and financing

3-1 Capital management (continued)

The Board of each operational subsidiary manages its own capital required to support planned business growth and meet regulatory requirements. Australian Prudential Regulation Authority (APRA) regulated subsidiaries have their own capital management plan which specifically addresses the regulatory requirements of that entity and sets a target surplus over minimum regulatory requirements. Regular monitoring of regulatory requirements ensures sufficient capital is available and appropriate planning is made to retain target surpluses. IOOF Holdings Ltd is primarily the provider of equity capital to its subsidiaries. Such investment is funded by IOOF Holding Ltd's own investment capital, through capital issues, profit retention and, in some instances, by debt.

Subsidiary capital generated in excess of planned requirements is returned to IOOF Holdings Ltd, usually by way of dividends.

A standby facility is in place as a safeguard against a temporary need for funds and to provide a short term funding facility that allows the business to take advantage of acquisition opportunities as they arise.

The weighted average cost of capital is regularly monitored. Funding decisions take into consideration the cost of debt versus the cost of equity with emphasis on the outcome that is best for shareholder interests.

The IOOF Group's capital risk management strategy was not changed during the year.

Further information in relation to capital adequacy requirements imposed by the Life Insurance Act is provided in section 5-7 Capital adequacy position.

3-2 Borrowings

This note provides information about the contractual terms of the IOOF Group's interest-bearing borrowings, which are measured at amortised cost.

For more information about the IOOF Group's exposure to interest rate and liquidity risk, see section 1-1 Risk management.

	2017 \$'000	2016 \$'000
Syndicated facility agreement	206,908	206,730
Finance lease liabilities - refer (c)	40	245
	206,948	206,975

(a) Cash Advance & Working Capital Facility

The unsecured cash advance facilities and working capital facility is provided under an Australian dollar line of credit facility, to which unrestricted access was available at balance date as follows:

	2017 \$'000	2016 \$'000
Total facilities	225,000	225,000
Used at 30 June	206,908	206,730
Unused at 30 June	18,092	18,270

The financial liability under the facility has a fair value equal to its carrying amount.

Accounting policies

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

(b) Other bank facilities

In addition to the cash advance and working capital facilities, the IOOF Group has a number of facilities under the Syndicated Facility Agreement. These include equipment finance and contingent liability facilities. The aggregate of these facilities is \$40 million of which \$34.3m was used at 30 June 2017 (2016: \$31.8m). The IOOF Group has other facilities outside the Syndicated Facility Agreement of \$8m of which \$5.05m was used at 30 June 2017 (2016: \$0.2m).

Section 3 - Capital management and financing

3-2 Borrowings (continued)

(c) Finance lease liabilities

Finance leases relate to computer hardware.

IOOF Group Finance lease liabilities are payable as follows:

Less than one year
Between one and five years
Less future finance charges

2017		2016	
Future minimum lease payments	Present value of minimum lease payments	Future minimum lease payments	Present value of minimum lease payments
\$'000	\$'000	\$'000	\$'000
40	40	213	205
-	-	40	40
40	40	253	245
-	-	(8)	-
40	-	245	-

3-3 Share capital

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

300,133,752 fully paid ordinary shares (2016: 300,133,752)

476,411 treasury shares (2016: 320,731)

2017	2016
\$'000	\$'000
1,438,601	1,439,276
(4,142)	(2,816)
1,434,459	1,436,460

Ordinary shares

On issue at 1 July
Issue of shares on exercise of options under executive and employee share option plan
Transfer from employee equity-settled benefits reserve on exercise of options
Treasury shares transferred to recipients during the year
On issue at 30 June

2017		2016	
No. '000	\$'000	No. '000	\$'000
300,134	1,439,276	300,134	1,444,903
-	-	-	210
-	1,322	-	5,931
-	(1,997)	-	(11,768)
300,134	1,438,601	300,134	1,439,276
(321)	(2,816)	(732)	(7,146)
(380)	(3,323)	(830)	(7,438)
225	1,997	1,241	11,768
(476)	(4,142)	(321)	(2,816)
299,658	1,434,459	299,813	1,436,460

Treasury shares

On issue at 1 July
Purchase of treasury shares
Treasury shares transferred to recipients during the year
On issue at 30 June

Accounting policies

Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and share options are shown in equity as a deduction, net of any tax effects.

Treasury shares

Shares in the Company which are purchased on-market by the IOOF Equity Plan Trust are classified as treasury shares and are deducted from share capital. Treasury shares are excluded from the weighted average number of ordinary shares used in the earnings per share calculations. The IOOF Equity Plan Trust is controlled by the IOOF Group and is therefore consolidated. Dividends received on treasury shares are eliminated on consolidation.

Section 3 - Capital management and financing

3-4 Capital commitments and contingencies

The only capital commitments entered into by the IOOF Group are operating lease commitments disclosed below.

Operating lease commitments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

2017	Less than one year \$'000	1 to 5 years \$'000	Later than five years \$'000	Total \$'000
Premises	18,045	50,600	30,322	98,967
Office equipment	3	-	-	3
	18,048	50,600	30,322	98,970

2016	Less than one year \$'000	1 to 5 years \$'000	Later than five years \$'000	Total \$'000
Premises	17,307	31,676	4,619	53,602
Office equipment	117	3	-	120
	17,424	31,679	4,619	53,722

Guarantees and underwriting commitments

	2017 \$'000	2016 \$'000
Rental bond guarantees	16,281	11,447
ASX settlement bond guarantee	500	500
ASIC bond guarantees	140	120
Other guarantees	3,000	3,000
	19,921	15,067

Contingent liabilities

Contingent liabilities exist in relation to claims and/or possible claims which, at the date of signing these accounts, have not been resolved. An assessment of the likely loss to the Company and its controlled entities has been made in respect of the identified claims, on a claim by claim basis, and specific provision has been made where appropriate. The IOOF Group does not consider that the outcome of any other current proceedings, either individually or in aggregate, is likely to materially affect its operations or financial position.

3-5 Reserves

	2017 \$'000	2016 \$'000
Available-for-sale investment revaluation reserve	13,074	10,436
Business combinations reserve	(326)	(326)
Foreign currency translation reserve	121	109
Operating Risk Financial reserve*	2,655	2,799
Share-based payments reserve	(2,175)	(1,752)
	13,349	11,266

*This reserve is held for certain AET Superannuation products. Other similar reserves exist within the IOOF Group, however these are generally held by the relevant funds.

Section 4 - Operating assets and liabilities

This section shows the assets used to generate the IOOF Group's trading performance and the liabilities incurred as a result. Liabilities relating to the Group's financing activities are addressed in Section 3.

4-1 Associates

Associates are those entities over which the IOOF Group has significant influence, but not control, over the financial and operating policies.

