IOOF Holdings Ltd

ABN 49 100 103 722

30 June 2018

Annual Financial Report

Contents

Notes to the financial statements

The Directors present their report together with the financial report of IOOF Holdings Ltd (the "Company" or "Parent") and of the IOOF Group, being the Company and its subsidiaries and the consolidated Group's interest in associates for the financial year ended 30 June 2018 and the auditor's report thereon.

Directors

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

Name, qualifications and independence status	Experience, special responsibilities, listed and other significant directorships
Mr George Venardos BComm, FCA, FGIA, FAICD, FCIS. Independent Non-Executive Director Director since 2009 Chair since 2016	An experienced Director with broad listed company experience across a range of different industries, including financial services, affordable leisure, oil and gas services and technology development. Over 30 years' experience in executive roles in financial services, insurance and funds management including 10 years as CFO of Insurance Australia Group and Chairman of the Insurance Council of Australia Finance and Accounting Committee. Former Director of Bluglass Ltd from 2008 to 2016 and Ardent Leisure Group from 2009 to 2017. Chair of the Nominations Committee and member of the Group Audit and Remuneration Committees.
Mr Christopher Kelaher B.Ec, LL.B, F Fin. Managing Director Director since 2009	In 2009, Mr Kelaher became the Managing Director of the IOOF Group after its merger with Australian Wealth Management Limited (AWM), a company he had led since 2006. Prior to AWM, Mr Kelaher was the CEO of Select Managed Funds Limited for nine years, a private company which was brought to market in 2005 and in turn ultimately merged with AWM in 2006. In the following periods, he has been instrumental in executing multiple mergers and acquisitions that have added materially to the IOOF Group and its antecedent businesses. Mr Kelaher has extensive capital markets experience from his time during the late 1980s with Citicorp where he oversaw the establishment of Citicorp Investment Management and Global Asset Management businesses in Australia and New Zealand. Member of the Nominations Committee.
Ms Jane Harvey B.Com, MBA, FCA, FAICD. Independent Non-Executive Director Director since 2005	Ms Harvey has more than 30 years' experience in the financial and advisory services industry. Prior positions include as a Partner at PricewaterhouseCoopers, a Director of David Jones Limited from 2012 to 2014, a Director of UGL Limited from 2015 to 2017, and as a Director of DUET Finance Limited, a stapled entity within the ASX Listed DUET Group from 2013 to 2017. Ms Harvey is currently a Director of BUPA A&NZ and Dulux Group Ltd. Ms Harvey is the Chair of the IOOF Group Audit Committee and member of the Nominations Committee. Member of the Risk and Compliance Committee until 28 August 2017. Member of APRA Regulated Entity Audit Committee until 13 February 2018.

Directors (continued)

Mr Allan Griffiths
B.Bus, DipLI.
Independent Non-Executive Director
Director since 2014

More than 30 years' experience with a deep understanding of the financial services industry. Mr Griffiths has held a number of executive positions within the industry most notably as Chief Executive Officer Aviva Australia and later, Managing Director South Asia, Aviva Asia Pte Ltd based in Singapore. Prior to joining Aviva Mr Griffiths held executive positions with Colonial Ltd and Norwich Union. Mr Griffiths is Chairman of the Westpac/BT Insurance Boards and the Chairman of Metrics Credit Partners. Member of the Risk and Compliance Committee until 28 August 2017. Chair of the Remuneration Committee and member of the Group Audit Committee. Member of the Nominations Committee from 13 February 2018.

Ms Elizabeth Flynn
LLB, Grad Dip App Corp Gov, FAICD, FFin, FGIA, FCIS.
Director since 2015

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

Mr John Selak
Dip Acc, FCA, FAICD
Director since 2016

Mr Selak has over 40 years' experience in the financial and advisory services industry. From 2000 to 2016 Mr Selak was a Partner in the Corporate Finance Practice of Ernst & Young serving on their Global Corporate Finance Executive. From 2014 to 2017 Mr Selak was an advisory board member of Quest Apartment Hotels. Mr Selak is currently Chairman of Corsair Capital, a non-executive director of National Tiles and Turosi Food Solutions. Chair of APRA Regulated Entity Audit Committee and member of Group Audit Committee. Member of Risk and Compliance Committee from 28 August 2017.

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

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

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

Principal activities

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

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

Operating and financial review

In accordance with current Australian Accounting Standards, the audited financial results of the benefit funds of IOOF Ltd are included in the consolidated results of the IOOF Group. The inclusion of the benefit funds has no impact on the profit after tax for the year (2017: $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. 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	2018 $'000	2017 $'000
Profit attributable to Owners of the Company		**88,301**	**115,990**
Underlying net profit after tax pre-amortisation (UNPAT) adjustments:			
Reverse the impact of:			
Amortisation of intangible assets	2-3	39,400	38,611
Acquisition costs - Acquisition advisory	2-3	5,367	-
Acquisition costs - Integration preparation	2-3	4,973	-
Acquisition costs - Finance costs	2-3	6,725	-
Onerous contracts	2-3	2,345	-
Termination payments	2-3	2,128	4,125
Profit on divestment of subsidiaries	2-2	(143)	(6,261)
Profit on divestment of assets	2-2	(2,643)	(11,930)
Non-recurring professional fees (recovered)/paid	2-3	(902)	2,013
Impairment of goodwill	2-3	28,339	38,592
Unwind of deferred tax liability recorded on intangible assets		(10,195)	(10,056)
Settlement of legal claims	2-3	44,250	-
Other	2-3	1,244	-
Acquisition tax provision release		-	(5,707)
Income tax attributable		(17,772)	3,980
UNPAT		**191,417**	**169,357**

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 AET Services (AETS) and planned acquisition of 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 planned acquisition of ANZ Wealth Management.

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

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.

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 year. (Prior year: Perennial Investment Management Ltd and partial divestment of a subsidiary).

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

Operating and financial review (continued)

UNPAT Adjustments (continued):

Non-recurring professional fees (recovered)/paid: Recovery of certain litigation related prior year costs via successful insurance claim. (Prior year: 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 (Prior year: $38.6m). Reduced profitability from lower revenue 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 below benchmark performance in certain core products and changing market dynamics, where larger institutions now weight a greater proportion of funds to indexed products.

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

Settlement of legal claims: Provision for settlement of plaintiff claims in certain of the legal proceedings to which Australian Executor Trustees Limited is party in connection with its role as debenture trustee of Provident Capital Limited.

Other: Deferred consideration devaluation relating to prior periods' divestment of Perennial and other businesses.

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

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

Review of Strategy

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

Retail - privately operated trusts and other schemes. The majority of funds are channelled to administration services and investment management products through financial advisers. However, technological development is enabling an increasing range of offerings direct to fund members.
Industry Funds - superannuation entities which historically have provided for employees working in the same union, industry or group of related industries. Many industry funds now offer membership to members of the public. Industry funds generally administer these funds, but may outsource the management of investments.
Self-Managed - the fund member acts as Trustee for his or her pool of funds, which may include funds from a limited number of other family members and associates. These funds are predominantly utilised where the Trustee perceives they have the requisite time and expertise to manage their own investment strategy and a sufficient scale of funds to make the fixed administration costs economically justifiable.
Corporate - funds established for the benefit of employees of a particular entity or a group of related entities, with joint member and employer control.
Public Sector - funds which provide benefits largely for government employees or employees of statutory authorities, or are schemes established by a Commonwealth, State or Territory law.

Operating and financial review (continued)

Review of Strategy (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 $2.6 trillion as at 31 March 2018. Over the 12 months to March 2018 there was a 6.8% 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 5.5% 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 March 2018 Quarterly Superannuation Performance Statistics, the following were the asset allocation metrics for funds with greater than four members: 50.8% of investments were invested in equities; with 22.6% in Australian listed equities, 24.2% in international listed equities and 4.0% in unlisted equities; Fixed income and cash investments accounted for 32.1% of investments; 21.1% in fixed income and 11.0% in cash; Property and infrastructure accounted for 13.4% of investments and 3.7% were invested in other assets, including hedge funds and commodities.

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

The IOOF Group's future FUMAS growth will be underpinned by 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 Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) was established on 14 December 2017 and is ongoing at the date of this report. There has been speculation among media commentators, investment analysts and others that the structure of the industry in which the IOOF Group operates may be materially changed in a manner which is potentially disadvantageous to its profitability. The IOOF Group is not able to determine whether any material changes will eventuate, nor the form or timing of any potential changes should they be recommended. The IOOF Group will continue to closely monitor Royal Commission hearings, relevant public commentary and any reports by the Commissioner when they are released. The IOOF Group will also continue to advocate strongly for a regulatory framework which makes appropriate financial advice, provided by well capitalised, reputable, compliant license holders, available to as many Australians as possible.
The fifth round of public hearings was held in Melbourne from 6 August to 17 August 2018. This round considered how RSE Licensees fulfil their duties to members of regulated superannuation funds and the extent to which structural or governance arrangements may affect the fulfillment of those duties. Two witnesses from the IOOF Group were required to give evidence before the Commission. Shortly after the conclusion of this round, the IOOF Group will make written submissions responding to matters raised by the Commission’s Counsel Assisting.

