IOOF Holdings Ltd

ABN 49 100 103 722

31 December 2017

Condensed consolidated interim financial report

Contents

Notes to the financial statements

IOOF Interim Financial Report 2017
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 six months ended 31 December 2017 and the auditor's report thereon.

Directors

The Directors of the Company during or since the end of the six months are:

Name

Mr George Venardos, Chairman
Mr Christopher Kelaher
Mr Allan Griffiths
Ms Jane Harvey
Ms Elizabeth Flynn
Mr John Selak

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

Operating and financial review

In accordance with current Australian Accounting Standards, the 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 six months ended 31 December 2017 (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	Six months ended 31 Dec 17 $'000	31 Dec 16 $'000
Profit attributable to Owners of the Company		**45,217**	**74,212**
Underlying net profit after tax pre-amortisation (UNPAT) adjustments:			
Reverse the impact of:			
Amortisation of intangible assets	2-3	19,606	19,253
Acquisition costs - Acquisition advisory	2-3	3,694	-
Acquisition costs - Integration preparation	2-3	1,209	-
Acquisition costs - Finance costs	2-3	456	-
Termination payments	2-3	1,221	3,215
Profit on divestment of subsidiaries	2-2	(143)	(6,261)
Profit on divestment of assets	2-2	(297)	(11,133)
Non-recurring professional fees (recovered)/paid	2-3	(902)	1,984
Impairment of goodwill	2-3	28,339	-
Onerous contracts	2-3	1,843	-
Unwind of deferred tax liability recorded on intangible assets		(5,074)	(5,028)
Other	2-3	1,290	-
Income tax attributable		(1,619)	3,178
UNPAT		**94,840**	**79,420**

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: retail; industry funds; self-managed; corporate and public sector. Further information regarding the differentiating features of these fund types is available in the financial statements for the year ended 30 June 2017.

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 $2.5 trillion as at 30 September 2017. Over the 12 months to September 2017 there was a 9% increase in total superannuation assets and retail providers had a market share of approximately 23%. The IOOF Group's market share of that sub-set was 6% when measured by platform management and administration (platform) segment Funds Under Administration (FUAdmin). There is a high degree of competition between the five fund types and fragmentation and competition among the participants within each fund type.

As published in APRA's September 2017 Quarterly Superannuation Performance Statistics, the following were the asset allocation metrics for funds with greater than four members: 50.1% of investments were invested in equities; with 22.7% in Australian listed equities, 23.5% in international listed equities and 3.9% in unlisted equities; Fixed income and cash investments accounted for 32.9% of investments; 21.4% in fixed income and 11.5% in cash; Property and infrastructure accounted for 13.4% of investments and 3.6% 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 asset revaluation, flows of funds from new and existing clients and acquisition initiatives. Funds flow 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 28 September 2017, the IOOF Group completed its acquisition of National Australia Trustees Limited (NATL) and has since renamed the operating entity AET Services Limited (AETS). AETS is a significant provider of trustee services with a recognised history in Western Australia, New South Wales, Queensland and Victoria. AETS'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. The integration of AETS is proceeding to plan and is expected to be substantially complete by 30 June 2018.

On 17 October 2017, the IOOF Group announced an agreement with Australia and New Zealand Banking Group Limited (ANZ) to acquire ANZ’s OnePath Pensions and Investments business and Aligned Dealer Groups (collectively “ANZ Wealth Management”) for a cash consideration of $975m, subject to a completion adjustment. The following features were viewed positively when considering whether to proceed with this acquisition (statistics as at 17 October 2017):

Operating and financial review (continued)

- ANZ Wealth Management is a highly complementary business – the IOOF Group will become the 2nd largest advice business by adviser numbers and further strengthen its position as 2nd largest advice business by Funds Under Advice (FUAdvice), and become the 5th largest platform provider in Australia by FUAdmin;
- The agreement includes a 20 year Strategic Alliance Agreement with ANZ to distribute IOOF Group wealth products through ANZ's Australian banking network;
- Substantially increases scale – FUAdvice up 34%, financial adviser numbers up 71% and FUAdmin up 125%;
- Pre-tax cost synergies expected to be approximately $65m per annum from FY2021, with further potential for enhanced revenue; and
- A valuation which reflected significant legacy closed product rationalisation. Price to earnings of 9.0x, including anticipated run rate cost synergies based on ANZ Wealth Management UNPAT for the 12 months to 30 September 2017.

The transaction will be funded through a $539m capital issue, comprising a $461m fully underwritten institutional placement and a $78m share purchase plan, and $750m in new debt facilities. The excess of funds raised, or expected to be raised, over purchase consideration takes into account an estimated $130m in completion and integration costs expected to be incurred over approximately three years from the date of announcing the transaction.

The IOOF Group's UNPAT increased $15.4m or 19.4% to $94.8m for the half year ended 31 December 2017 relative to $79.4m UNPAT in the prior comparative period.

Analysis of financial results - Group

Variances from the six month period to 31 December 2016 are denoted as pcp.

Gross margin increased by $9.3m on pcp

During the current period, average Funds Under Management, Administration and Advice (FUMA) were $116.2b, an increase of 8.8%. The increases were derived largely from equity market performance in the current period augmented by organic growth in advice and platform funds. Financial advice and distribution (Advice) flows of $1,208m were up 39.7% on pcp. Outside of system growth and solid performance from aligned adviser groups, this was principally due to new advisers joining the IOOF Group under its Consultum license. Platform flows of $617m were up 53.8% on pcp. This segment benefited from higher levels of flows across the sector and better penetration of the IOOF Group's exisiting 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 revenue impact from higher average funds was offset by negative impacts from product mix on earning rates or margins. Those negative impacts were $11m on pcp. Within platform, the lower rates for the current half 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. Investment management margins improved relative to pcp, 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 by $1.0m on pcp

The IOOF Group's broking businesses', (Ord Minnett and Bridges) contributions were up due to improved equity market conditions for new issues and traded volumes more broadly.