The IOOF Group has interests in a number of associates. For one of these associates, Perennial Value Management Limited, the IOOF Group owns 52.4% (2016: 52.4%) of the equity interests but has 42.4% of the voting rights and dividend entitlements. The IOOF Group has determined that it does not have control but has significant influence because it has representation on the board of the investee.

The table below discloses material associates individually:

Associate	Country of incorporation	Ownership interest		Carrying value \$'000	IOOF Group's share of profit/ (loss) \$'000
		2017 %	2016 %		
Perennial Value Management Ltd	Australia	52.4	52.4	9,733	2,662
Other associates				11,348	816
				21,081	3,478

Other associates had a carrying value of \$12,634,000 and share of profit of \$1,147,000 in 2016.

The following table summarises the financial information of the IOOF Group's material associate, Perennial Value Management Limited, as included in its own financial statements. All fair values and accounting policies are consistent with those of the IOOF Group.

	2017 \$'000	2016 \$'000
Beneficial ownership interest	42.4%	42.4%
Current assets	14,655	18,854
Non-current assets	7,516	1,226
Current liabilities	(5,376)	(3,350)
Non-current liabilities	(619)	(500)
Net assets (100%)	16,176	16,230
IOOF Group's share of net assets (42.4%)	6,851	6,873
IOOF Group's share of movements in equity and other reserves (42.4%)	(1,569)	(1,291)
Goodwill	4,451	4,451
Carrying value of interest in associate	9,733	10,033
Revenue (100%)	27,196	25,497
Profit and total comprehensive income (100%)	6,285	8,700
Profit and total comprehensive income (42.4%)	2,662	3,684
Dividends received by the IOOF Group	2,961	2,115

None of the IOOF Group's equity-accounted investees are publicly listed entities and consequently do not have published price quotations.

Dividends received from associates

During the year, the IOOF Group has received dividends of \$3,966,000 (2016: \$2,757,000) from its associates.

Accounting policies

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes any transaction costs. Subsequent to initial recognition, the consolidated financial statements include the IOOF Group's share of the profit or loss and Other Comprehensive Income of the associates, until the date on which significant influence ceases.

Section 4 - Operating assets and liabilities

4-2 Intangible assets (other than goodwill)

Cost

Accumulated amortisation

2017 \$'000	2016 \$'000
670,159	669,101
(229,080)	(188,932)
441,079	480,169

	IT Developme- nt \$'000	Computer software \$'000	Customer relationships \$'000	Brand names \$'000	Other Intangibles \$'000	Total \$'000
Carrying value at 1 July 2016	2,378	6,090	394,232	68,547	8,922	480,169
Additions	-	178	5,663	-	340	6,181
Divestments	-	-	(3,417)	-	(1,506)	(4,923)
Amortisation expense	(1,737)	(1,022)	(34,920)	(801)	(1,868)	(40,348)
Carrying value at 30 June 2017	641	5,246	361,558	67,746	5,888	441,079

Accounting policies

Intangible assets are non-physical assets used by the IOOF Group to generate revenues and profits. These assets include brand names, software, customer and adviser relationships and contractual arrangements. The cost of these assets is the amount that the IOOF Group has paid or, where there has been a business combination, the fair value of the specific intangible assets that could be sold separately or which arise from legal rights.

The value of intangible assets, with the exception of goodwill and brand names with indefinite useful lives, reduces over the number of years the IOOF Group expects to use the asset, the useful economic life, via an annual amortisation charge to profit and loss. The values and useful lives ascribed are reflective of arms-length transactions and independent expert advice thereon. Where there has been a technological change or decline in business performance the Directors review the value of assets to ensure they have not fallen below their amortised value. Should an asset's value fall below its amortised value an additional one-off impairment charge is made against profit.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on brands, is recognised in profit or loss as incurred.

Amortisation

Amortisation is charged to the income statement over the estimated useful lives of intangible assets unless such lives are judged to be indefinite. Indefinite life assets are not amortised but are tested for impairment at each reporting date. The estimated useful lives for the current and comparative years are as follows:

- adviser relationships 5 - 10 years
- software 2.5 - 10 years
- customer relationships 10 - 20 years
- brand names 20 years
- contract agreements 9 - 10 years
- IT development 4 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Impairment testing for cash-generating units containing indefinite life intangible assets

For the purposes of impairment testing, indefinite life intangibles are allocated to the IOOF Group's operating divisions, or CGUs, which represent the lowest level within the IOOF Group at which intangible assets are monitored for internal management purposes.

Each CGU is not higher than the IOOF Group's operating segments as reported in Note 2-1 operating segments.

Indefinite life intangible assets

The indefinite life intangible assets relate to brand names. The below table excludes \$9.5m of intangibles which have a finite life. The aggregate carrying amounts of indefinite-life intangible assets allocated to each CGU are as follows:

Section 4 - Operating assets and liabilities

4-2 Intangible assets (other than goodwill) (continued)

	2017 \$'000	2016 \$'000
Shadforth	51,000	51,000
Ord Minnett group	6,773	6,773
Lonsdale	500	500
	58,273	58,273

In designating brand names as indefinite life, consideration was given to the length of time the brand names have been in existence and it was determined that there is no foreseeable limit to the years over which the brand names are expected to generate net cash inflows for the IOOF Group.

The recoverable amount for the brand names have been determined based on a royalty savings method of calculating value in use. The calculation incorporates estimated costs of brand maintenance. The discount rate of 12.5% (2016: 10.7%) used reflects the IOOF Group's pre-tax nominal weighted average cost of capital (WACC). Management's assessment of indefinite life intangible value-in-use exceeds the value of the intangible asset allocated to the CGU, therefore any reasonably possible changes to assumptions used in management's assessment is not expected to result in impairment.

4-3 Goodwill

	2017 \$'000	2016 \$'000
Cost	1,010,468	1,008,721
Accumulated impairment	(55,601)	(17,009)
Net carrying value of goodwill	954,867	991,712
Carrying value at 1 July	991,712	1,013,105
Acquisition of subsidiaries	1,747	-
Impairment of goodwill	(38,592)	-
Divestment of discontinued operation	-	(21,393)
Carrying value at 30 June	954,867	991,712

A non-cash impairment of \$38.6m has been recognised in relation to goodwill allocated to Perennial Value Management (PVM) and its subsidiaries. Reduced profitability from both lower revenue and higher costs has led to calculated value-in-use declining to below the carrying value of the aggregate goodwill and investment balances. Revenue decline has arisen due to institutional outflows. These outflows reflect changing market dynamics where larger institutions now weight a greater proportion of funds to indexed products. This has combined with below benchmark performance in 2012 which adversely affected 3 and 5 year fund performance numbers. Higher costs resulted from an absence of operations scale and subsidisation following the divestment of other Perennial entities as PVM moved to virtually complete autonomy during the current year.