The IOOF Group 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.

Operating and financial review (continued)

Acquisitions

On 28 September 2017, the IOOF Group completed its acquisition of National Australia Trustees Limited 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 has proved to be a strong strategic fit with the IOOF Group's existing trustee business, Australian Executor Trustees Limited (AET). The integration of AETS was completed in the year to 30 June 2018 with expected annualised synergies of approximately: $2m revenue, primarily via client best interest led transition of compensation trust funds to IOOF proprietary platforms; and $3m in cost synergies through scale efficiencies. The impact of synergy savings in the year to 30 June 2018 is $1.6m in reduced costs.

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.

On 26 July 2018, the IOOF Group entered into a non-binding term sheet with ANZ in respect of implementing an accelerated economic completion of the acquisition of ANZ's One Path Pensions and Investments (ANZ P&I) business and full legal ownership of ANZ's Aligned Dealer Groups (ADGs).

The IOOF Group and ANZ are negotiating final legally binding arrangements to give effect to the following agreed outcomes:

- Full legal ownership of ANZ ADGs from 1 October 2018.
- Substantial economic completion of the ANZ P&I business will also be brought forward to 1 October 2018 through:
  - an initial payment by the IOOF Group of $800m to ANZ; and
  - ANZ to pay a return to the IOOF Group equivalent to 82% of the economic interests in the ANZ P&I business from 1 October 2018.

Final completion of the acquisition of the ANZ P&I business acquired by the IOOF Group will take place after successful completion of a successor fund transfer (which separates the ANZ P&I business products from OnePath Life), which is expected to occur towards the end of March 2019.

Assuming stable economic conditions more generally, the accelerated completion date for the ADGs and the proposed economic completion is expected to deliver Earnings Per Share broadly in line with forecasts previously disclosed in the initial announcement of the transaction.

It should also be noted that there is no assurance that any legally binding arrangement implementing the revised arrangements described above will be entered into or that any matter contemplated by the term sheet will be effected.

Analysis of financial results - IOOF Group

The IOOF Group's UNPAT increased $22.1m or 13% to $191.4m for the year ended 30 June 2018 relative to $169.4m UNPAT in the prior year. Variances compare the year to 30 June 2018 with the year to 30 June 2017 and are denoted as prior year.

Gross margin increased by $9.4m

During the current year, average Funds Under Management, Administration and Advice (FUMA) were $118.9b, an increase of 8.6% on prior year. This increase was derived largely from equity market performance in the current year augmented by organic growth in advice and platform funds. Financial advice flows of $4.4b were up 48.3% on prior year. 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 $1.6b were up 33.7% on prior year. This segment benefited from higher levels of flows across the sector, enhanced capture of funds from other IOOF Group segments, principally trustee, and better penetration of the IOOF Group's existing client base.

The higher level of average funds boosted gross margin by $42m, but was partly offset by the more rapid growth in products with lower earning rates or margins (impact of -$33m on prior year). Within platform, the lower rates for the current year principally reflected the 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 were relatively stable which is reflective of the steady state maturity and complementary nature of that segment. In financial advice, new business from incoming advisers was dilutive on segment margin overall.

Other revenue increased by $3.9m

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

Operating and financial review (continued)

Analysis of financial results - IOOF Group (continued)

Operating expenditure decreased by $9.4m

The decrease in operating expenditure excludes the impact of expenditure items reversed when calculating UNPAT. The most significant factor was a $7.6m reduction in information technology costs, which was an initiative first noted in analysis of the first half of the current year's results. 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 $1.9m which includes higher rates of pay and the transition of development resources noted above. The rate of increase has been significantly offset by lower staff numbers overall. This follows the realisation of efficiencies through platform rationalisation in the first half of prior year. Administration costs reduced significantly through recovery of costs previously regarded as unrecoverable and therefore expensed. Professional fees have decreased largely because prior year 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.

Net financing costs decreased by $10.1m

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 $800m in purchase consideration to ANZ on 1 October 2018.

Other impacts decreased UNPAT by $2.6m

Non-controlling interest was $1.5m higher in line with Ord Minnett's increased profitability. Share of associates' profits declined $1.0m relative to prior year as a result of mandate outflows within the Perennial Value Management Group (PVM). Share-based payments expense was $1.4m 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 lives.

Income tax expense increased by $8.2m

Income tax expense relative to prior year principally reflected the IOOF Group's improved profitability. This was partly offset by increased research and development (R&D) tax offsets and prior year amendments. There was an $0.4m lower spend on treasury shares to fulfil employee share plans ($0.1m 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

	2018	2017	Movement	
Financial advice	$'000	$'000	$'000	%
Net operating revenue	268,457	261,808	6,649	2.5%
Other revenue (incl share of profits of associates)	3,914	3,856	58	1.5%
Operating expenditure	(149,538)	(148,755)	(783)	(0.5%)
Net financing	715	560	155	27.7%
Net non-cash items	(4,231)	(3,221)	(1,010)	(31.4%)
Income tax expense and non-controlling interest	(41,271)	(37,894)	(3,377)	(8.9%)
Underlying Profit after Tax	**78,046**	**76,354**	**1,692**	**2.2%**

- Average funds' growth has been particularly strong through the addition of advisers. This has brought new revenue streams into the IOOF Group, albeit at a dilutive margin as a percentage of average funds.
- Operating expenditure has increased slightly. Costs have followed conventional seasonal trends with lower second halves derived from first half timing of adviser conferences. These events are largely profit neutral with expenses matched by participant and sponsor receipts in revenue.

	2018	2017	Movement	
Platform management and administration	$'000	$'000	$'000	%
Net operating revenue	209,972	212,450	(2,478)	(1.2%)
Other revenue (incl share of profits of associates)	75	-	75	n/a
Operating expenditure	(89,507)	(95,865)	6,358	6.6%
Net financing	3	1	2	LARGE
Net non-cash items	(4,446)	(5,380)	934	17.4%
Income tax expense and non-controlling interest	(35,091)	(33,939)	(1,152)	(3.4%)
Underlying Profit after Tax	**81,006**	**77,267**	**3,739**	**4.8%**

- Profitability improved due to more efficient delivery of products and services. Net operating margin, as represented by net operating revenue less operating expenditure divided by average funds, was stable at 0.32%.
- Gross margin decreased as a result of net funds diminution in high priced legacy and transition platforms, partly offset by high growth in platforms priced at contemporary competitive fee scales.

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 the prior year to facilitate higher levels of on-line transacting in future years.

Investment management	2018 $'000	2017 $'000	Movement $'000	Movement %
Net operating revenue	61,880	57,508	4,372	7.6%
Other revenue (incl share of profits of associates)	1,811	2,737	(926)	(33.8%)
Operating expenditure	(11,376)	(14,284)	2,908	20.4%
Net financing	-	436	(436)	n/a
Net non-cash items	(621)	(723)	102	14.1%
Income tax expense and non-controlling interest	(14,993)	(12,967)	(2,026)	(15.6%)
Underlying Profit after Tax	**36,701**	**32,707**	**3,994**	**12.2%**

- Net operating revenue improved in line with market based growth in average funds flowing largely from improved platform FUAdmin. Other revenue was affected by PVM performance.
- Decreased operating expenditure resulted from the divestment of Perennial Investment Management Ltd in the prior year.

Trustee services	2018 $'000	2017 $'000	Movement $'000	Movement %
Net operating revenue	33,647	28,490	5,157	18.1%
Other revenue (incl share of profits of associates)	-	-	-	n/a
Operating expenditure	(20,193)	(18,341)	(1,852)	(10.1%)
Net financing	-	-	-	n/a
Net non-cash items	(633)	(578)	(55)	(9.5%)
Income tax expense and non-controlling interest	(3,861)	(2,876)	(985)	(34.2%)
Underlying Profit after Tax	**8,960**	**6,695**	**2,265**	**33.8%**

- Net operating revenue has increased in line with the acquisition of AETS and higher client numbers.
- Increased operating expenditure followed the acquisition of AETS and was partly offset by synergies extraction from that business.

Financial Position

The IOOF Group held cash and cash equivalents of $121.4m at 30 June 2018 (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 30 June 2018 (30 June 2017: 13%) following the issue of new capital to fund the planned 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.