Operating expenditure decreased by $8.9m on pcp

The decrease in operating expenditure excludes the impact of expenditure items identified as reversed in calculating UNPAT. The most significant factor was a $6.9m reduction in information technology costs. This reduction was derived principally from a return to conventional recurring development spend following the completion of a number of client experience enhancement initiatives. The IOOF Group has also benefited from transferring software development from external consultants to internal employees. Labour represents the IOOF Group's most material cost. Labour costs have increased by $0.4m which includes higher rates of pay and the transition of development resourcing noted above. The rate of increase has been significantly offset by lower staff numbers overall. This follows the realisation of efficiencies through platform rationalisation. Professional fees have decreased largely because pcp acquisition related legal costs were expensed when the relevant opportunities were unsuccessful. Occupancy related expenses increased due to significant reconfiguration of the property footprint which has resulted in certain one-off service fees and short term duplication.

Operating and financial review (continued)

Net financing costs decreased by $2.3m on pcp

Net financing costs reduced as a result of applying approximately $557m of newly issued capital and surplus cash to extinguish $207m in borrowings and the residual to certificates of deposit. This application of funds reflected the need to eliminate unnecessary debt carrying costs whilst maintaining a relatively high level of liquidity given the expectation of paying $975m in purchase consideration to ANZ around October 2018.

Other profit impacts decreased by $1.2m on pcp

Non-controlling interest was $0.6m higher in line with Ord Minnett's increased profitability. Share of associates' profits declined $0.8m relative to pcp as a result of mandate outflows and higher costs within the Perennial Value Management Group (PVM). Share-based payments expense was $0.5m higher due to the rebalancing of certain adviser plans to long term incentives. Partly offsetting these impacts, depreciation and amortisation were reduced, reflecting an increased proportion of related assets at the end of their estimated useful life.

Income tax increased by $4.8m on pcp

Income tax expense relative to pcp principally reflected the IOOF Group's improved profitability. This was partly offset by increased research and development (R&D) tax offsets and prior period amendments. There was an $0.8m lower spend on treasury shares to fulfil employee share plans ($0.2m tax impact). The impact of this differential is relatively modest, in line with reasonable stability in the scale and breadth of plans overall.

Analysis of financial results - Segments

	31 Dec 17	31 Dec 16	Movement	
Financial advice and distribution	**$'000**	**$'000**	**$'000**	**%**
Net operating revenue	134,660	130,845	3,815	2.9%
Other revenue (incl share of net profits of associates)	2,619	2,503	116	4.6%
Operating expenditure	(76,462)	(76,961)	499	0.6%
Net financing	303	310	(7)	(2.3%)
Net non-cash items	(1,967)	(1,629)	(338)	(20.7%)
Income tax expense and non-controlling interest	(20,503)	(18,509)	(1,994)	(10.8%)
Underlying Profit after Tax	**38,650**	**36,559**	**2,091**	**5.7%**

- 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 expenditure has reduced slightly with costs savings from the second half of the prior year largely offset by inflation.

	31 Dec 17	31 Dec 16	Movement	
Platform management and administration	**$'000**	**$'000**	**$'000**	**%**
Net operating revenue	106,266	103,716	2,550	2.5%
Other revenue (incl share of net profits of associates)	75	-	75	n/a
Operating expenditure	(45,060)	(49,810)	4,750	9.5%
Net financing	-	-	-	n/a
Net non-cash items	(2,176)	(2,733)	557	20.4%
Income tax expense and non-controlling interest	(17,886)	(15,656)	(2,230)	(14.2%)
Underlying Profit after Tax	**41,219**	**35,517**	**5,702**	**16.1%**

- 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 services segment were the key drivers of this outcome. This growth was complemented by positive investment returns.

Operating and financial review (continued)

Analysis of financial results - Segments (continued)

Platform management and administration (continued)

- Significantly reduced operating expenditure resulted primarily from reduced staff numbers, technology support and licence costs following platform rationalisation. In addition, there was higher IT investment in pcp to facilitate higher levels of on-line transacting in future periods.

Investment management	31 Dec 17 $'000	31 Dec 16 $'000	Movement $'000	Movement %
Net operating revenue	30,438	27,681	2,757	10.0%
Other revenue (incl share of net profits of associates)	982	1,752	(770)	(43.9%)
Operating expenditure	(5,876)	(7,301)	1,425	19.5%
Net financing	-	282	(282)	n/a
Net non-cash items	(308)	(401)	93	23.2%
Income tax expense and non-controlling interest	(7,295)	(6,133)	(1,162)	(18.9%)
Underlying Profit after Tax	**17,941**	**15,880**	**2,061**	**13.0%**

- Net operating revenue improved in line with market based growth in average funds and improved margins from improved pricing of underlying external fund managers. Other revenue was affected by PVM performance.
- Decreased operating expenditure resulted from the divestment of Perennial Investment Management Ltd in pcp.

Trustee services	31 Dec 17 $'000	31 Dec 16 $'000	Movement $'000	Movement %
Net operating revenue	15,477	14,116	1,361	9.6%
Other revenue (incl share of net profits of associates)	-	-	-	n/a
Operating expenditure	(10,082)	(9,549)	(533)	(5.6%)
Net financing	-	(1)	1	n/a
Net non-cash items	(292)	(296)	4	1.4%
Income tax expense and non-controlling interest	(1,537)	(1,286)	(251)	(19.5%)
Underlying Profit after Tax	**3,566**	**2,984**	**582**	**19.5%**

- Net operating revenue has increased in line with the acquistion of AETS and higher client numbers.
- Increased operating expenditure followed the acquisition of AETS and was partly offset by ongoing simplification of AET support activities.

Financial Position

The IOOF Group held cash and cash equivalents of $157.6m at 31 December 2017 (30 June 2017: $208.2m). 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 0% at 31 December 2017 (30 June 2017: 13%) following the issue of new capital to fund the ANZ Wealth Management acquisition and subsequent repayment of borrowings.

Cash flow forecasting is conducted monthly, principally to ensure sufficient liquidity for future needs and to monitor adherence to licence conditions, and stress testing of lending covenants is conducted when assessing funding options for acquisition opportunities.

Operating and financial review (continued)

Risks

The IOOF Group manages a number of risks in conducting its operations and implementing its strategy. 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 the IOOF Group earns in fees and charges. Deterioration in investment market conditions could also lead to reduced consumer interest in the IOOF Groups' 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, the IOOF Group has developed and tested its disaster recovery capability and procedures, implemented high availability infrastructure and architectures, conducted mandatory staff training which is focused on cyber risk and continually monitors its 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 the IOOF Group's 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 it operates 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 trade 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 fair value 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, certificates of deposit, 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. The IOOF Group intends to apply partial hedge cover to manage its interest rate risk exposure arising from its expected future borrowings to fund the ANZ Wealth Management acquisition.