Accounting policies

Goodwill represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised. Its cost is the amount the IOOF Group has paid in acquiring a business over and above the fair value of the individual assets and liabilities acquired. The value of goodwill is an 'intangible' value that comes from, for example, a uniquely strong market position and the outstanding productivity of its employees. The goodwill recognised by the IOOF Group has all arisen as a result of business combinations.

For the measurement of goodwill at initial recognition, see section 7-3(b)(i) Business combinations.

Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity accounted investee as a whole.

Impairment testing for cash-generating units containing goodwill

For the purposes of impairment testing, goodwill is allocated to the IOOF Group's cash-generating units (CGUs). These represent the lowest level within the IOOF Group at which the goodwill is monitored for internal management purposes. Assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from continuing use of other assets or groups of assets (the CGU).

These CGUs are not higher than the IOOF Group's operating segments as reported in 2-1 Operating segments.

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

Section 4 - Operating assets and liabilities

4-3 Goodwill (continued)

	2017 \$'000	2016 \$'000	Value in Use element		
			Cash inflows yrs 2-5	Cash outflows yrs 2-5	Cash flows - perpetuity
Shadforth ¹	431,191	434,812	B	E	2.5% growth from yr 5
Platform management and administration	347,509	347,509	B	E	2.5% growth from yr 5
Perennial	37,829	76,421	C	-	2.5% growth from yr 5
DKN	80,339	80,339	B	E	2.5% growth from yr 5
Multi manager	39,735	39,735	B	E	2.5% growth from yr 5
IOOF Ltd	11,970	11,970	D	D	2.5% growth from yr 5
Consultum ¹	4,344	723	A	E	2.5% growth from yr 5
Bridges ²	1,950	203	B	E	2.5% growth from yr 5
	954,867	991,712			

A Reserve Bank of Australia forecast GDP growth rate³

B Observed Australian managed funds annual compounding growth for March 2012 to March 2017⁴

C Forecast for Perennial Value Management Limited

D Observed Australian friendly societies annual compounding growth for March 2012 to March 2017⁴

E Blended rate of the underlying Australian forecast inflation levels and the applicable Reserve Bank of Australia GDP growth rate³

¹ Reflects adviser transfer during the year

² Bridges includes CUA FP and SA Carrington

³ source - RBA Statement of Monetary Policy

⁴ source - ABS 5655.0 Managed Funds Australia

The recoverable amounts for goodwill allocated to all CGUs have been determined based on value-in-use calculations using 2017 actual balances to forecast 2018 and beyond cash flows. The manner in which the IOOF Group conducts each impairment assessment for years 2 to 5 and into perpetuity is discussed below for each relevant CGU.

The growth rates applied do not exceed the long-term average growth rate for businesses in which each CGU operates. The pre-tax discount rate of 12.5% (2016: 10.7%) used reflects the IOOF Group's pre-tax nominal weighted average cost of capital (WACC). Management's assessment of goodwill's value-in-use exceeds the value of goodwill allocated to these CGUs, except for the Perennial CGU where a \$38.6m non-cash impairment has been recognised in 2017. Any reasonably possible changes to assumptions used in management's assessment is not expected to result in impairment.

Management has applied post tax WACC increments of 2.5% for Perennial and 3.5% for Consultum to reflect specific company risk premiums. These incremental amounts are judgement based and are consistent with accepted valuation industry practice.

4-4 Provisions

Directors' retirement obligations
Onerous contracts
Employee entitlements
Other provisions

2017 \$'000	2016 \$'000
-	475
350	2,063
62,456	57,999
1,833	1,857
64,639	62,394

	Directors' retirement \$'000	Onerous contracts \$'000	Employee entitlements \$'000	Other \$'000	Total \$'000
Balance at 1 July 2016	475	2,063	57,999	1,857	62,394
Provisions made during the year	-	-	33,094	1,724	34,818
Provisions utilised during the year	(475)	(1,713)	(28,637)	(1,748)	(32,573)
Balance at 30 June 2017	-	350	62,456	1,833	64,639

Section 4 - Operating assets

4-4 Provisions (continued)

Accounting policies

A provision is recognised if, as a result of a past event, the IOOF Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

Directors' retirement obligations

Retirement benefits were paid to Non-Executive Directors appointed prior to 13 April 2003 to fulfil the terms of historical agreements. The benefit provided for a cash based payment to Non-Executive Directors at the time of their retirement. The retirement benefit obligation was measured on an undiscounted basis, was capped at \$475,000 and was expensed as the related service was provided. The sole participant of this plan Dr Roger Sexton was paid \$475,000 on his retirement on 24 November 2016. The plan is no longer in operation.

Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the IOOF Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is valued as the estimated present value of future lease payments net of anticipated recoveries from third parties, that the IOOF Group is presently obligated to make under non-cancellable operating lease contracts. The estimate may vary as a result of changes in the utilisation of the leased premises and sub-lease arrangements where applicable. Provisions relate to onerous lease contracts. The unexpired term of these leases is less than 1 year.

Employee entitlements

The provision for employee benefits includes provisions for remuneration in the form of incentive plans and expected leave benefits that employees have earned in return for their service in the current and prior years plus related on-costs.

A provision for employee benefits in the form of an incentive plan is recognised when there is no realistic alternative but to settle the liability, and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

A provision for restructuring is recognised when the IOOF Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

Liabilities for incentives are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

Other provisions

Other provisions have been made for the present value of the Directors' best estimates of legal settlements. The information usually required by AASB 137 Provisions, Contingent Liabilities and Contingent Assets, is not disclosed on the grounds that it can be expected to prejudice the outcome of litigation.

Section 5 - Statutory funds

A subsidiary of the Company, IOOF Ltd, is a friendly society in accordance with the Life Insurance Act 1995. Balances below are disclosed inclusive of amounts collected/receivable from or paid/payable to IOOF Group entities. These funds are not available to shareholders.

5-1 Assets relating to statutory funds

Cash at bank
Receivables
Unlisted unit trusts
Loans to policyholders

Investments backing policyholder liabilities designated at fair value through profit or loss

Statutory	
2017	2016
\$'000	\$'000
3,717	5,263
32,794	26,716
875,079	832,061
22,529	15,309
934,119	879,349

Section 5 - Statutory funds

5-1 Assets relating to statutory funds (continued)

Assets held in the Statutory Funds (including the Benefit Funds) are subject to the distribution and transfer restrictions and other requirements of the Life Insurance Act 1995. Monies held in the benefit funds and controlled trusts are held for the benefit of the members of those funds, and are subject to the constitution and rules of those funds.