Risks

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

(i) Changes in investment markets

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

Operating and financial review (continued)

Risks (continued)

(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 monitor 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 IOOF 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.

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

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

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

Operating and financial review (continued)

Risks (continued)

(x) Cash flow and interest rate risk
Interest rate risk is the risk to the IOOF Group's earnings and capital arising from changes in market interest rates. The financial instruments held that will be impacted by interest rate risk consist of cash and cash equivalents, 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 Australian Financial Services (AFS) or Registrable Superannuation Entity (RSE) licences. If any of those entities fails to comply with the general obligations and conditions of its licence, this could result in the suspension or cancellation of the licence. While it is not expected to occur, a breach or loss of licences could have a material adverse effect on business and financial performance. AFS and RSE licences also require the licence holder to maintain certain levels of capital. These capital requirements may change from time to time. Earnings dilution may occur where a higher capital base is required to be held.

(xiii) Insurance
The IOOF Group holds insurance policies, including errors and omissions (professional indemnity) and directors' and officers' insurance, which are commensurate with industry standards, and adequate having regard to our business activities. These policies provide a degree of protection for the IOOF Group's assets, liabilities, officers and employees. However, no assurance can be given that any insurance that the IOOF Group currently maintains will:
• be available in the future on a commercially reasonable basis; or
• provide adequate cover against claims made against or by the IOOF Group, noting that there are some risks that are uninsurable (e.g. nuclear, chemical or biological incidents) or risks where the insurance coverage is reduced (e.g. cyclone, earthquake, flood, fire).

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

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

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

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

Operating and financial review (continued)

Risks (continued)

(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.

(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

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. 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 complement of qualified staff to ensure it is able to interact appropriately with the Royal Commission.

(xxi) Sustainability risk

A sustainability risk is an uncertain environmental or social event or condition that, if it occurs, can cause a significant negative impact on the IOOF Group. The IOOF Group focuses on the environmental effects of its premises, investment manager policies and business processes in order to implement ways to minimise those effects. The IOOF Group also maintains a number of policies dedicated to diversity, inclusion and engagement to ensure that its interactions with clients, staff and other key external parties are conducted in a compliant manner which also meets community expectations.

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 year, the Board has determined that a stable dividend of 27.0 cents per share, resulting in a payout ratio of 98%, 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 30 June 2018 was -2.8% with a dividend yield of 6.0% more than offset by share price decline of 8.3%. The market valuation of the IOOF Group was reflective of uncertainty over the long term effects of the Royal Commission on the wealth management industry despite positive movements in global equity markets generally. TSR in the 5 year period from 1 July 2013 was 57.7% in total and 9.5% on a compounding annualised basis. The IOOF Group is in a strong financial position with no borrowings and significant free cash.

Operating and financial review (continued)

Shareholder returns (continued)

	2018	2017	2016	2015	2014
Profit attributable to owners of the Company ($'000s) (1)	88,301	115,990	196,846	138,371	101,285
Profit for the year for continuing operations ($'000s)	93,626	119,851	140,542	140,527	103,378
Basic EPS (cents per share)	26.4	38.7	65.7	47.7	43.7
Diluted EPS (cents per share)	26.4	38.6	65.4	47.4	43.1
Basic EPS (continuing operations) (cents per share)	26.4	38.7	46.0	45.8	43.7
UNPAT ($'000s)	191,417	169,357	173,367	173,758	123,047
UNPAT EPS (cents per share)	57.3	56.5	57.8	59.9	53.1
UNPAT EPS (continuing operations) (cents per share)	57.3	56.5	57.1	58.6	53.1
Dividends declared ($'000s)	189,582	159,071	163,573	159,070	127,260
Dividends per share (cents per share)	54.0	53.0	54.5	53.0	47.5
Opening share price	$ 9.80	$ 7.83	$ 8.99	$ 8.40	$ 7.36
Closing share price at 30 June	$ 8.99	$ 9.80	$ 7.83	$ 8.99	$ 8.40
Return on equity (non-statutory measure) (2)	11.3%	12.1%	12.3%	13.4%	15.0%

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

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

Returns to shareholders increase/decrease through both dividends and capital growth/decline. Dividends for 2018 and prior years were fully franked.

Dividends

In respect of the financial year ended 30 June 2018, the Directors declared the payment of a final dividend of 27.0 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares to be paid on 4 September 2018. This dividend will be paid to all shareholders recorded on the Register of Members on 21 August 2018.

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 paid on 14 March 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.

Environmental regulation

The IOOF Group is not subject to significant environmental regulation.

Events occurring after balance date

The Directors have declared the payment of a final dividend of 27.0 cents per ordinary share franked to 100% based on tax paid at 30%, to be paid on 4 September 2018.

On 7 August 2018, the IOOF Group announced, in accordance with its continuous disclosure obligations, that it's wholly-owned subsidiary, Australian Executor Trustees Limited (AET), agreed settlements in relation to certain of the legal proceedings to which AET is party in connection with its role as debenture trustee of Provident Capital Limited (Provident and the Provident Proceedings).

AET entered into a settlement deed with Mr Creighton and has now finalised and will shortly execute the terms of a settlement deed with Mr and Mrs Smith, the representative plaintiffs in the two proceedings brought against AET in relation to Provident. Those settlements, when finalised, are expected to result in full and final settlement, without any admission as to liability, of all claims (including as to legal costs) made against AET as part of the Provident Proceedings. These settlements remain subject to approval by the Supreme Court of New South Wales.

As a result, and subject to Court approval of the settlements with Mr and Mrs Smith and Mr Creighton, the amount AET is expected to be obliged to pay to the plaintiffs and group members in the Provident Proceedings is $44.3m.

AET also agreed settlements with PwC and HLB Mann Judd in respect of the cross-claims brought by AET against those parties as part of the Provident Proceedings, which relate to their role as auditors of Provident.

Subject to Court approval, these settlements are expected to resolve all aspects of the Provident Proceedings other than AET's and the IOOF Group's cross-claims against their insurers and insurance broker.

The IOOF Group and AET will continue to vigorously pursue their claims against their insurers and insurance broker to judgment (if a satisfactory settlement cannot be achieved prior). In pursuing those claims, AET and the IOOF Group are seeking to recover from those parties up to the whole of the amount that they are obliged to pay the plaintiffs and group members in the Provident Proceedings (less amounts recovered through the settlements with PwC and HLB Mann Judd), together with their costs of those Proceedings.

The IOOF Group will continue to keep the market informed in relation to the outcome of the Provident Proceedings and any settlement discussions in accordance with its continuous disclosure obligations.

Events occurring after balance date (continued)

The settlements with the representative plaintiffs amount to $44.3m and have been provided for in the year ended 30 June 2018 as an adjusting event given the Provident Proceedings were active throughout that financial year.

The Directors are not aware of any other matter or circumstance not otherwise dealt with in this report, or the accompanying financial statements and notes thereto, that has arisen since 30 June 2018 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 33 of the annual financial report and forms part of the Directors' Report for the year ended 30 June 2018.

Company secretary

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

Directors' meetings

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

Director	Directors Meetings		
	Status	Meetings attended	Meetings held
G Venardos	Chair	19	19
C Kelaher	Managing Director	17	19
J Harvey	Director	19	19
A Griffiths	Director	19	19
E Flynn (1)	Director	18	19
J Selak	Director	19	19

(1) Ms Flynn did not attend a meeting in order to manage a conflict of interest.

Director	Committee Meetings		
	Remuneration Committee		
	Status	Meetings attended	Meetings held
A Griffiths	Chair	4	4
G Venardos	Member	4	4
E Flynn	Member	4	4
C Kelaher	In attendance	2	2
J Harvey	In attendance	1	1
J Selak	In attendance	2	2

Director	Committee Meetings		
	Nominations Committee		
	Status	Meetings attended	Meetings held
G Venardos	Chair	3	3
C Kelaher	Member	2	3
J Harvey	Member	3	3
A Griffiths	Member from February 2018	2	2
E Flynn	In attendance	2	2

Director	Committee Meetings		
	Risk and Compliance Committee (2)		
	Status	Meetings attended	Meetings held
E Flynn	Chair	6	6
J Selak	Member from August 2017	4	4
J Harvey	Member until August 2017	6	6
A Griffiths	Member until August 2017	6	6
G Venardos	In attendance	6	6

Director	Committee Meetings		
	Group Audit Committee		
	Status	Meetings attended	Meetings held
J Harvey	Chair	8	8
G Venardos	Member	8	8
A Griffiths	Member	8	8
J Selak	Member	8	8
E Flynn	In attendance	3	3

Director	Committee Meetings		
	APRA Regulated Entity Audit Committee (2)		
	Status	Meetings attended	Meetings held
J Selak	Chair	6	6
E Flynn	Member	6	6
J Harvey	Member until February 2018	6	6
G Venardos	In attendance	6	6
A Griffiths	In attendance	2	2

(2) These Committees include additional members who are not Directors of IOOF Holdings Ltd but are Directors of APRA regulated subsidiaries.