(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 are 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.

Operating and financial review (continued)

Risks (continued)

(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 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.

(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 its 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 planners

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 the IOOF Group's 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.

Operating and financial review (continued)

Risks (continued)

(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.

(xx) Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) was established on 14 December 2017 by the Governor-General of the Commonwealth of Australia. The conduct and activities of the IOOF Group are included in its terms of reference and the IOOF Group has lodged a submission with the Commissioner pursuant thereto. An initial public hearing was held on 12 February 2018 and the Commissioner is authorised to submit an interim report no later than 30 September 2018. The final report is due by 1 February 2019. Given those dates it is unclear at the date of reporting what impact the Royal Commission will have on the IOOF Group and the wealth management industry within which it operates. The IOOF Group has engaged external counsel and retains a compliment of qualified staff to ensure it is able to interact appropriately with the Royal Commission.

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. Due to the institutional placement completed by the IOOF Group during the period, the Board has determined that a stable dividend of 27.0 cents per share, resulting in a payout ratio of 100%, is appropriate to ensure shareholders are not diluted prior to the completion of the ANZ Wealth Management transaction.

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 12 months to 31 December 2017 was 22.3% with 95% of UNPAT paid as dividends augmented by strong share price growth of 16.4%. The market valuation of the IOOF Group remained reflective of positive investor response to the future value to be derived from the acquisition of ANZ Wealth Management and positive movements in global equity markets generally. TSR in the 5 year period from 1 January 2013 was 84.4% in total and 13.0% on a compounding annualised basis. The IOOF Group is in a strong financial position with no borrowings and significant free cash.

	Six months ended 31 December		
	2017	2016	% change
Profit attributable to owners of the Company ($'000s)[1]	45,217	74,212	(39.1%)
Basic EPS (cents per share)	14.2	24.7	(42.5%)
Diluted EPS (cents per share)	14.2	24.7	(42.5%)
UNPAT ($'000s)	94,840	79,420	19.4%
UNPAT EPS (cents per share)	29.8	26.5	12.5%
Dividends declared ($'000s)	94,791	78,035	21.5%
Dividends per share (cents per share)	27.0	26.0	3.8%
Opening share price	$ 9.80	$ 7.83	25.2%
Closing share price at 31 December	$ 10.72	$ 9.21	16.4%
Return on equity [2]	12.0%	11.2%	0.8%

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

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

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

Operating and financial review (continued)

UNPAT adjustments

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.

Acquisition costs - Acquisition advisory: One off payments to external advisers for corporate transactions, such as the acquisition of AETS and ANZ Wealth Management, which were not reflective of conventional recurring operations.

Acquisition costs - Integration preparation: Staff and specialist contractor costs related to integration preparation for the acquisition of ANZ Wealth Management.

Acquisition costs - Finance costs: Costs in relation to securing finance for the acquisition of ANZ Wealth Management.

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

Profit on divestment of subsidiaries: The IOOF Group partially divested a subsidiary during the period. (pcp: Perennial Investment Management Ltd and partial divestment of a subsidiary).

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

Non-recurring professional fees (recovered)/paid: Recovery of certain litigation related pcp costs via successful insurance claim**.** (pcp: 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. This type and level of support was not required on a recurrent basis).

Impairment of goodwill: A non-cash impairment of $28.3m has been recognised in relation to goodwill allocated to Perennial Investment Partners Limited. Reduced profitability from lower revenue 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 5 year fund performance numbers.

Onerous contracts: Non cash entry to record the estimated present value of expected costs of meeting the obligations under contracts where the costs exceed the economic benefits expected to be received pursuant to the contracts.

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 of at their accounting values. This DTL reduces in future periods at 30% of the amortisation applicable to those assets which have different accounting values and tax cost bases. The recognition of DTL and subsequent period 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.

Other: Deferred consideration revaluation relating to pcp divestment of Perennial businesses.

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

Dividends

In respect of the six months ended 31 December 2017, the Directors declared the payment of an interim 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 14 March 2018. This dividend will be paid to all shareholders recorded on the Register of Members on 21 February 2018.

In respect of the financial year ended 30 June 2017, a final dividend of 27.0 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 1 September 2017.

Events occurring after balance date

The Directors have declared the payment of an interim dividend of 27.0 cents per ordinary share franked to 100% based on tax paid at 30%, to be paid on 14 March 2018.

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 31 December 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 13 of the interim financial report and forms part of the Directors' Report for the six months ended 31 December 2017.

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.

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

George Venardos

Chairman
16 February 2018

Directors' declaration

In the opinion of the Directors of the Company:

(a) the condensed consolidated financial statements and notes set out on pages 16 to 36, are in accordance with the Corporations Act 2001 including:

- (i) giving a true and fair view of the Group's financial position as at 31 December 2017 and of its performance for the six months ended on that date; and
- (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting 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.

Signed in accordance with a resolution of the Directors:

George Venardos
Chairman
Melbourne
16 February 2018

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 review of IOOF Holdings Ltd for the half-year ended 31 December 2017 there have been:

i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the review; and

ii. no contraventions of any applicable code of professional conduct in relation to the review.

KPMG

KPMG

Dean Waters

Partner

Melbourne

16 February 2018

KPMG

KPMG

Rachel Milum

Partner

Melbourne

16 February 2018

Independent Auditor's Review Report

To the members of IOOF Holdings Ltd

Conclusion

We have reviewed the accompanying ***Condensed Consolidated Interim Financial Report*** of IOOF Holdings Ltd.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the Condensed Consolidated Interim Financial Report of IOOF Holdings Ltd is not in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the ***Group's*** financial position as at 31 December 2017 and of its performance for the ***Interim Period*** ended on that date; and
- complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

The ***Condensed Consolidated Interim Financial Report*** comprises:

- Condensed consolidated statement of financial position as at 31 December 2017
- Condensed consolidated statement of comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Interim Period ended on that date
- Notes 1-1 to 6-5 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

The ***Group*** comprises IOOF Holdings Ltd (the Company) and the entities it controlled at the Interim Period's end or from time to time during the Interim Period.