Accordingly, with the exception of permitted profit distributions, the investments held in the statutory funds are not available for use by other parties of the IOOF Group.

The IOOF Group has determined that all financial assets held within its reported statutory funds (including the benefit funds which are treated as statutory funds) represent the assets backing policy liabilities and are measured at fair value through profit or loss. Other than loans and receivables held by the IOOF Group and its controlled entities, assets backing policy liabilities have been designated at fair value through profit or loss as the assets are managed on a fair value basis.

5-2 Liabilities relating to statutory funds

Payables
Seed capital
Deferred tax liabilities
Investment contract liabilities with DPF
Investment contract liabilities

Statutory	
2017	2016
\$'000	\$'000
6,360	6,421
7,153	7,153
2,307	1,718
267,220	300,259
651,079	563,798
934,119	879,349

Policy liabilities have been determined in accordance with applicable accounting standards. Policy liabilities for life insurance contracts are valued in accordance with AASB 1038, whereas life investment contracts are valued in accordance with AASB 139 and AASB 118. There are differences between the valuation requirements of the accounting standards and those of the Life Insurance Act 1995.

Accounting policies

Contract classification

The accounting treatment of certain transactions varies depending on the nature of the contract underlying the transaction. The major contract classifications are insurance contracts and investment contracts.

(i) Insurance contracts

Insurance contracts are those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Life insurance contract liabilities are calculated in accordance with actuarial standards.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the year.

(ii) Investment contracts

Contracts not considered insurance contracts are classified as investment contracts. The accounting treatment of investment contracts depends on whether the investment has a discretionary participation feature ('DPF'). A DPF represents a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total benefits;
- distributed at the discretion of the insurer; and
- are based on the performance of a specified pool of assets.

Deposits collected and benefits paid under investment contracts with DPF are accounted for through profit or loss. The gross change in the liability to these policyholders for the year, which includes any participating benefits vested in policyholders and any undistributed surplus attributed to policyholders, is also recognised in profit or loss.

Deposits collected and withdrawals processed for investment contracts without DPF are accounted for directly through the statement of financial position as a movement in the investment contract liability. Distributions on these contracts are charged to profit or loss as an expense.

Where contracts contain both an investment component and an insurance component and the deposit component can be separately measured, the underlying amounts are unbundled. Premiums relating to the insurance component are accounted for through profit or loss and the investment component is accounted for as a deposit through the statement of financial position as described above.

Section 5 - Statutory funds

5-3 Reconciliation of movements in contract liabilities

Investment contract liabilities with DPF

Investment contract liabilities with DPF at beginning of the year	300,259	338,709
Net increase in investment contract liabilities with DPF	2,371	2,027
Investment contract liabilities with DPF contributions	6,249	6,105
Investment contract liabilities with DPF withdrawals	(41,659)	(46,582)
Investment contract liabilities with DPF at end of the year	267,220	300,259

Other investment contract liabilities

Investment contract liabilities at beginning of the year	563,798	533,281
Net increase in investment contract policy liabilities	36,490	12,256
Investment contract contributions	129,571	113,266
Investment contract withdrawals	(78,780)	(95,005)
Investment contract liabilities at end of the year	651,079	563,798

5-4 Statutory fund contribution to profit or loss, net of tax

Statutory fund revenue

Interest income	563	552
Dividends and distributions received	54,595	44,841
Net fair value gains/(losses) on other financial assets designated as fair value through profit or loss	4,999	(17,827)
<u>Investment contracts with DPF:</u>		
Contributions received - investment contracts with DPF	6,249	6,105
DPF policyholder liability decrease	33,038	38,450
Non - DPF policyholder liability (increase)	(36,490)	(12,256)
Other fee revenue	2,062	3,072
	65,016	62,937

Statutory fund expenses

Service and marketing fees expense	10,354	11,523
Direct operating expenses	5	5
<u>Investment contracts with DPF:</u>		
Benefits and withdrawals paid	41,636	46,516
Termination bonuses	23	66
Interest	106	90
	52,124	58,200

Income tax

	12,892	4,737
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Statutory fund contribution to profit or loss, net of tax

	-	-
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Accounting policies

Investment contracts with DPF

The value of these liabilities changes in relation to the change in unit prices for unit linked contracts, and are decreased by management fee charges. In accordance with the rules of the funds, any remaining surplus is attributed to the policyholders. Adjustments to the liabilities at each reporting date are recorded in profit or loss.

Section 5 - Statutory funds

5-4 Statutory fund contribution to profit or loss, net of tax (continued)

Other investment contracts

The value of these liabilities changes in relation to the change in unit prices for unit linked contracts, and are decreased by management fee charges. In accordance with the rules of the funds, any remaining surplus is attributed to the members of the fund. Amounts distributable to members are recorded in profit or loss as an expense.

There is no claims expense in respect of life investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Surrenders are recognised when the policyholder formally notifies of their intention to end the policy previously contracted.

Insurance contract liabilities and claims expense

A claim expense is recognised when the liability to the policyholder under the policy contract has been established, or upon notification of the insured event. Withdrawal components of life insurance contracts are not expenses and are treated as movements in life insurance contract liabilities.

5-5 Actuarial assumptions and methods

The effective date of the actuarial report on the policy liabilities and capital adequacy reserves is 30 June 2017. The actuarial report for IOOF Ltd was prepared by Mr Andrew Mead, FIAA, and was dated 18 August 2017. The actuarial report indicates that Mr Mead is satisfied as to the accuracy of the data upon which the policy liabilities have been determined.

Actuarial Methods

Policy liabilities have been calculated in accordance with relevant actuarial guidance issued by the Australian Prudential Regulation Authority under the Life Insurance Act 1995. Policy liabilities are based on a systematic release of planned margins as services are provided to policyholders and premiums are received.

Processes used to select assumptions

Mortality and Morbidity

All mortality and morbidity risk is fully reinsured and the gross risk to the IOOF Group is low. The mortality and morbidity assumptions have been taken to be equal to the reinsurer's mortality and morbidity assumptions.

Other Assumptions

In adopting the accumulation method to assess the policy liabilities, one material assumption is required. It is assumed that the future overall experience as to expense levels, surrender/lapse rates and discount rates will likely remain within a satisfactory range so that the policies produce future profits for the business. In which case, there is no need to set aside provisions, in addition to the accumulation amounts, for future losses (i.e. there is no loss recognition concerns for the business). This assumption has been adopted on the basis that, based on the current actual experience of the business, the policies are producing satisfactory profits for the business and there is no circumstances known that would indicate that the current position (i.e. general experience levels and ongoing profitability) will not continue into the future.