Directors' meetings (continued)

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

The Directors meetings are those held for IOOF Holdings Ltd. This does not include the meetings held and attended by Directors for the various subsidiary companies. Major subsidiaries averaged a further 8 meetings each during the year.

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

Shares issued on exercise of options

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

Unexercised options over shares, performance rights and deferred shares

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

Performance rights	
Vesting date	Number of rights
30 Jun 19	299,567
31 Dec 19	30,000
30 Jun 20	293,391
	622,958

Deferred shares	
Vesting date	Number of shares
31 Jul 18	35,420
31 Jul 19	93,746
31 Jul 20	93,746
	222,912

The 'look back' relating to deferred shares that were due to vest on 31 Jul 18 has been postponed. Refer to the Remuneration Report for further details.

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

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

Indemnification and insurance

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

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

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

Rounding off of amounts

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

Non-audit services

The Directors are satisfied that the provision of non-audit services during the year of $811,195, by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Non-audit services are managed as follows:

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

Proceedings on behalf of the Company

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

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

Remuneration Report

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

Remuneration Report (continued)

Dear Shareholders

I am pleased to present our Remuneration Report for the year ended 30 June 2018 and explain some changes we have made, and propose to make, to our remuneration framework.

The IOOF Group's goal is to continue to ensure that our remuneration framework and outcomes drive the right behaviours whilst motivating, rewarding and retaining our key people across the business. The Board has sought and listened to feedback on our remuneration approach from various stakeholders, as well as considered the spotlight placed on remuneration and culture by the Royal Commission, APRA's views on executive remuneration and the proposed revised ASX Corporate Governance Principles and Recommendations.

Remuneration approach for the year ended 30 June 2018
Recognising the matters and concerns raised by our various stakeholders, balanced with our desire to fairly remunerate our key people, the Remuneration Committee sought various input and carried out benchmarking exercises. Our review concluded that the following changes were appropriate for the year ended 30 June 2018:

● Increase to executive total fixed remuneration (TFR) in line with our overall staff approach. Noting that the TFR of our executives remains below the median of the comparator group.

● Maximum short-term incentive (STI) opportunity for executives and the Managing Director (MD) will be capped at 100% of TFR, subject to the achievement of performance measures tied to our business plan.

● From the year ended 30 June 2018 onwards, 50% of any STI payable to the MD and executives will be delivered in deferred shares, which will vest over the two years following completion of the performance period. A 'look back' approach will apply to these deferred shares.

● Maximum long-term incentive (LTI) opportunity for the MD and executives will be set at 100% of TFR. For the MD, the entire award will be subject to a relative total shareholder return (TSR) metric. The Return on Equity (RoE) gateway included in the year ended 30 June 2018 will no longer apply.

● For executives other than the MD, we have resolved to retain both a relative TSR metric (50%) and a tenure based element for the other 50%. We strongly believe that this tenure based LTI element, which we have used for some years, assists us to attract and retain quality people and aligns future performance with our shareholders' expectations. Executive LTI will continue to have a three-year vesting period, however shares vesting from the tenure-based rights (applicable to executives other than the MD) will have a holding lock applied for a further 12 months. In consideration for that further holding lock, the TSR based element will be retested at the end of year four if some or all of the rights do not vest at the end of the three-year vesting period.

● We have for the last two years used governance key performance indicators for all staff and this year we are strengthening the links between risk and how it is factored into the remuneration framework and outcomes. For example, a gateway will be added to the STI which requires certain governance behaviours to be maintained in order for any vesting to occur under the STI. We are also further clarifying the roles played by, and interaction between, the Remuneration Committee and the Risk and Compliance Committee. The Remuneration Committee will receive regular updates from the Chief Risk Officer on risk matters relevant to remuneration.

Performance for the year ended 30 June 2018
The year ended 30 June 2018 was a very solid year for the IOOF Group, with accelerating growth across our businesses, net inflows, prudent cost management, an increased Underlying Net Profit After Tax and a maintained dividend.

Whilst we are confident in the IOOF Group's strategy and that we are well placed for future growth, we have taken the external events of this year, the resulting impacts and our current share price into account in consideration of remuneration outcomes for the year. Those considerations are reflected in the body of this Report.

Remuneration approach for the year ended 30 June 2019
In the year ended 30 June 2019, we will continue to review our framework to ensure that it supports our direction, culture, behaviours and expectations of our various internal and external stakeholders.

Yours sincerely

Allan Griffiths
Remuneration Committee Chair

Executive Summary

This report details the remuneration framework and outcomes for Key Management Personnel (KMP) of the IOOF Group for the year ended 30 June 2018. The Board of Directors (Board) is committed to a remuneration strategy that aligns remuneration practices with the creation of shareholder value. The IOOF Group's policies remain aligned with its business strategy and focus. The key underlying principles of the IOOF Group's remuneration policy remain largely unchanged from last year, with key changes outlined in the letter from the Remuneration Committee Chair.

This report aims to communicate our remuneration practices in a clear, concise and transparent way and demonstrate how these practices:

● align to strategic objectives and the creation of shareholder value;
● are sufficient to attract, motivate and retain an ambitious and highly talented executive team; and
● support an appropriate governance culture to minimise risks to clients and shareholders.

Remuneration Report (continued)

Executive Summary (continued)

The IOOF Group's TSR performance over the three years to 30 June 2018 was 11.8%, placing it at the 37th percentile relative to the ASX 200. RoE for the year to 30 June 2018 was 11.3%. The impact of these outcomes on the Managing Director and other executive KMP Long Term Incentives is detailed at sections 3.2.2 and 4.1.2 below.

1. Overview

1.1 Key Management Personnel

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

Name	Position	Term as KMP
Managing Director		
Mr C Kelaher	Managing Director	Full year
Other Executive KMP		
Mr D Coulter	Chief Financial Officer	Full year
Mr R Mota	Group General Manager - Wealth Management	Full year
Mr G Riordan	Group General Counsel	Full year
Mr D Farmer	Chief Investment Officer	Full year

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

Non-Executive Directors		
Mr G Venardos	Independent Non-Executive Director & Chair	Full year
Ms J Harvey	Independent Non-Executive Director	Full year
Mr A Griffiths	Independent Non-Executive Director	Full year
Ms E Flynn	Independent Non-Executive Director	Full year
Mr J Selak	Independent Non-Executive Director	Full year

1.2 Summary - Key Management Personnel remuneration

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

The remuneration arrangements for KMP comprise three key components:

● a base package which is a fixed amount and is reviewed on an annual basis with consideration given to cost of living increases (CPI), market movements or changes in the scope of the individual's role and responsibilities;

● a Short Term Incentive (STI) amount which is tied to the successful achievement of a set of performance scorecard objectives (including financial, business excellence, strategic and governance objectives) for the annual performance period. STI awards are considered "at risk" components of an individual's remuneration and, for STI awards over $100,000, the total STI is awarded as cash and share-based arrangements; and

● a Long Term Incentive (LTI) which is intended to provide incentives to KMP to remain with the IOOF Group to enhance the sustainable performance of the IOOF Group over the long term. LTI awards are considered "at risk" components of an individual's remuneration and are all share-based arrangements.

Remuneration Report (continued)

1. Overview (continued)

1.2 Summary - Key Management Personnel remuneration (continued)

The following table sets out the remuneration received by the Managing Director and other executive KMP for the year ended 30 June 2018 and the prior year to 30 June 2017. The share-based payments shown below are not amounts actually received by KMP during the year, as they include accounting values for unvested share awards. Actual share-based payment amounts received are shown as cash remuneration. Further details are disclosed in sections 2 to 7 below.