The ***Interim Period*** is the 6 months ended on 31 December 2017.

Responsibilities of the Directors for the Condensed Consolidated Interim Financial Report

The Directors of the Company are responsible for:

- the preparation of the Condensed Consolidated Interim Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*; and
- for such internal control as the Directors determine is necessary to enable the preparation of the Condensed Consolidated Interim Financial Report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility for the review of the Condensed Consolidated Interim Financial Report

Our responsibility is to express a conclusion on the Condensed Consolidated Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Condensed Consolidated Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2017 and its performance for the Interim Period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of IOOF Holdings Ltd, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of an Interim Period Financial Report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with *Australian Auditing Standards* and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

KPMG	KPMG
KPMG	KPMG
Dean Waters	Rachel Milum
Partner	*Partner*
Melbourne	Melbourne
16 February 2018	16 February 2018

Condensed consolidated statement of profit or loss and comprehensive income

For the six months ended	Note	31 Dec 17 $'000	31 Dec 16 $'000
Revenue	2-2	456,168	457,390
Expenses	2-3	(380,260)	(352,558)
Share of profits of associates accounted for using the equity method		1,334	2,144
Finance costs		(2,048)	(3,390)
Profit before tax		75,194	103,586
Income tax expense	2-4	(27,255)	(27,258)
Statutory fund			
Statutory fund revenue*	5-3	36,618	37,483
Statutory fund expenses*	5-3	(24,670)	(26,685)
Income tax (expense)/benefit - statutory*	5-3	(11,948)	(10,798)
Statutory fund contribution to profit, net of tax		-	-
Profit for the period		**47,939**	**76,328**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		9,018	1,408
Exchange differences on translating foreign operations		(106)	15
Income tax on other comprehensive income		(2,687)	(422)
Total items that may be reclassified subsequently to profit or loss		6,225	1,001
Other comprehensive income/(expense) for the period, net of income tax		6,225	1,001
Total comprehensive income for the period		54,164	77,329
Profit attributable to:			
Owners of the Company		**45,217**	**74,212**
Non-controlling interest		2,722	2,116
Profit for the period		47,939	76,328
Total comprehensive income attributable to:			
Owners of the Company		51,442	75,213
Non-controlling interest		2,722	2,116
Total comprehensive income for the period		54,164	77,329
Earnings per share:			
Basic earnings per share (cents per share)	2-6	14.2	24.7
Diluted earnings per share (cents per share)	2-6	14.2	24.7

Notes to the consolidated financial statements are included on pages 21 to 36.

*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.

Condensed consolidated statement of financial position

	Note	31 Dec 17 $'000	30 Jun 17 $'000
Assets			
Cash	1-1	157,623	208,218
Certificates of deposit	1-1	349,831	-
Receivables	1-1	108,161	108,401
Other financial assets	1-1	50,991	45,430
Prepayments		18,393	14,403
Deferred acquisition costs		1,623	1,913
Associates		20,241	21,081
Property and equipment		20,490	21,480
Intangible assets	4-2	427,456	441,079
Goodwill	4-3	940,226	954,867
Assets relating to statutory funds*	5-1	988,234	934,119
Total assets		**3,083,269**	**2,750,991**
Liabilities			
Payables	1-1	62,162	60,007
Borrowings	3-1	-	206,948
Current tax liabilities		8,659	25,813
Contingent consideration	1-1	1,453	1,839
Provisions	4-1	60,596	64,639
Deferred tax liabilities		92,901	92,949
Deferred revenue liability		1,499	1,800
Lease incentives		2,305	2,429
Liabilities relating to statutory funds*	5-2	988,234	934,119
Total liabilities		**1,217,809**	**1,390,543**
Net assets		**1,865,460**	**1,360,448**
Equity			
Share capital	3-2	1,968,013	1,434,459
Reserves	3-4	19,484	13,349
Accumulated losses		(132,561)	(97,048)
Total equity attributable to equity holders of the Company		**1,854,936**	**1,350,760**
Non-controlling interest		10,524	9,688
Total equity		**1,865,460**	**1,360,448**

Notes to the consolidated financial statements are included on pages 21 to 36.

*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.

Condensed consolidated statement of changes in equity

For the six months ended 31 December 2017	Note	Ordinary shares $'000	Treasury shares $'000	Reserves $'000	Accumulated losses $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2017		1,438,601	(4,142)	13,349	(97,048)	**1,350,760**	9,688	**1,360,448**
Total comprehensive income for the period								
Profit for the period attributable to owners of the Company		-	-	-	45,217	**45,217**	2,722	**47,939**
Other comprehensive income for the period, net of income tax		-	-	6,225	-	**6,225**	-	**6,225**
Total comprehensive income for the period		-	-	6,225	45,217	**51,442**	2,722	**54,164**
Contributions by and (distributions to) owners								
Dividends paid		-	-	-	(80,957)	**(80,957)**	(1,886)	**(82,843)**
Share-based payment expense	2-3	-	-	1,349	-	**1,349**	-	**1,349**
Issue of shares	3-2	539,264	-	-	-	**539,264**	-	**539,264**
Transaction costs of issuing new shares	3-2	(5,917)	-	-	-	**(5,917)**	-	**(5,917)**
Transfer from employee equity-settled benefits reserve on exercise of performance rights		1,212	-	(1,212)	-	**-**	-	**-**
Treasury shares transferred to recipients during the period	3-2	(1,635)	1,635	-	-	**-**	-	**-**
Transfer of lapsed performance rights to retained earnings		-	-	(227)	227	**-**	-	**-**
Purchase of treasury shares	3-2	-	(1,005)	-	-	**(1,005)**	-	**(1,005)**
Total transactions with owners		532,924	630	(90)	(80,730)	**452,734**	(1,886)	**450,848**
Balance at 31 December 2017		1,971,525	(3,512)	19,484	(132,561)	**1,854,936**	10,524	**1,865,460**

Notes to the consolidated financial statements are included on pages 21 to 36.