Sensitivity analysis

The policy liabilities are not sensitive to changes in variables within a moderate range. Increases in mortality and morbidity assumptions will result in an increase in gross policy liabilities for IOOF Ltd, however as the mortality and morbidity risk is fully reinsured any change in these assumptions would be consistent with the reinsurer's assumptions and the net change in policy liabilities would be nil.

5-6 Disclosures on asset restrictions, managed assets and trustee activities

(i) Restrictions on assets

Investments held in life statutory funds can only be used in accordance with the relevant regulatory restrictions imposed under the Life Act and associated rules and regulations. The main restrictions are that the assets in a life statutory fund can only be used to meet the liabilities and expenses of that life statutory fund, to acquire investments to further the business of the life statutory fund or as distributions when capital adequacy and other regulatory requirements are met.

(ii) Managed Funds and other fiduciary duties

Entities in the IOOF Group, including the IOOF Ltd Benefit Funds, hold controlling investments in managed funds. A subsidiary of the Company is the Responsible Entity for these managed funds and has a fiduciary responsibility for managing these trusts. Arrangements are in place to ensure that such activities are managed separately from the other activities of the IOOF Group.

Section 5 - Statutory funds

5-7 Capital adequacy position

Capital adequacy reserves are required to meet the prudential standards determined in accordance with Prudential Standard LPS 110 *Capital Adequacy* issued by the Australian Prudential Regulation Authority under paragraph 230A(1)(a) of the Life Insurance Act 1995. Capital adequacy reserves provide additional protection to policy holders against the impact of fluctuations and unexpected adverse circumstances on the Company.

The figures in the table below represent the number of times coverage of the aggregate of all benefit funds and statutory funds in the Life Group over the prescribed capital amount.

	Statutory	
	2017 \$'000	2016 \$'000
(a) Capital Base	35,139	28,292
(b) Prescribed capital amount	14,883	6,623
Capital in excess of prescribed capital amount = (a) - (b)	20,256	21,669
Capital adequacy multiple (%) (a) / (b)	236%	427%
Capital Base comprises:		
Net Assets	35,139	28,292
Regulatory adjustment applied in calculation of Tier 1 capital	-	-
(A) Common Equity Tier 1 Capital	35,139	28,292

	Statutory	
	2017 \$'000	2016 \$'000
Additional Tier 1 Capital	-	-
Regulatory adjustment applied in calculation of Additional Tier 1 capital	-	-
(B) Total Additional Tier 1 Capital	-	-
Tier 2 Capital	-	-
Regulatory adjustment applied in calculation of Tier 2 capital	-	-
(C) Total Tier 2 Capital	-	-
Total capital base	35,139	28,292

For detailed capital adequacy information on a statutory fund basis, users of this annual financial report should refer to the financial statements prepared by the friendly society.

Section 6 - Other disclosures

6-1 Parent entity financials

As at and throughout the financial year ended 30 June 2017, the parent entity of the IOOF Group was IOOF Holdings Ltd.

	2017 \$'000	2016 \$'000
Result of the parent entity		
Profit for the year	159,871	138,091
Total comprehensive income for the year	159,871	138,091
Financial position of parent entity at year end		
Current assets	75,845	62,842
Total assets	1,677,687	1,667,452
Current liabilities	114,215	17,257
Total liabilities	231,124	223,988
Total equity of the parent entity comprising of:		
Share capital	1,438,601	1,439,276
Share-based payments reserve	2,062	2,485
Retained earnings	5,900	1,702
Total equity	1,446,563	1,443,464

Section 6 - Other disclosures

6-1 Parent entity financials (continued)

Parent entity contingent liabilities

There are currently no complaints or claims made against the parent entity.
The parent entity does not provide any guarantees to subsidiaries or related parties.

6-2 Share-based payments

The IOOF Group operates a number of employee share and option schemes operated by the IOOF Equity Plan Trust (the "Trust"). The employee share option plans were approved by the Board of Directors.

IOOF Executive and Employee Share Option Plan

The IOOF Group has an ownership-based compensation scheme for executives and senior employees.

Selected employees may be granted options which entitle them to purchase ordinary fully paid shares in the Company at a price fixed at the time the options are granted. Voting and dividend rights will be attached to the unissued ordinary shares when the options have been exercised. Options may be exercised at any time from the date of vesting to the date of their expiry.

The Remuneration Committee regards the grant of options to employees as an appropriate long-term incentive and retention component of total remuneration for executives and senior employees. It is expected that future annual grants of options will be made, the vesting of which will be subject to attainment of appropriate performance hurdles and on the basis of continuing employment with the IOOF Group.

Options granted under the plan carry no dividend or voting rights. All plans are equity-settled. There were no options granted in 2017.

IOOF Executive Performance Rights Plan

The IOOF Executive Performance Rights Plan is the vehicle used to deliver equity based incentives to executives and senior employees of the IOOF Group.

Each employee receives ordinary shares of the Company on vesting of the performance rights. No amounts are paid or payable by the recipient on receipt of the performance rights or on vesting. The performance rights carry neither rights to dividends nor voting rights prior to vesting.

The Remuneration Committee regards the grant of performance rights to employees as an appropriate long-term incentive and retention component of total remuneration for executives and senior employees. It is expected that future annual grants of performance rights will be made, subject to the Board's determination of the overall performance of the Company and market conditions. The vesting of any performance rights awarded will be subject to attainment of appropriate performance hurdles and on the basis of continuing employment with the IOOF Group.

Performance rights granted under the plan carry no dividend or voting rights. All plans are equity-settled.

Deferred Share Plan

A Short Term Incentive (STI) mandatory deferral program exists with equity deferral relating to a third of the Managing Directors' STI for each year.

The following share-based payment arrangements were in existence during the current and comparative reporting years:

Options Series - Recipient	Exercise price	Earliest vesting date	Exercise year		Performance related vesting conditions
			Commence	Expires	
2012-02 Managing Director	\$ 6.81	1-Jul-14	1-Jul-14	1-Jul-17	EPS & RoE
2010-03 Executives	\$ 7.01	4-May-13	4-May-13	4-May-16	Nil
2009-16 Managing Director	\$ 5.20	27-Nov-12	27-Nov-12	27-Nov-15	EPS & RoE

On vesting of performance rights, ordinary shares are transferred to the employee's name or sold. The employee receives all dividends on the ordinary shares while held in trust. The vesting of all issuances is subject to continuing employment.