		Short-term benefits			Post-employment benefits	Share-based payments[3]					
Element of Remuneration		Salary	Bonus - cash[1]	Non-monetary[2]	Superannuation	Performance rights	Bonus - deferred shares	Total	Cash remuneration[4]	Remuneration components as a % of total remuneration	
Component of Remuneration		Fixed	At risk	Fixed	Fixed	At risk	At risk			Fixed	At risk[5]
		$	$	$	$	$	$	$	$	%	%
Managing Director											
C Kelaher	**2018**	**1,236,286**	**314,302**	**19,145**	**20,049**	**893,487**	**314,302**	**2,797,571**	**2,932,026**	**46**	**54**
	2017	1,211,363	697,765	5,898	19,616	753,256	348,882	3,036,780	2,886,590	41	59
Other Executive KMP											
D Coulter	**2018**	**439,951**	**225,000**	**7,249**	**20,049**	**169,039**	**225,000**	**1,086,288**	**982,025**	**43**	**57**
	2017	420,384	300,000	4,904	19,616	130,138	-	875,042	810,747	51	49
R Mota	**2018**	**499,951**	**225,000**	**5,363**	**20,049**	**169,039**	**225,000**	**1,144,402**	**1,092,025**	**46**	**54**
	2017	480,384	350,000	9,218	19,616	130,138	-	989,356	870,747	51	49
G Riordan	**2018**	**455,911**	**142,841**	**-**	**20,049**	**144,710**	**142,841**	**906,352**	**837,984**	**53**	**47**
	2017	447,048	140,000	1,961	19,616	130,138	-	738,763	777,411	63	37
D Farmer	**2018**	**311,451**	**116,025**	**4,026**	**20,049**	**29,584**	**116,025**	**597,160**	**396,500**	**56**	**44**
Executive KMP - Former											
S Merlicek[6]	2017	406,948	63,645	4,904	17,352	18,495	-	511,344	649,300	84	16
Total	**2018**	**2,943,550**	**1,023,168**	**35,783**	**100,245**	**1,405,859**	**1,023,168**	**6,531,773**	**6,240,560**		
	2017	2,966,127	1,551,410	26,885	95,816	1,162,165	348,882	6,151,285	5,994,795		

(1) The bonus reflects amounts provided under the STI program in relation to the financial year. One half of the bonuses awarded to the Managing Director and other executive KMP are paid in cash and one half are deferred into shares, of which 50% will vest in July 2019 and 50% in July 2020 subject to a 'look back'. The deferred shares component of the STI are included as a share-based payment in this table. The expected payment value of the bonuses is the amount shown and includes any amounts that may be sacrificed into superannuation.

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

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

(4) This non-statutory disclosure provides shareholders with a view of the cash and other benefits received by KMP. Cash remuneration includes all remuneration paid during the financial year, including STIs for previous financial years. Shares received by the KMP during the year are also included at the closing share price on the date the shares were allocated less any consideration paid.

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

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

Remuneration Report (continued)

1. Overview (continued)

1.3 Summary - Non-Executive Directors remuneration

The total fees paid to the Chair and the Non-Executive Directors have been determined within the total amount for Non-Executive Directors as approved by shareholders.

		Short-term benefits		Post-employment benefits	Total
		Directors' fees[1] $	Non-monetary $	Superannuation $	$
G Venardos	**2018**	**264,951**	**-**	**20,049**	**285,000**
	2017	221,800	-	17,692	239,492
J Harvey	**2018**	**155,251**	**-**	**14,749**	**170,000**
	2017	155,297	-	14,753	170,050
A Griffiths	**2018**	**155,251**	**-**	**14,749**	**170,000**
	2017	155,924	-	14,126	170,050
E Flynn	**2018**	**155,251**	**-**	**14,749**	**170,000**
	2017	155,297	-	14,753	170,050
J Selak[2]	**2018**	**155,251**	**-**	**14,749**	**170,000**
	2017	111,064	-	10,551	121,615
Former Non-Executive Directors					
R Sexton [3]	2017	105,379	2,980	8,722	117,081
Total	**2018**	**885,955**	**-**	**79,045**	**965,000**
	2017	904,761	2,980	80,597	988,338

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

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

(3) Non-Executive Directors appointed after 13 April 2003 are not entitled to retirement benefits. Non-Executive Directors appointed prior to this date accrued retirement benefits. Where entitled, the provision was based on the average emoluments of Non-Executive Directors over the previous three years' of service. The benefit accrued after three years of service and varied according to the number of years of service, reaching twice the average annual emoluments after 10 years of service. R Sexton was paid $475,000 on his retirement on 24 November 2016. This amount was accrued at 30 June 2016 and relates to Director appointment pre 13 April 2003.

2. Remuneration Framework

2.1 Objectives

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

2.2 Remuneration governance

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

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

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

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

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

Remuneration Report (continued)

2. Remuneration Framework (continued)

2.3 Committee Members

The Committee is comprised solely of Non-Executive Directors, all of whom are independent. The members of the Remuneration Committee for the year ended 30 June 2018 were Mr Allan Griffiths (Chair), Mr George Venardos and Ms Elizabeth Flynn.

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

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

2.4 How remuneration is determined

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

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

Short Term Incentive (STI)
The STI opportunity is one half cash-based, one half deferred share-based incentive, forming part of each KMP's total remuneration package, the value of which is tied to the successful achievement of a set of performance objectives, as outlined below. For both the Managing Director and other executive KMP, the maximum STI is up to 100% of TFR.

Objectives are drawn from the following categories:

● Customer
Performance measures include Net Promoter Score (NPS) and Wealth Insights.

● Financial
Performance measures include Underlying Profit After Tax (UNPAT), TSR and RoE.

● Business excellence
Performance measures for the year ended 30 June 2018 included operational targets such as long-term structural reductions to the cost base of the IOOF Group, balance sheet and liquidity initiatives and improvements to the performance of business units.

● Strategy
Measurable progress towards achieving longer term strategic goals. This includes, but is not limited to, implementation of major platform consolidation, regulatory adherence, growth through acquisition (including the planned ANZ Wealth Management transaction), divestment of non-core assets and product rationalisation initiatives.

● Governance
Risk management, regulatory and IOOF Group compliance and ensuring that outcomes from internal and external audits are actioned.

● People and culture
Action plans from employee Engagement and Alignment survey, improvement in that survey and developing leadership capability.

Remuneration Report (continued)

2. Remuneration Framework (continued)

2.4 How remuneration is determined (continued)

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

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

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

The performance hurdle for current LTI plans has been linked to IOOF Group TSR compared to S&P ASX200 companies at the date of grant. TSR represents the change in the value of a share plus the value of dividends paid. TSR was chosen as the most appropriate comparative measure as it focuses on the delivery of shareholder value and is a well understood and tested metric of performance. The tenure based element, which has been used for some years for other executive KMP, assists the IOOF Group to attract and retain quality people and aligns future performance with shareholders' expectations.

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

Deferral arrangements
The Board has implemented deferral arrangements and 'look back' provisions on a portion of the STI (deferred shares) for the Managing Director and other executive KMP. The deferral element of the Managing Director's remuneration is described in detail in Section 3.2 of this report.

Look back' events:

- an executive engages or has engaged in fraud, dishonesty or gross misconduct;
- the financial results that led to the executive's STI reward being provided are subsequently shown to be materially misstated;
- the executive behaves or has behaved in a manner which brings the IOOF Group into disrepute; or
- the Board determines, in its absolute discretion, that the executive's STI reward is an inappropriate benefit.

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

2.5 Services from consultants
The Remuneration Committee seeks and considers advice from independent, external remuneration consultants where appropriate. Godfrey Remuneration Group Pty Ltd was engaged during the year to perform a benchmarking exercise for senior executive remuneration at a cost of $23,000. A number of recommendations were implemented which are highlighted in the letter from the Remuneration Committee Chair on page 17.

2.6 Consequences of performance on shareholder wealth

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

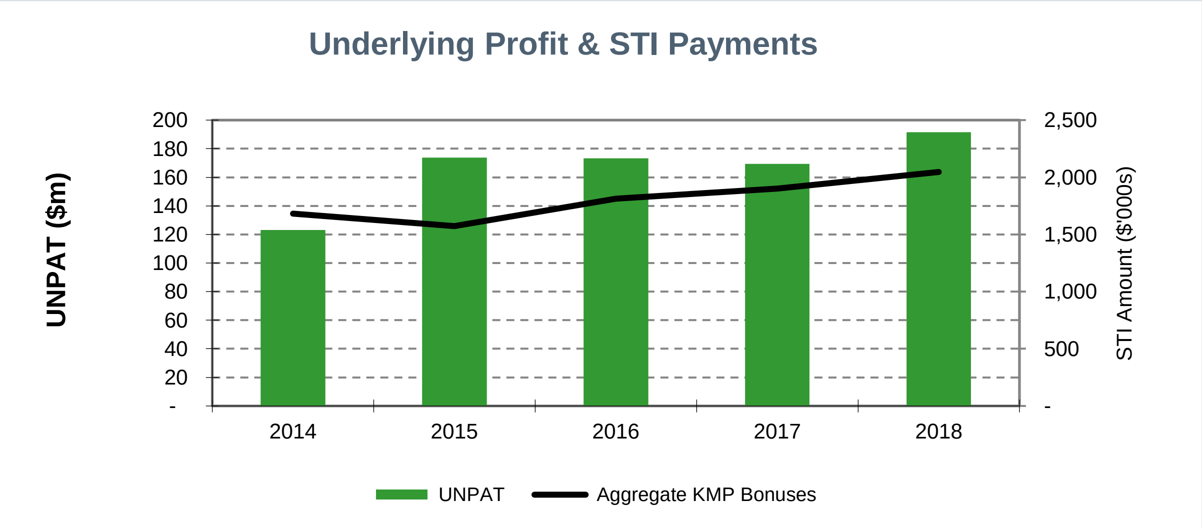
Remuneration Report (continued)