Condensed consolidated statement of changes in equity

For the six months ended 31 December 2016	Ordinary shares $'000	Treasury shares $'000	Reserves $'000	Accumulated losses $'000	Total $'000	Non-controlling interest $'000	Total equity $'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 period							
Profit for the period attributable to owners of the Company	-	-	-	74,212	**74,212**	2,116	76,328
Other comprehensive income for the period, net of income tax	-	-	1,001	-	**1,001**	-	1,001
Total comprehensive income for the period	-	-	1,001	74,212	**75,213**	2,116	77,329
Transactions with owners, recorded directly in equity							
Contributions by and (distributions to) owners							
Dividends paid	-	-	-	(77,986)	**(77,986)**	(1,434)	(79,420)
Share-based payment expense	-	-	862	-	**862**	-	862
Transfer from employee equity-settled benefits reserve on exercise of performance rights	1,323	-	(1,323)	-	**-**	-	-
Treasury shares transferred to recipients during the period	(1,997)	1,997	-	-	**-**	-	-
Transfer of lapsed performance rights to retained earnings	-	-	(397)	397			
Purchase of treasury shares	-	(1,781)	-	-	**(1,781)**	-	(1,781)
Total transactions with owners	(674)	216	(858)	(77,589)	**(78,905)**	(1,434)	(80,339)
Balance at 31 December 2016	1,438,602	(2,600)	11,409	(60,878)	**1,386,533**	10,157	1,396,690

Notes to the consolidated financial statements are included on pages 21 to 36.

Condensed consolidated statement of cash flows

For the six months ended	Note	31 Dec 17 $'000	31 Dec 16 $'000
Cash flows from operating activities			
Receipts from customers		477,395	468,674
Payments to suppliers and employees		(343,624)	(350,590)
Dividends from associates		1,403	1,199
Net stockbroking purchases		(163)	182
Non-recurring professional fees paid		(98)	(1,984)
Termination payments		(1,118)	(3,108)
Income taxes paid		(41,452)	(34,522)
Net cash provided by/(used in) operating activities		92,343	79,851
Cash flows from investing activities			
Dividends and distributions received		606	544
Interest received		2,193	2,269
Acquisition costs - Acquisition advisory		(3,694)	-
Acquisition costs - Integration preparation		(1,209)	-
Acquisition costs - Finance costs		(5,100)	-
Interest and other costs of finance paid		(2,016)	(3,302)
Proceeds on divestment of subsidiaries		163	6,261
Proceeds on divestment of other assets		724	9,949
Receipt of deferred purchase consideration		889	135
Acquisition of subsidiary, net of cash acquired		(18,329)	-
Purchase of certificates of deposit	1-1	(349,831)	-
Purchase of financial assets		(197)	(64)
Payments for property and equipment		(6,488)	(2,458)
Amounts borrowed from/(advanced to) other entities		8	(67)
Payments for intangible assets	4-2	(167)	(4,275)
Net cash provided by/(used in) investing activities		(382,448)	8,992
Cash flows from financing activities			
Net borrowings repaid	3-1	(207,424)	(133)
Purchase of treasury shares		(1,005)	(1,781)
Proceeds from issue of shares		539,264	-
Cost of issuing new shares		(8,452)	-
Dividends paid:			
- members of the Company		(80,957)	(77,986)
- non-controlling members of subsidiary entities		(1,886)	(1,434)
Net cash provided by/(used in) financing activities		239,540	(81,334)
Net increase/(decrease) in cash and cash equivalents		(50,565)	7,509
Cash and cash equivalents at the beginning of period		208,218	186,992
Cash and cash equivalents divested		-	(2,350)
Effects of exchange rate changes on cash and cash equivalents		(30)	4
Cash and cash equivalents at the end of period		157,623	192,155

Notes to the consolidated financial statements are included on pages 21 to 36.

Section 1 - 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 unchanged from the year ended 30 June 2017.

1-1 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.

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

	Carrying amount			Fair value			
	Current	Non-Current	Total	Level 1	Level 2	Level 3	Total
31 December 2017	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash	157,623	-	157,623				
Certificates of deposit	349,831	-	349,831				
Other financial assets							
Financial assets measured at fair value							
Available-for-sale investments	-	34,490	34,490	34,490	-	-	34,490
Shares in listed companies	189	-	189	189	-	-	189
Unlisted unit trusts	-	757	757	-	757	-	757
Fair value through profit or loss	189	757	946	189	757	-	946
Financial assets not measured at fair value							
Loans to directors and executives of associated entities	-	8,402	8,402				
Seed capital receivable	-	7,153	7,153				
Loans and other receivables	-	15,555	15,555				
Total other financial assets	189	50,802	50,991				
Receivables							
Financial assets not measured at fair value							
Trade receivables	49,940	-	49,940				
Other receivables	52,186	647	52,833				
Security bonds	-	5,388	5,388				
Total receivables	102,126	6,035	108,161				
Total financial assets	**609,769**	**56,837**	**666,606**				
Financial liabilities							
Contingent consideration	1,256	197	1,453	-	-	1,453	1,453
Payables	60,981	-	60,981				
Payables to statutory benefit funds	1,181	-	1,181				
	62,162	-	62,162				
Total financial liabilities	**63,418**	**197**	**63,615**				

Section 1 - Risk management

1-1 Financial Instruments (continued)

	Carrying amount			Fair value			
	Current	Non-Current	Total	Level 1	Level 2	Level 3	Total
30 June 2017	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash	208,218	-	208,218				
Other financial assets							
Financial assets measured at fair value							
Available-for-sale investments	-	25,445	25,445	25,445	-	-	25,445
Shares in listed companies	18	-	18	18	-	-	18
Unlisted unit trusts	-	679	679	-	679	-	679
Fair value through profit or loss	18	679	697	18	679	-	697
Loans to directors and executives of associated entities	-	8,404	8,404				
Receivables from statutory benefit funds	3,731	-	3,731				
Seed capital receivable	-	7,153	7,153				
Loans and other receivables	3,731	15,557	19,288				
Total other financial assets	3,749	41,681	45,430				
Receivables							
Financial assets not measured at fair value							
Trade receivables	57,456	-	57,456				
Other receivables	44,838	718	45,556				
Security bonds	-	5,389	5,389				
Total receivables	102,294	6,107	108,401				
Total financial assets	**314,261**	**47,788**	**362,049**				
Financial liabilities							
Contingent consideration	1,447	392	1,839	-	-	1,839	1,839
Payables	60,004	3	60,007				
Borrowing facilities	90,000	116,908	206,908				
Finance lease liabilities	40	-	40				
Borrowings	90,040	116,908	206,948				
Total financial liabilities	**151,491**	**117,303**	**268,794**				

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 period during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the six months ended 31 December 2017. (2016: nil).