Section 6 - Other disclosures

6-2 Share-based payments (continued)

	Performance Rights	Deferred Shares	Total
	Number of rights	Number of shares	Number of rights & shares
	No.	No.	No.
Opening balance at 1 July 2016	587,425	68,879	656,304
Forfeited or lapsed during the year	(176,750)	-	(176,750)
Exercised during the year	(182,425)	(26,984)	(209,409)
Granted during the year	419,567	35,420	454,987
Outstanding at 30 June 2017	647,817	77,315	725,132
Exercisable at 30 June 2017	-	-	-

Disclosure of share-based payment plans

Series - Recipient	Exercise price	Opening balance as at 1 July 2016	Granted	Forfeited or Lapsed	Exercised	Closing balance as at 30 June 2017
Performance rights						
2012-01 Managing Director	\$nil	32,175	-	-	(32,175)	-
2014-01 Executives	\$nil	96,250	-	-	(96,250)	-
2014-02 Managing Director	\$nil	54,000	-	-	(54,000)	-
2015-01 Executives	\$nil	150,000	-	(46,250)	-	103,750
2015-02 Managing Director	\$nil	75,000	-	(25,500)	-	49,500
2016-01 Executives	\$nil	105,000	-	(45,000)	-	60,000
2016-02 Managing Director	\$nil	75,000	-	-	-	75,000
2017-01 Executives	\$nil	-	240,000	(60,000)	-	180,000
2017-02 Managing Director	\$nil	-	120,000	-	-	120,000
2017-03 Executives	\$nil	-	30,000	-	-	30,000
2017-04 Other Key Stakeholders	\$nil	-	29,567	-	-	29,567
		587,425	419,567	(176,750)	(182,425)	647,817
Deferred shares						
2015-03 Managing Director	\$nil	26,984	-	-	(26,984)	-
2016-03 Managing Director	\$nil	41,895	-	-	-	41,895
2017-03 Managing Director	\$nil	-	35,420	-	-	35,420
		68,879	35,420	-	(26,984)	77,315
		656,304	454,987	(176,750)	(209,409)	725,132

There are no options outstanding at 30 June 2017.

Inputs for measurement of grant date fair values granted during the financial year

The grant date fair value of share-based payment plans granted during the year were measured based on a binomial options pricing model for non-market performance conditions and a monte carlo simulation model for market performance conditions. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

Series	Fair value	Grant date share price	Expected volatility	Expected life (years)	Dividend yield	Risk-free interest rate
2017-01 Executives	\$ 6.10	\$ 8.80	25%	3	6.2%	1.5%
2017-02 Managing Director	\$ 4.50	\$ 8.40	25%	3	6.3%	1.9%
2017-03 Executives	\$ 5.60	\$ 8.68	25%	3	6.1%	2.0%
2017-04 Other Key Stakeholders	\$ 7.11	\$ 8.74	n/a	3	6.0%	2.0%

Section 6 - Other disclosures

6-2 Share-based payments (continued)

The following share-based payment arrangements were in existence during the current and comparative reporting years:

Performance Rights Series - Recipient	Exercise price	Earliest vesting date	Last tranche vesting date	Performance related vesting conditions
2017-04 Other Key Stakeholders	nil	30-Jun-19	n/a	n/a
2017-03 Executives	nil	31-Dec-19	n/a	TSR
2017-02 Managing Director	nil	30-Jun-19	n/a	TSR & RoE
2017-01 Executives	nil	30-Jun-19	n/a	TSR
2016-02 Managing Director	nil	30-Jun-18	n/a	TSR & RoE
2016-01 Executives	nil	30-Jun-18	n/a	TSR
2015-02 Managing Director	nil	30-Jun-17	n/a	TSR & RoE
2015-01 Executives	nil	30-Jun-17	n/a	TSR
2014-02 Managing Director	nil	30-Jun-16	n/a	TSR & RoE
2014-01 Executives	nil	30-Jun-16	n/a	TSR
2013-04 Other Key Stakeholders	nil	30-Nov-15	n/a	Compliance ⁽¹⁾
2013-03 Other Key Stakeholders	nil	30-Nov-15	n/a	Compliance ⁽¹⁾
2012-01 Managing Director	nil	01-Jul-14	01-Jul-16	TSR & RoE
2010-06 Managing Director	nil	23-Nov-13	23-Nov-15	TSR & RoE

(1) The compliance condition requires maintenance of authorised representative status, attendance at professional development days, compliance with CPD requirements and the achievement of a minimum compliance audit score.

The breakdown of share-based payments expense for the year by recipient is as follows. This represents the expense recorded to date and does not reflect the opportunity to transfer to retained profits the value of those legacy series that will lapse.

Recipient	2017 \$'000	2016 \$'000
Managing Director	753	726
Senior Management	513	806
Other Key Stakeholders	29	434
	1,295	1,966

Accounting policies

The grant date fair value of share-based payment awards granted to employees is recognised as a share-based payment expense, with a corresponding increase in the share-based payments reserve, over the years that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value at grant date is independently determined where considered appropriate. The option pricing model used takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

Shares held by the Trust will contribute to the employee allocation of shares on satisfaction of vesting performance hurdles. The IOOF Group has no right to recall placed shares. However, a subsidiary company acts as the Trustee of the Trust, and can direct the voting rights of shares held.

Shares in the Company held by the Trust are classified and disclosed as treasury shares, and deducted from share capital. Dividends received by the Trust are recorded as dividend income in the financial statements of the Trust and are eliminated on consolidation.

Section 6 - Other disclosures

6-3 IOOF Group subsidiaries

Set out below is a list of material subsidiaries of the IOOF Group.

	Country of incorporation	Ownership interest	
		2017 %	2016 %
Parent entity			
IOOF Holdings Ltd	Australia		
Material subsidiaries			
AET Structured Finance Services Pty Limited	Australia	100.0	100.0
Australian Executor Trustees Limited	Australia	100.0	100.0
Bridges Financial Services Pty Limited	Australia	100.0	100.0
Consultum Financial Advisers Pty Ltd	Australia	100.0	100.0
Executive Wealth Management Financial Services Pty Limited	Australia	100.0	100.0
I.O.O.F. Investment Management Limited	Australia	100.0	100.0
IOOF Ltd	Australia	100.0	100.0
IOOF Equity Plan Trust	Australia	100.0	100.0
IOOF NZ Ltd	New Zealand	100.0	100.0
IOOF Service Co Pty Ltd	Australia	100.0	100.0
Lonsdale Financial Group Limited	Australia	100.0	100.0
Questor Financial Services Pty Ltd	Australia	100.0	100.0
SFG Australia Limited	Australia	100.0	100.0
Financial Acuity Limited	Australia	100.0	100.0
Shadforth Financial Group Limited	Australia	100.0	100.0
Perennial Investment Management Limited	Australia	-	100.0
Actuate Alliance Services Pty Ltd	Australia	100.0	100.0
Ord Minnett Limited	Australia	70.0	70.0
Ord Minnett Financial Planning Pty Limited	Australia	70.0	70.0
Ord Minnett Management Limited	Australia	70.0	70.0

Unconsolidated structured entities

The IOOF Group has interests in various structured entities that are not consolidated. An 'interest' in an unconsolidated structured entity is any form of contractual or non-contractual involvement which exposes the IOOF Group to variability of returns from the performance of that entity. Such interests include holdings of equity securities, seed capital and fees from funds management activities. The seed capital is primarily available to support the business in establishing new products and is also used to support capital adequacy requirements of the benefit funds.