2. Remuneration Framework (continued)

2.6 Consequences of performance on shareholder wealth (continued)

	2018	2017	2016	2015	2014
Profit attributable to owners of the Company ($'000s)	88,301	115,990	196,846	138,371	101,285
UNPAT ($'000s)[(1)]	191,417	169,357	173,367	173,758	123,047
UNPAT EPS (cents per share)	57.3	56.5	57.8	59.9	53.1
Basic EPS (cents per share)	26.4	38.7	65.7	47.7	43.7
Basic EPS (continuing operations) (cents per share)	26.4	38.7	46.0	45.8	43.7
Share price at start of year	9.80	7.83	8.99	8.40	7.36
Share price at end of year	8.99	9.80	7.83	8.99	8.40
Change in share price	(0.81)	1.97	(1.16)	0.59	1.04
Dividends per share (cents per share)	54.0	53.0	54.5	53.0	47.5
Return on equity (non-statutory measure)[(2)]	11.3%	12.1%	12.3%	13.4%	15.0%
Total STIs paid to key management personnel ($'000s)	2,046	1,900	1,813	1,573	1,681

[(1)] UNPAT is reconciled to profit attributable to owners of the Company in the Operating and Financial Review at page 3 of the Directors' Report.
[(2)] RoE is calculated by dividing UNPAT by average capital on issue during the year.



STI payments awarded to KMP are commensurate to the IOOF Group's levels of profitability and scale of operations. As is consistent with the IOOF Group's adherence to effective cost management, STI levels from 2014 to 2018 recognise KPIs specific to individuals rather than being solely determined by profitability.

3. Managing Director Remuneration

3.1 Summary of Managing Director remuneration outcomes for 2018

Performance outcomes for the Managing Director for the year ended 30 June 2018 were as follows:

● the maximum opportunity for STI in 2018 was 100% of base salary. For the reasons noted in section 3.2.1, the assessment resulted in awarding 50% of the Managing Director's base salary. One half of this payment was paid in cash $314,302 and one half in 36,632 deferred shares;

● the Board performed a 'look back' for the 35,420 deferred shares awarded in August 2017 and determined that this 'look back' should be postponed, as noted in section 3.2; and

● the performance rights awarded in 2016 were subject to performance testing for the year ended 30 June 2018. The IOOF Group's TSR of 11.8% over the three year performance period placed it at the 37th percentile relative to the ASX 200 as a comparator group. This percentile ranking means that none of the 75,000 performance rights awarded to Mr Kelaher have vested.

Remuneration Report (continued)

3. Managing Director Remuneration (continued)

3.2 Managing Director remuneration

During the year ended 30 June 2018, Mr Kelaher received a remuneration package comprising TFR of $1,257,208. Mr Kelaher was entitled to a total STI opportunity of up to a maximum of $1,257,208 (100% of TFR) based on achievement of superior performance against set targets determined by the Board on recommendation from the Remuneration Committee, as outlined in section 3.2.1. In August 2018 the Board assessed Mr Kelaher's performance at 85% against those targets. The Board took into account the external events that arose during the year and the share price performance and determined it appropriate to exercise its discretion to reduce the STI payable to $628,604, being 50% of the eligible opportunity.

The STI opportunity was settled one half by cash and one half in the form of deferred shares. The number of deferred shares granted to Mr Kelaher was determined on the basis of the STI deferral amount divided by the five day Volume Weighted Average Price up to and including the trading day prior to the date of the allocation, which was $8.58. The number of deferred shares to be issued accordingly was 36,632 (capped at 75,000 annually) and there is no consideration payable for the grant of the deferred shares. Half of those shares are subject to 'look back' in July 2019 and the other half in July 2020. This means that the Board will conduct a review of Mr Kelaher and the IOOF Group's performance in July 2019 and July 2020 and assess whether any of the 'look back' events detailed in section 2.4 have occured and whether it is still appropriate to award the deferred shares.

In August 2018, the Board performed a 'look back' review in regards to the 35,420 deferred shares issued in August 2017. For the reasons noted above in relation to the STI award, the Board resolved that this consideration should be postponed until the outcome of those external events are known.

3.2.1 Short term incentive: targets and outcomes

The key areas of focus for the Managing Director's STI targets/objectives for the 2018 performance period are shown below. The targets/objectives which were set for the year ended 30 June 2018 included both objective and subjective measures. The Board assessed each of the Managing Director's targets and resolved that the Managing Director had performed exceptionally well against these measures, with an assessment at 85% of the total opportunity. For the reasons noted above, the Board resolved to award an STI amount of $628,604.

KPI	Measures	Weighting	Outcome
Clients	• Maintain or improve NPS results	10%	Wealth Insights ranking maintained, 'Adviser willing to recommend' score increased. In March 2018, IOOF was the top retail superannuation fund for satisfaction with financial performance (Roy Morgan).
Accretive acquisitions	• Progress viable Merger & Acquisition options • Execute ANZ Wealth Management transaction	20%	Demonstrated acquisition and integration capability. AET Services Limited acquisition fully integrated by July 2018. ANZ Wealth Management acquisition agreed and progressing.
Financial performance	• Drive organic growth, improve net flows, maintain operating leverage	30%	Platform net flows and UNPAT improved. Net operating margin steady. Operating expenditure/costs reduced. Cost to income ratio improved. Performance of product suites remain strong in peer group.
IOOF digital footprint	• Improve online visibility and presence, rigorously assess potential digital investments	5%	IOOF Pursuit transaction usage up. ClientFirst converting traditional paper based transactions into straight through processing. "Investment Central" website provides a significant enhancement to the way advisers educate and advise. Strategic stake in GROW Super.
Technology	• Forward-looking Information Communication Technology strategy. Deliver platform strategy and maintain secure network	10%	Infrastructure approach improved. Cloud strategy progressed. Performance of business systems and services meeting or exceeding agreed SLAs. Platform consolidation accelerated to enable integration of ANZ Wealth Management. Cyber security and increased education improvements delivered.

Remuneration Report (continued)

3. Managing Director Remuneration (continued)

3.2.1 Short term incentive: targets and outcomes (continued)

KPI	Measures	Weighting	Outcome
People & Culture	• Progress ClientFirst approach in Operations. • Improve engagement and risk culture.	15%	Approximately 90% of operations people transitioned to ClientFirst approach. Alignment & Engagement Survey shows improvement from 2016, including governance culture. Leadership capability growing.
Governance	• Continue progress with APRA initiatives • Influence public and regulatory policy	10%	Fuller stakeholder management plan, APRA review items actioned, ATO reporting implemented. Maintained strong record of resolution of any remediation issues.

3.2.2 Long term incentive: targets and outcomes

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

Performance rights - gateway condition

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

For consideration to be given to the awarding of any performance rights to the Managing Director that were granted for the year ended 30 June 2018 and prior, the IOOF Group must achieve a minimum RoE of 1.5 times the Long Term Bond Rate (10 year bond yield) (LTBR). Only when this gateway condition is met, is consideration given to the TSR hurdle and the potential vesting of performance rights. That is, if less than 1.5 times the LTBR is achieved, no performance rights are eligible to vest. If 1.5 and up to 2.0 times the LTBR is achieved, 50% of the performance rights are eligible to vest. If 2.0 to up to 2.5 times is met, then 75% of the performance rights will be eligible to vest and 100% will be eligible to vest if 2.5 times (or above) the LTBR is achieved. The RoE gateway condition was developed by the Board to ensure that an LTI is not paid in a period of low or negative performance.

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

	2018	2017	2016	2015	2014
IOOF RoE v LTBR	4.4 x	4.5 x	3.8 x	3.9 x	4.0 x
Performance rights eligible to be tested against hurdles	100%	100%	100%	100%	100%

Performance rights - 2018 series performance hurdle

As noted above, only once the gateway qualifying condition is satisfied, will the performance hurdle be assessed.
The performance hurdle relates to the IOOF Group's TSR over a three year period from 1 July 2017 to 30 June 2020 measured against the TSR of a group of companies comprising the S&P ASX 200 as at 1 July 2017. The performance rights are subject to a TSR hurdle whereby the IOOF Group's TSR must be greater than the median TSR of S&P/ASX200. The TSR hurdle has progressive vesting on a straight line basis, such that 2% of LTI awards vest for each 1% ranking increase from 50th percentile. All vest if 75th percentile is achieved.