Section 1 - Risk management

1-1 Financial Instruments (continued)

Reconciliation of movements in level 3 financial liabilities	**Contingent consideration $'000**
Opening balance as at 1 July 2017	1,839
Unwinding of discount	12
Fair value gain from derecognition of contingent consideration payable	(198)
Contingent consideration paid	(200)
Closing balance as at 31 December 2017	1,453

Section 2 - Results for the period

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 period, segment information, taxation and earnings per share.

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.

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
Management and service fees revenue	142,214	129,788	194,536	189,747	35,060	41,343	15,423	13,234	-	-	387,233	374,112
External other fee revenue	7,655	8,671	2,886	3,477	1,285	1,356	2,061	1,990	217	205	14,104	15,699
Service fees and other direct costs	(71,460)	(59,954)	(56,456)	(55,936)	(4,399)	(14,892)	(2,122)	(1,320)	240	183	(134,197)	(131,919)
Deferred acquisition costs	(112)	(212)	(82)	(70)	-	-	-	-	-	-	(194)	(282)
Gross Margin	**78,297**	**78,293**	**140,884**	**137,218**	**31,946**	**27,807**	**15,362**	**13,904**	**457**	**388**	**266,946**	**257,610**
Stockbroking revenue	47,788	44,260	-	-	-	-	-	-	-	-	47,788	44,260
Stockbroking service fees expense	(27,367)	(25,055)	-	-	-	-	-	-	-	-	(27,367)	(25,055)
Stockbroking net contribution	**20,421**	**19,205**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**20,421**	**19,205**
Inter-segment revenue[(i)]	38,220	35,877	1,394	3	-	-	115	212	69	69	39,798	36,161
Inter-segment expenses[(i)]	(2,278)	(2,530)	(36,012)	(33,505)	(1,508)	(126)	-	-	-	-	(39,798)	(36,161)
Net Operating Revenue	**134,660**	**130,845**	**106,266**	**103,716**	**30,438**	**27,681**	**15,477**	**14,116**	**526**	**457**	**287,367**	**276,815**
Other revenue	2,267	2,074	75	-	-	37	-	-	353	826	2,695	2,937
Finance income	319	333	-	-	-	282	-	-	3,589	2,373	3,908	2,988
Share of net profits of associates	352	429	-	-	982	1,715	-	-	-	-	1,334	2,144
Operating expenditure	(76,462)	(76,961)	(45,060)	(49,810)	(5,876)	(7,301)	(10,082)	(9,549)	(18,930)	(21,660)	(156,410)	(165,281)
Share-based payments expense	(506)	(54)	(163)	(136)	(64)	(146)	(23)	(16)	(593)	(510)	(1,349)	(862)
Finance costs	(16)	(23)	-	-	-	-	-	(1)	(2,032)	(3,366)	(2,048)	(3,390)
Depreciation of property & equipment	(1,461)	(1,575)	(1,661)	(1,721)	(244)	(255)	(269)	(280)	-	-	(3,635)	(3,831)
Amortisation of intangible assets - IT Development	-	-	(352)	(876)	-	-	-	-	-	-	(352)	(876)
Non-controlling interest	(2,722)	(2,116)	-	-	-	-	-	-	-	-	(2,722)	(2,116)
Income tax expense	(17,781)	(16,393)	(17,886)	(15,656)	(7,295)	(6,133)	(1,537)	(1,286)	10,551	10,360	(33,948)	(29,108)
UNPAT	**38,650**	**36,559**	**41,219**	**35,517**	**17,941**	**15,880**	**3,566**	**2,984**	**(6,536)**	**(11,520)**	**94,840**	**79,420**

(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.

Section 2 - Results for the period

2-1 Operating segments (continued)

Reconciliation of reportable segment revenues and expenses

	Note	31 Dec 17 $'000	31 Dec 16 $'000
Profit attributable to Owners of the Company		**45,217**	**74,212**
Underlying net profit after tax pre-amortisation (UNPAT) adjustments:			
Amortisation of intangible assets	2-3	19,606	19,253
Acquisition costs - Acquisition advisory	2-3	3,694	-
Acquisition costs - Integration preparation	2-3	1,209	-
Acquisition costs - Finance costs	2-3	456	-
Termination payments	2-3	1,221	3,215
Profit on divestment of subsidiaries	2-2	(143)	(6,261)
Profit on divestment of assets	2-2	(297)	(11,133)
Non-recurring professional fees (recovered)/paid	2-3	(902)	1,984
Impairment of goodwill	2-3	28,339	-
Onerous contracts	2-3	1,843	-
Unwind of deferred tax liability recorded on intangible assets		(5,074)	(5,028)
Other	2-3	1,290	-
Income tax attributable		(1,619)	3,178
UNPAT		**94,840**	**79,420**

The significant accounting policies are consistent with those adopted for the last annual consolidated financial statements as at and for the year ended 30 June 2017.

2-2 Revenue

	31 Dec 17 $'000	31 Dec 16 $'000
Management and service fees revenue	387,233	374,112
Stockbroking revenue	47,788	44,260
External other fee revenue	14,104	15,699
Finance income		
Interest income on loans to Directors of controlled and associated entities	126	129
Interest income from non-related entities	3,092	2,223
Dividends and distributions received	611	544
Net fair value gains/(losses) on other financial assets at fair value through profit or loss	79	92
	3,908	2,988
Other revenue		
Profit on divestment of subsidiaries	143	6,261
Profit on divestment of assets	297	11,133
Other	2,695	2,937
	3,135	20,331
Total revenue	456,168	457,390