The IOOF Group has investments in managed investment funds through its asset management subsidiaries. Control of these managed investment funds may exist since the IOOF Group has power over the activities of the fund. However, these funds have not been consolidated because the IOOF Group is not exposed to significant variability in returns from the funds. The IOOF Group earns management fees from the management of these investment funds which are commensurate with the services provided and are reported in external management and service fee revenue in note 2-3. Management fees are generally based on the value of the assets under management. Therefore, the fees earned are impacted by the composition of the assets under management and fluctuations in financial markets.

Investment funds are investment vehicles that consist of a pool of funds collected from several investors for the purpose of investing in securities such as money market instruments, debt securities, equity securities and other similar assets. For all investment funds, the IOOF Group's maximum exposure to loss is equivalent to the carrying amount of the investment in the fund.

Section 6 - Other disclosures

6-4 Remuneration of auditors

Auditors' remuneration paid or payable by members of the IOOF Group to the auditors of the corporate entities in relation to audit services of the corporate entities and products operated by the IOOF Group during the year and for the prior year:

	2017 \$	2016 \$
Audit services		
Auditors of the Company		
<i>KPMG Australia</i>		
Audit and review of financial reports	2,903,518	2,856,236
Other regulatory audit services	1,052,624	1,187,388
	3,956,142	4,043,624
Other services		
Auditors of the Company		
<i>KPMG Australia</i>		
Taxation services	131,452	267,585
Due diligence services	185,744	82,398
Other services	182,762	180,305
	499,958	530,287
	4,456,100	4,573,911

All amounts payable to the Auditors of the Company were paid by an IOOF Group subsidiary.

6-5 Key management personnel

The key management personnel compensation comprised:

	2017 \$	2016 \$
Short-term employee benefits	5,452,163	5,466,517
Post-employment benefits	176,413	186,372
Share-based payments	1,511,047	1,554,214
	7,139,623	7,207,103

Key management personnel compensation reconciles to disclosures in the remuneration report as follows:

Executive key management personnel	6,151,285	6,275,282
Non-executive Directors	988,338	931,821
	7,139,623	7,207,103

Individual Directors and executives compensation disclosures

Information regarding individual Directors and executives compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' Report. No Director has entered into a material contract with the IOOF Group since the end of the prior financial year and there were no material contracts involving directors' interests existing at year-end.

Section 6 - Other disclosures

6-6 Related party transactions

(a) Ultimate parent entity

IOOF Holdings Ltd is the ultimate parent entity in the IOOF Group.

(b) Loans to Directors and executives of associates and subsidiaries

	Financial year	Opening balance 1 July \$	Closing balance June \$	Interest paid and payable during the year \$	Highest balance during the year \$
Interest free loans					
Perennial Value Management Limited	2017	2,286,717	2,286,717	-	2,286,717
	2016	2,286,717	2,286,717	-	2,286,717
Interest bearing loans					
Perennial Value Management Limited	2017	6,263,882	6,267,091	234,588	6,336,367
	2016	6,183,013	6,263,882	250,543	6,393,615

The amounts above were advanced by Perennial Investment Partners Pty Ltd and I.O.O.F. Investment Management Limited for the specific purpose of assisting executives to acquire an equity interest in subsidiaries and associates of the Company. Secured interest bearing loans totalling \$6,267,091 were made on commercial terms and conditions and loans totalling \$2,286,717 are unsecured interest free loans.

(c) Transactions with key management personnel

i. Key management personnel compensation

Details of key management personnel compensation are disclosed in section 6-5 to the financial statements and in the Remuneration Report.

ii. Loans to key management personnel

There are no loans between the IOOF Group and key management personnel.

iii. Other transactions with key management personnel of the IOOF Group

There were no other transactions with key management personnel of the IOOF Group during the 2017 and 2016 financial years.

(d) Transactions with other related parties

Other related parties of the IOOF Group include associates listed in section 4-1 Associates.

	2017 \$	2016 \$
Receipt of service charge revenue from associates	-	1,886,860
Payment of management fees to associates	-	8,096,435

Section 7 - Basis of preparation

This section sets out the IOOF Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to a single note, the policy is described in the note to which it relates. This section also shows new accounting standards, amendments and interpretations, and whether they are effective in 2017 or later years. We explain how these changes are expected to impact the financial position and performance of the IOOF Group.

7-1 Reporting entity

The Company is a public company listed on the Australian Stock Exchange (trading under the symbol 'IFL'), domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2017 comprise the Company and its controlled entities and the IOOF Group's interests in associates. The IOOF Group is a for-profit entity and is primarily involved in the provision of wealth management services. The Company's registered office and its principal place of business are Level 6, 161 Collins Street, Melbourne.

7-2 Basis of preparation

(a) Statement of compliance

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The annual financial report was approved by the Board of Directors on 29 August 2017.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- financial instruments at fair value through profit or loss are measured at fair value; and
- available-for-sale financial assets are measured at fair value.

The statement of financial position is presented in order of liquidity.

(c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency. All amounts have been rounded to the nearest thousand unless otherwise stated.

(d) Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument amounts in the financial report are rounded off to the nearest thousand dollars, narrative disclosures are expressed in whole dollars or as otherwise indicated.

(e) Use of estimates and judgements

To conform with AASBs management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- section 2-4 - (vii) Deferred acquisition costs;
- section 4-2 - Intangible assets (other than goodwill);
- section 4-3 - Goodwill; and
- section 6-2 - Share-based payments.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- note 4-2 & 4-3 - key assumptions used in discounted cash flow projections; and
- note 3-4 & 4-4 - contingencies and provisions.

Section 7 - Basis of preparation

7-3 Other significant accounting policies

Significant accounting policies have been included in the relevant notes to which the policies relate. Other significant accounting policies are listed below.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

(a) Changes in accounting policies

The IOOF Group has consistently applied the accounting policies to all years presented in these consolidated financial statements.

(b) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2017 and the results of all controlled subsidiaries for the year then ended. This includes the benefit funds of its subsidiary, IOOF Ltd, and any controlled trusts.

The benefit funds, and any trusts controlled by those funds, are treated as statutory funds in accordance with the Life Insurance Act 1995. These statutory funds, in addition to the statutory funds of the life insurance business conducted by the IOOF Group, are shown separately from shareholder funds in the notes to the financial statements.