As approved at the Annual General Meeting on 23 November 2017, Mr Kelaher is entitled to participate in an LTI program offering a maximum reward opportunity of 122,500 performance rights in respect of the 1 July 2017 to 30 June 2020 performance period. The number of rights submitted to the AGM for approval was determined on 1 August 2017 by the Remuneration Committee based on the face value of the shares, up to a maximum of 100% of the Managing Directors base salary. On that date, the face value of IOOF shares was $10.04, hence 122,500 performance rights were granted for a total maximum value of $1,231,350 (100% of total base salary).

Remuneration Report (continued)

3. Managing Director Remuneration (continued)

3.2.2 Long term incentive: targets and outcomes (continued)

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

Year	Performance Hurdle	Grant date	Performance period	Rights eligible to vest	Vesting date
2018	TSR greater than median TSR of the S&P/ASX200 (progressive vesting)	23 Nov 17	2018-2020	122,500	30 Jun 20
2017	TSR greater than median TSR of the S&P/ASX200 (progressive vesting)	24 Nov 16	2017-2019	120,000	30 Jun 19
2016	TSR greater than median TSR of the S&P/ASX200 (progressive vesting) (0% satisfied)	26 Nov 15	2016-2018	75,000	30 Jun 18

2016-2018 performance results (2016 series performance rights)

The IOOF Group's TSR performance over the period was 11.8% placing it at the 37th percentile relative to the ASX 200. This resulted in none of 75,000 performance rights vesting in July 2018.

2019 Series Approval to be sought at the November 2018 Annual General Meeting - Managing Director

Approval will be sought at the 28 November 2018 Annual General Meeting for the issue of 140,785 performance rights. The gateway qualifying condition will be removed, with the performance hurdles to remain the same as those selected for the 2018 grant. 100% of the performance rights granted to the Managing Director will be subject to a relative TSR metric. Following feedback from various stakeholders and its own assessment, the Remuneration Committee considers that the RoE hurdle is no longer necessary or meeting a required need as a gateway. The performance period will be from 1 July 2018 to 30 June 2021, with vesting to occur on 1 July 2021. The number of rights was determined on 17 August 2018 by the Board based on the face value of the shares, up to a maximum of 100% of the Managing Director's base salary. On that date, the face value of IOOF shares was $8.93, hence 140,785 performance rights were recommended for granting, for a total maximum value of $1,257,208 (100% of total base salary).

3.3 Change of control and cessation of employment

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

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

3.4 Remuneration for the year ended 30 June 2019

The Board, on the recommendation of the Remuneration Committee, has increased the Managing Director's total fixed annual remuneration to $1,288,638 for the financial year commencing 1 July 2018.

STI terms will be the same as for the year ended 30 June 2018, with an opportunity of up to 100% of total fixed remuneration, with specific performance hurdles relating to: the continuing growth of the business, product development, achievement of management efficiencies, succession planning, profitability, compliance, risk management and corporate governance. The STI governance gateway and deferral arrangements remain unchanged with one half of the STI award to be paid in cash shortly after the performance assessment has been completed at year end, and one half will be used to purchase Company shares which will be released in July 2020 and July 2021 after 'look back' reviews.

4. Key Management Personnel Remuneration

4.1 Key Management Personnel remuneration

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

Remuneration Report (continued)

4. Key Management Personnel Remuneration (continued)

4.1.1 Short term incentive: targets and outcomes

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

	TFR $	STI opportu-nity $	STI awarded $	Awarded in cash $	Awarded in deferred shares $	% awarded in year	% forfeited in year
Other Executive KMP							
D Coulter	460,000	460,000	450,000	225,000	225,000	98%	2%
R Mota	520,000	520,000	450,000	225,000	225,000	87%	13%
G Riordan	476,139	476,139	285,682	142,841	142,841	60%	40%
D Farmer	331,500	331,500	232,050	116,025	116,025	70%	30%

50% of STIs payable to the other executive KMP were delivered in deferred shares, which will vest over two years. The 'look back' policy summarised in section 2.4 applies to these deferred shares.

4.1.2 Long term incentive: targets and outcomes

A summary of the current performance rights on issue to other executive KMP is as shown below. Vesting of performance rights is subject to serving a three year employment period commencing on the date of grant. 50% of the grant is then subject to a TSR progressive vesting scale. TSR was chosen as the most appropriate comparative measure as it focuses on the delivery of shareholder value and is a well understood and tested metric of performance This scale is the same as applies to the Managing Director as outlined in section 3.2.2 of this report.

In July 2018, the other executive KMP each had nil of 7,500 performance rights vest under this TSR measure and 7,500 rights vested on the basis of fulfilling a three year service period obligation. The aggregated vested performance rights for other executive KMP was 22,500.

Year	Perform-ance period	Grant date	IOOF TSR for the period %	Ranking relative to ASX200	Vesting status at 30 Jun 2018	Vesting date
2019	2019-2021	17 Aug 18	Performance period not complete			30 Jun 21
2018	2018-2020	21 Aug 17	Performance period not complete			30 Jun 20
2017	2017-2019	10 Jul 16	Performance period not complete			30 Jun 19
2016	2016-2018	02 Jul 15	11.8%	37th	0% vested	30 Jun 18

5. Remuneration tables

5.1 Deferred shares and performance rights over equity instruments granted as compensation during 2018

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

Name	Type of instrument	Number granted	Grant date	Vesting date	Instrument fair value	Vested during 2018
Managing Director						
C Kelaher	LTI performance rights	122,500	23-Nov-17	30-Jun-20	$ 6.61	-
	STI deferred shares	18,316	30-Jun-18	01-Jul-20	$ 8.58	-
	STI deferred shares	18,316	30-Jun-18	01-Jul-19	$ 8.58	-
Other Executive KMP						
D Coulter	LTI performance rights	30,000	01-Sep-17	30-Jun-20	$ 8.32	-
	STI deferred shares	13,112	30-Jun-18	01-Jul-20	$ 8.58	-
	STI deferred shares	13,112	30-Jun-18	01-Jul-19	$ 8.58	-
R Mota	LTI performance rights	30,000	01-Sep-17	30-Jun-20	$ 8.32	-
	STI deferred shares	13,112	30-Jun-18	01-Jul-20	$ 8.58	-
	STI deferred shares	13,112	30-Jun-18	01-Jul-19	$ 8.58	-
G Riordan	LTI performance rights	20,000	01-Sep-17	30-Jun-20	$ 8.32	-
	STI deferred shares	8,324	30-Jun-18	01-Jul-20	$ 8.58	-
	STI deferred shares	8,324	30-Jun-18	01-Jul-19	$ 8.58	-
D Farmer	STI deferred shares	6,761	30-Jun-18	01-Jul-20	$ 8.58	-
	STI deferred shares	6,761	30-Jun-18	01-Jul-19	$ 8.58	-

Remuneration Report (continued)

5. Remuneration tables

5.1 Deferred shares and performance rights over equity instruments granted as compensation during 2018 (continued)

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

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

Name	Type of instrument	% vested in year	% forfeited in year[(1)]
Managing Director			
C Kelaher	2016 deferred shares[(2)]	0.0%	0.0%
	2016 rights[(3)]	0.0%	100.0%
Other Executive KMP			
D Coulter	2016 rights[(3)]	0.0%	100.0%
R Mota	2016 rights[(3)]	0.0%	100.0%
G Riordan	2016 rights[(3)]	0.0%	100.0%

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

(2) In August 2018, the Board performed a 'look back' review in regards to the 35,420 deferred shares issued in August 2017. The Board resolved that this consideration should be postponed.