Section 2 - Results for the period

2-3 Expenses

	Note	31 Dec 17 $'000	31 Dec 16 $'000
Service Fees and other direct costs			
Service and marketing fees expense		122,129	119,746
Stockbroking service fees expense		27,367	25,055
Other direct costs		12,068	12,173
		161,564	156,974
Operating expenditure			
Salaries and related employee expenses		108,514	108,148
Information technology costs		16,615	23,501
Professional fees		4,373	6,143
Marketing		5,051	4,889
Office support and administration		6,592	8,767
Occupancy related expenses		12,353	10,445
Travel and entertainment		2,876	3,388
Other		36	-
		156,410	165,281
Other expenses			
Share-based payments expense		1,349	862
Acquisition costs - Acquisition advisory		3,694	-
Acquisition costs - Integration preparation		1,209	-
Acquisition costs - Finance costs		456	-
Termination payments		1,221	3,215
Depreciation of property and equipment		3,635	3,831
Amortisation of intangible assets	4-2	19,606	19,253
Amortisation of intangible assets - IT development	4-2	352	876
Impairment of goodwill	4-3	28,339	-
Onerous contracts		1,843	-
Deferred acquisition costs		194	282
Non-recurring professional fees (recovered)/paid		(902)	1,984
Other		1,290	-
		62,286	30,303
Total expenses		380,260	352,558

2-4 Income taxes

Reconciliation of effective tax rate	31 Dec 17 %	31 Dec 17 $'000	31 Dec 16 %	31 Dec 16 $'000
Profit before tax		75,194		103,586
Tax using the IOOF Group's domestic tax rate	30.0%	22,558	30.0%	31,076
Tax effect of:				
Share of tax credits with statutory funds	0.5%	519	0.5%	551
(Non assessable income)/Non-deductible expenses	0.5%	387	(1.5%)	(1,557)
Impairment of goodwill	11.3%	8,502	- %	-
Share of net profits of associates	(0.5%)	(400)	(0.6%)	(643)
Assessable associate dividends	2.3%	1,764	1.3%	1,373
Imputation credits	(2.6%)	(1,942)	(1.5%)	(1,536)
Other	(0.6%)	(446)	(0.6%)	(631)
Under/(over) provided in prior periods	(4.9%)	(3,687)	(1.3%)	(1,375)
Income tax expense	**36.1%**	27,255	**26.3%**	27,258

Section 2 - Results for the period

2-4 Income taxes (continued)

For statutory reporting purposes, the IOOF Group had an effective tax rate of 36.1% for the period ended 31 December 2017 (2016: 26.3%) compared to a statutory corporate tax rate of 30%. This rate difference is primarily due to impairment of goodwill, research and development (R&D) tax offsets, tax offsets for fully franked dividend income, prior period amendments and non-deductible subsidiary acquisition costs. For the period ended 31 December 2016, the rate difference was primarily due to R&D tax offsets and tax offsets for fully franked dividend income. Excluding these items the IOOF Group's effective tax rate would be 30% across both periods. The effective tax rate for New Zealand and Hong Kong operations was 28.1%, and 20.3% respectively for the 6 months to 31 December 2017. (2016: 30.8% and 14.8% respectively).

Tax transparency

The ATO publishes tax information in respect of large public taxpayers in its annual tax transparency report, with the first report published in December 2016. For the IOOF tax group the latest ATO published payment of $66.6m in income tax related to the financial year ended 30 June 2016. The IOOF tax group is committed to tax transparency and is a signatory to the Board of Taxation's Voluntary Tax Transparency Code (the Code). 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.

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.

2-5 Dividends

The following dividends were declared by the IOOF Group:

	Six months ended 31 December 2017		Six months ended 31 December 2016	
	Cents per share	Total '000	Cents per share	Total '000
Fully paid ordinary shares				
Interim dividend	27.0	94,791	26.0	78,035

In respect of the six months ended 31 December 2017, the Directors declared the payment of an interim 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 14 March 2018. This dividend will be paid to all shareholders recorded on the Register of Members on 21 February 2018.

2-6 Earnings per share

	31 Dec 17 Cents per share	31 Dec 16 Cents per share
Basic earnings per share	14.2	24.7
Diluted earnings per share	14.2	24.7

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:

	31 Dec 17 $'000	31 Dec 16 $'000
Profit for the period attributable to owners of the Company	45,217	74,212
Earnings used in the calculation of basic EPS	45,217	74,212

Weighted average number of ordinary shares	No. '000	No. '000
Weighted average number of ordinary shares (basic)	317,738	299,878
Effect of unvested performance rights	691	625
Weighted average number of ordinary shares (diluted)	318,429	300,503

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 Borrowings

IOOF Group's interest-bearing borrowings are measured at amortised cost.

	31 Dec 17 $'000	30 Jun 17 $'000
Syndicated facility agreement	-	206,908
Finance lease liabilities	-	40
	-	206,948

	Borrowings $'000
Opening balance 1 July 2017	206,948
Net borrowings repaid	(207,424)
Capitalised establishment fees	476
Closing balance 31 December 2017	-

The IOOF Group's borrowings were fully repaid during the period.

3-2 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.

	31 Dec 17 $'000	30 Jun 17 $'000
351,076,027 fully paid ordinary shares (30 June 2017: 300,133,752)	1,971,525	1,438,601
379,741 treasury shares (30 June 2017: 476,411)	(3,512)	(4,142)
	1,968,013	1,434,459

	Six months ended 31 Dec 17		Year ended 30 Jun 17	
	No. '000	$'000	No. '000	$'000
Ordinary shares				
On issue at 1 July	300,134	1,438,601	300,134	1,439,276
Issue of shares	50,942	539,264	-	-
Transaction costs of issuing new shares	-	(5,917)	-	-
Transfer from employee equity-settled benefits reserve on exercise of performance rights	-	1,212	-	1,322
Treasury shares transferred to recipients during the period	-	(1,635)	-	(1,997)
On issue at the end of the period	351,076	1,971,525	300,134	1,438,601

Section 3 - Capital management and financing

3-2 Share capital (continued)

	Six months ended 31 Dec 17		Year ended 30 Jun 17	
Treasury shares	No. '000	$'000	No. '000	$'000
On issue at 1 July	(476)	(4,142)	(321)	(2,816)
Purchase of treasury shares	(92)	(1,005)	(380)	(3,323)
Treasury shares transferred to recipients during the period	189	1,635	225	1,997
On issue at the end of the period	(379)	(3,512)	(476)	(4,142)
Total share capital	350,697	1,968,013	299,658	1,434,459

Issue of performance rights

During the six months to 31 December 2017, the Company issued the following performance rights to executives:

Recipients	No. of Rights Issued	Fair Value $
Senior Management	155,000	8.32
Managing Director	122,500	6.61
Other key management personnel	89,777	9.81
Other key management personnel	15,891	9.21
	383,168	

3-3 Commitments and Contingent liabilities

On 17 October 2017, the IOOF Group entered into a share sale agreement with Australia and New Zealand Banking Group Limited (ANZ) to acquire ANZ's OnePath Pensions and Investments business and Aligned Dealer Groups (collectively "ANZ Wealth Management") for a cash consideration of $975m, subject to a completion adjustment. The transaction is subject to conditions precedent and is expected to complete around October 2018.