Refer to Note 5-2 Liabilities relating to statutory funds for information in relation to the different accounting treatment of investment contracts with discretionary participating features.

(i) Business combinations

The IOOF Group accounts for business combinations using the acquisition method when control is transferred. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss. When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquiree's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

(ii) Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the IOOF Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

(iii) Subsidiaries

Subsidiaries are entities controlled by the IOOF Group. The IOOF Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

(iv) Loss of control

When the IOOF Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

(v) IOOF Equity Plan Trust (the "Trust")

The IOOF Group has formed a trust to administer the IOOF Group's employee share schemes. The Trust is consolidated, as the substance of the relationship is that the Trust is controlled by the IOOF Group. Shares held by the Trust are disclosed as treasury shares and are deducted from share capital.

(vi) Transactions eliminated on consolidation

Intra-IOOF Group balances and transactions, and any unrealised income and expenses arising from intra-IOOF Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the IOOF Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Dividends paid to the Trust are also eliminated.

Section 7 - Basis of preparation

7-3 Other significant accounting policies (continued)

(c) Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions.

Foreign currency differences are recognised directly in equity in the foreign currency translation reserve (FCTR).

(d) Property and equipment

(i) Recognition and measurement

Property and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

The gain or loss on divestment of an item of property and equipment is determined by comparing the proceeds from divestment with the carrying amount of the property and equipment and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

(ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the IOOF Group.

Repairs and maintenance costs are charged to profit or loss as they are incurred.

(iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the IOOF Group will obtain ownership by the end of the lease term.

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative year are as follows:

- office equipment 3-10 years
- leasehold improvements 3-10 years
- equipment under finance lease 3-10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date, and adjusted if appropriate.

(e) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the IOOF Group on terms that the IOOF Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the IOOF Group, economic conditions that correlate with defaults or the disappearance of an active market of a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

Section 7 - Basis of preparation

7-3 Other significant accounting policies (continued)

(e) Impairment (continued)

(i) Non-derivative financial assets (continued)

Financial assets measured at amortised cost

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected as an allowance account against loans and receivables. Interest on the impaired asset continues to be recognised. When a subsequent event (eg. a repayment by a debtor) causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the investment revaluation reserve, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent year, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

Associates

An impairment loss in respect of an associate is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

(ii) Non-financial assets

The carrying amounts of the IOOF Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

Section 7 - Basis of preparation

7-3 Other significant accounting policies (continued)

(f) Goods and service tax (GST)

Revenues, expenses and assets (excluding receivables) are recorded net of GST. GST input tax credits are initially recorded as an asset and GST collected as a liability. These balances are offset as at the reporting date and recognised as either an amount receivable or payable to the Australian Taxation Office. The GST portion relating to financial supplies and non-deductible expenditure, for which an input tax credit cannot be claimed, is expensed or is recognised as part of the cost of acquisition of an asset. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the statement of financial position. Cash flows are presented in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the Australian Taxation Office are presented as operating cash flows.

(g) Leases

Leases in terms of which the IOOF Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Other leases are operating leases and are not recognised on the IOOF Group's statement of financial position.

7-4 New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual years beginning after 1 January 2016 and earlier application is permitted; however the IOOF Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 *Revenue*, IAS 11 *Construction Contracts* and IFRIC 13 *Customer Loyalty Programmes*.

IFRS 15 is effective for annual years beginning on or after 1 January 2018, with early adoption permitted.

The IOOF Group has completed an initial assessment of the potential impact of the adoption of IFRS 15 on its consolidated financial statements and does not expect that there will be a significant impact.

(i) Management and service fees revenue

The IOOF Group provide management services to unit trusts and funds operated by the IOOF Group at normal commercial rates. Management and service fees earned from the unit trusts and funds are calculated based on an agreed percentage of the respective funds under management or administration as disclosed in the respective product disclosure statements, and are recognised on an accruals basis.

The IOOF Group currently recognises management and service fees revenue at the time the service is provided. No significant changes are expected to this treatment under IFRS 15.

Stockbroking revenue and external other fee revenue are also recognised at the time the service is provided. No significant changes are expected to this treatment under IFRS 15.

The IOOF Group plans to adopt IFRS 15 in its consolidated financial statements for the year ending 30 June 2019.

IFRS 9 Financial Instruments

IFRS 9 is effective for annual years beginning on or after 1 January 2018, with early adoption permitted. The IOOF Group plans to adopt IFRS 9 in its consolidated financial statements for the year ending 30 June 2019.

Section 7 - Basis of preparation

7-4 New standards and interpretations not yet adopted (continued)

IFRS 9 Financial Instruments (continued)

At 30 June 2017, the IOOF Group had equity investments classified as available-for-sale with a fair value of \$25.4m that are held for long-term strategic purposes. Upon application of IFRS 9 the IOOF Group will classify these as Fair Value Other Comprehensive Income with all fair value gains and losses reported in other comprehensive income in line with current treatment.

IFRS 9 replaces the "incurred loss" model in IAS 39 with a forward looking 'expected credit loss' (ECL) model when determining provision for impairment of receivables. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. Given the IOOF Group's receivables are short term, loss allowances are not expected to change significantly when IFRS 9 is adopted.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items.

IFRS 16 replaces existing leases guidance including IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions involving the Legal Form of a Lease*.

The standard is effective for annual years beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

The IOOF Group has started an initial assessment of the potential impact of its consolidated financial statements. So far, the most significant impact identified is that the IOOF Group will recognise new assets and liabilities for its property operating leases (\$85m). The nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the IOOF Group's finance leases.

The IOOF Group will apply the standard using a retrospective approach and plans to adopt IFRS 16 in the consolidated financial statements for the year ended 30 June 2020.

Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes.

The amendments are effective for annual years beginning on or after 1 January 2017, with early adoption permitted.

To satisfy the new disclosure requirements, the Group intends to present a reconciliation between the 2017 opening and 2018 closing balances for liabilities with changes arising from financing activities.

Other amendments

The following new or amended standards are not expected to have a significant impact on the IOOF Group's consolidated financial statements.

- Classification and Measurement of Share-based payment Transactions (amendments to IFRS 2)
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments to IFRS 10 and IAS 28)
- Recognition of Deferred Tax Assets for Unrealised Losses (amendments to IAS 12)

Section 7 - Basis of preparation

7-5 Subsequent events

The Directors have declared the payment of a final dividend of 27.0 cents per ordinary share franked to 100% based on tax paid at 30%, to be paid on 1 September 2017.

The Directors are not aware of any other event or circumstance since the end of the financial year not otherwise dealt with in this report or the consolidated financial report that has or may significantly affect the operations of the consolidated entity, the results of those operations or the state of affairs of the consolidated entity in subsequent financial years.