Contingent liabilities of the IOOF Group 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.

3-4 Reserves

	31 Dec 17 $'000	30 Jun 17 $'000
Available-for-sale investment revaluation reserve	19,388	13,074
Business combinations reserve	(326)	(326)
Foreign currency translation reserve	33	121
Operating Risk Financial Reserve*	2,655	2,655
Share-based payments reserve	(2,266)	(2,175)
	19,484	13,349

* 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 Provisions

	31 Dec 17 $'000	30 Jun 17 $'000
Onerous contracts	1,843	350
Employee entitlements	55,611	62,456
Other provisions	3,142	1,833
	60,596	64,639

4-2 Intangible assets (other than goodwill)

	31 Dec 17 $'000	30 Jun 17 $'000
Cost	676,430	670,159
Accumulated amortisation	(248,974)	(229,080)
	427,456	441,079

	IT Developm-ent $'000	Computer software $'000	Customer relationsh-ips $'000	Brand names $'000	Other Intangibles $'000	Total $'000
Carrying value at 1 July 2017	641	5,246	361,558	67,746	5,888	441,079
Acquisition through business combination	-	-	6,188	-	-	6,188
Additions	97	-	-	-	70	167
Disposals	-	-	(20)	-	-	(20)
Amortisation expense	(352)	(492)	(17,721)	(400)	(993)	(19,958)
Carrying value at 31 December 2017	386	4,754	350,005	67,346	4,965	427,456

4-3 Goodwill

	31 Dec 17 $'000	30 Jun 17 $'000
Cost	1,024,166	1,010,468
Accumulated impairment	(83,940)	(55,601)
Net carrying value of goodwill	940,226	954,867
Carrying value at 1 July 2017	954,867	991,712
Acquisition through business combination	13,698	1,747
Impairment of goodwill	(28,339)	(38,592)
Carrying value at 31 December 2017	940,226	954,867

A non-cash impairment of $28.3m has been recognised in relation to goodwill allocated to Perennial Investment Partners Limited. Reduced profitability from lower revenue 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 5 year fund performance numbers.

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

	Statutory	
	31 Dec 17 $'000	30 Jun 17 $'000
Cash at bank	3,431	3,717
Receivables	12,532	32,794
Unlisted unit trusts	948,098	875,079
Loans to policyholders	24,173	22,529
Investments backing policyholder liabilities designated at fair value through profit or loss	988,234	934,119

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 entities in 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 policyholder 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 policyholder 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

	Statutory	
	31 Dec 17 $'000	30 Jun 17 $'000
Payables	2,171	6,360
Seed capital	7,153	7,153
Deferred tax liabilities	11,214	2,307
Investment contract liabilities with DPF	250,142	267,220
Investment contract liabilities	717,554	651,079
Policyholder liabilities	988,234	934,119

Policyholder liabilities have been determined in accordance with applicable accounting standards. Policyholder 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.

Section 5 - Statutory funds

5-3 Statutory fund contribution to profit or loss, net of tax

	Statutory	
	31 Dec 17 $'000	31 Dec 16 $'000
Statutory fund revenue		
Interest income	367	270
Dividends and distributions received	12,233	12,536
Net fair value gains/(losses) on other financial assets designated as fair value through profit or loss	32,243	26,861
Investment contracts with DPF:		
Contributions received - investment contracts with DPF	1,479	5,146
DPF policyholder liability decrease	17,085	15,167
Non - DPF policyholder liability (increase)	(27,796)	(23,536)
Other fee revenue	1,007	1,039
	36,618	**37,483**
Statutory fund expenses		
Service and marketing fees expense	5,191	5,201
Direct operating expenses	2	2
Investment contracts with DPF:		
Benefits and withdrawals paid	19,417	21,427
Termination bonuses	18	7
Interest expense	42	48
	24,670	**26,685**
Income tax expense	**11,948**	**10,798**
Statutory fund contribution to profit or loss, net of tax	-	-

Section 6 - 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 for the year ended 30 June 2018 or later years.

6-1 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 six months ended 31 December 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 consolidated financial statements of the IOOF Group as at and for the year ended 30 June 2017 are available upon request from the Company's registered office or at www.ioof.com.au

The Company's registered office and its principal place of business are Level 6, 161 Collins Street, Melbourne.

6-2 Basis of preparation

(a) Statement of compliance

This condensed consolidated interim financial report has been prepared in accordance with AASB 134 Interim Financial Reporting, Corporations Act 2001 and with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the IOOF Group since the last annual consolidated financial statements as at and for the year ended 30 June 2017. This condensed consolidated interim financial report does not include all of the information required for full annual financial statements.

This condensed consolidated interim financial report was approved by the Board of Directors on 16 February 2018.

(b) Use of estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial report the significant judgements made by management in applying the IOOF Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2017.

(c) 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.

6-3 Other significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the IOOF Group’s consolidated financial statements as at and for the year ended 30 June 2017.

6-4 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* .

Section 6 - Basis of preparation

6-4 New standards and interpretations not yet adopted (continued)

IFRS 15 Revenue from Contracts with Customers (continued)

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.

The IOOF Group currently recognises investment manager fees as a reduction to management and service fees revenue. Upon adoption of IFRS15 these fees will be recognised in service and marketing fees expense. This change will not impact the IOOF Group's profit.

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.

At 31 December 2017, the IOOF Group had equity investments classified as available-for-sale with a fair value of $34.5m 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 ($80.6m). The nature of expenses related to those leases will 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.

Section 6 - Basis of preparation

6-4 New standards and interpretations not yet adopted (continued)

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)

6-5 Subsequent events

The Directors are not aware of any other event or circumstance since the end of the financial period 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.