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

Remuneration Report (continued)

5. Remuneration tables (continued)

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

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

Name	Type of instrument	Grant date	Number granted(1)	Balance as at 1 Jul 17	Granted as compen-sation	Exercised	Forfeited/ Lapsed	Balance as at 30 Jun 18	Deferred shares vested during the year	Financial years in which grant vests/vested
Managing Director										
C Kelaher	2018 rights	23-Nov-17	122,500	-	122,500	-	-	122,500		2020
	2017 rights	24-Nov-16	120,000	120,000	-	-	-	120,000		2019
	2016 rights	26-Nov-15	75,000	75,000	-	-	(75,000)	-		2018
	2015 rights	25-Nov-14	75,000	49,500	-	(49,500)	-	-		2017
	2018 deferred shares(2)	30-Jun-18	18,316	-	18,316	-	-	18,316	-	2021
	2018 deferred shares(2)	30-Jun-18	18,316	-	18,316	-	-	18,316	-	2020
	2017 deferred shares	30-Jun-17	35,420	35,420	-	-	-	35,420	-	2019
	2016 deferred shares	30-Jun-16	41,895	41,895	-	(41,895)	-	-	-	2018
Other Executive KMP										
D Coulter	2018 deferred shares(3)	30-Jun-18	13,112	-	13,112	-	-	13,112	-	2021
	2018 deferred shares(3)	30-Jun-18	13,112	-	13,112	-	-	13,112	-	2020
	2018 rights	1-Sep-17	30,000	-	30,000	-	-	30,000		2020
	2017 rights	9-Sep-16	30,000	30,000	-	-	-	30,000		2019
	2016 rights	2-Jul-15	15,000	15,000	-	-	(15,000)	-		2018
	2015 rights	18-Jul-14	25,000	20,750	-	(20,750)	-	-		2017
R Mota	2018 deferred shares(4)	30-Jun-18	13,112	-	13,112	-	-	13,112	-	2021
	2018 deferred shares(4)	30-Jun-18	13,112	-	13,112	-	-	13,112	-	2020
	2018 rights	1-Sep-17	30,000	-	30,000	-	-	30,000		2020
	2017 rights	9-Sep-16	30,000	30,000	-	-	-	30,000		2019
	2016 rights	2-Jul-15	15,000	15,000	-	-	(15,000)	-		2018
	2015 rights	18-Jul-14	25,000	20,750	-	(20,750)	-	-		2017
G Riordan	2018 deferred shares(5)	30-Jun-18	8,324	-	8,324	-	-	8,324	-	2021
	2018 deferred shares(5)	30-Jun-18	8,324	-	8,324	-	-	8,324	-	2020
	2018 rights	1-Sep-17	20,000	-	20,000	-	-	20,000		2020
	2017 rights	9-Sep-16	30,000	30,000	-	-	-	30,000		2019
	2016 rights	2-Jul-15	15,000	15,000	-	-	(15,000)	-		2018
	2015 rights	18-Jul-14	25,000	20,750	-	(20,750)	-	-		2017
D Farmer	2018 deferred shares(6)	30-Jun-18	6,761	-	6,761	-	-	6,761	-	2021
	2018 deferred shares(6)	30-Jun-18	6,761	-	6,761	-	-	6,761	-	2020
	2017 rights	1-Mar-17	15,000	15,000	-	-	-	15,000		2020

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

(2) In August 2018, Mr Kelaher was awarded an STI amount of $628,604 for the 2018 financial year of which one half was settled in the form of deferred shares. The number of deferred shares issued was 36,632 of which half will vest in July 2019 with the remaining half in July 2020 subject to Board 'look back' provisions.

(3) In August 2018, Mr Coulter was awarded an STI amount of $450,000 for the 2018 financial year of which one half was settled in the form of deferred shares. The number of deferred shares issued was 26,224 of which half will vest in July 2019 with the remaining half in July 2020 subject to Board 'look back' provisions.

(4) In August 2018, Mr Mota was awarded an STI amount of $450,000 for the 2018 financial year of which one half was settled in the form of deferred shares. The number of deferred shares issued was 26,224 of which half will vest in July 2019 with the remaining half in July 2020 subject to Board 'look back' provisions.

(5) In August 2018, Mr Riordan was awarded an STI amount of $285,682 for the 2018 financial year of which one half was settled in the form of deferred shares. The number of deferred shares issued was 16,648 of which half will vest in July 2019 with the remaining half in July 2020 subject to Board 'look back' provisions.

(6) In August 2018, Mr Farmer was awarded an STI amount of $232,050 for the 2018 financial year of which one half was settled in the form of deferred shares. The number of deferred shares issued was 13,522 of which half will vest in July 2019 with the remaining half in July 2020 subject to Board 'look back' provisions.

Remuneration Report (continued)

5. Remuneration tables (continued)

5.3 Performance rights granted since the end of the financial year

The Board resolved on 17 August 2018 to offer the following performance rights to Other Executive KMP:

Name	Type of instrument	Number granted	Vesting date	Exercise price $
D Coulter	LTI performance rights	50,000	30-Jun-21	$nil
R Mota	LTI performance rights	50,000	30-Jun-21	$nil
G Riordan	LTI performance rights	30,000	30-Jun-21	$nil
D Farmer	LTI performance rights	25,000	30-Jun-21	$nil

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

Rights vesting from the tenure-based hurdle will have a holding lock applied for a further 12 months. In consideration for that further holding lock, the TSR based element will be retested once only in 2022 if some or all of the rights do not vest in 2021.

6. Summary of Key Management Personnel Contracts

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

Executive	Term	Termination notice period - IOOF[1][2]	Termination notice period - Executive
Managing Director			
C Kelaher	Ongoing	12 months	3 months
Other Executive KMP			
D Coulter	Ongoing	6 months	6 months
R Mota	Ongoing	6 months	6 months
G Riordan	Ongoing	6 months	6 months
D Farmer	Ongoing	6 months	6 months

A review of contracts for other executive KMP was completed during the year with all termination notice periods extended to six months. This change ensures consistency and alignment with business strategy, as well as assisting appropriate transition arrangements where required.

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

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

7. Shareholdings of Key Management Personnel

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

Ordinary shares		Balance at 1 July No.	Received on vesting of performance No.	Net other change No.	Balance at 30 June [1] No.
Managing Director					
C Kelaher	**2018**	**3,443,449**	**91,395**	**31,537**	**3,566,381**
	2017	3,305,290	113,159	25,000	3,443,449
Other Executive KMP					
D Coulter	**2018**	**271,293**	**20,750**	**1,428**	**293,471**
	2017	252,043	19,250	-	271,293
R Mota	**2018**	**103,009**	**20,750**	**(15,644)**	**108,115**
	2017	93,009	19,250	(9,250)	103,009
G Riordan	**2018**	**44,250**	**20,750**	**-**	**65,000**
	2017	25,000	19,250	-	44,250
D Farmer	**2018**	**-**	**-**	**-**	**-**

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

Remuneration Report (continued)

8. Non-Executive Directors' Remuneration

8.1 Overview

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

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

8.2 Terms of appointment

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

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

Elements	Details		
Current Board fees	**2017/18 Fees per annum were:**		
	IOOF Holdings Board Chair fee	$	285,000
	IOOF Holdings Board Non-Executive Director fee	$	170,000
Post-employment benefits	Superannuation contributions are made at a rate of 9.5% (up to the Government's prescribed maximum contributions limit) which satisfies the IOOF Group's statutory superannuation contributions and are included in the base fee.		

8.3 Shareholdings of Non-Executive Directors

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

Name	Balance as at 1 Jul 2017	Shares from changes during the year	Balance as at 30 Jun 2018(1)	Balance as at report sign-off date
G Venardos	51,816	22,428	74,244	91,429
J Harvey	23,578	6,278	29,856	35,256
A Griffiths	30,000	11,428	41,428	41,428
E Flynn	20,000	6,428	26,428	26,428
J Selak	25,000	30,000	55,000	55,000

(1) The following shares (included in the holdings above) were held on behalf of the Non-Executive Directors (ie. indirect beneficially held shares) as at 30 June 2018: G Venardos - 74,244; J Harvey - 29,856; A Griffiths - 41,428; E Flynn - 26,428; and J Selak - 55,000.

9. Payments to persons before taking office

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

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

This report is made by a resolution of the Directors:

Mr George Venardos
Chair
30 August 2018

Directors' declaration

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

(a) the consolidated financial statements and notes set out on pages 38 to 85, and the Remuneration Report, set out on pages 16 to 31 in the Directors' Report, are in accordance with the Corporations Act 2001 including:

(i) giving a true and fair view of the IOOF Group's financial position as at 30 June 2018 and its performance for the financial year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and Chief Financial Officer for the financial year ended 30 June 2018.

3. The Directors draw attention to section 7-2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:

Mr George Venardos
Chair
Melbourne
30 August 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 audit of IOOF Holdings Ltd for the financial year ended 30 June 2018 there have been:

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

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

KPMG	KPMG
KPMG	KPMG
DM Waters	Rachel Milum
Partner	*Partner*
Melbourne	Melbourne
30 August 2018	30 August 2018

KPMG

Independent Auditor's Report

To the members of IOOF Holdings Ltd

Report on the audit of the Financial Report

Opinion

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

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

- giving a true and fair view of the ***Group's*** financial position as at 30 June 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Consolidated statement of financial position as at 30 June 2018;
- Consolidated statement of comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

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

Basis for opinion

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

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

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

Key Audit Matters

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

- Valuation of Goodwill and Intangible Assets.

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

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

Valuation of Goodwill and Intangible Assets - $940.2m and $408.3m

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

The key audit matter	How the matter was addressed in our audit
A key audit matter was whether the Group's value in use models for goodwill and intangible assets impairment included assumptions that were appropriate having regard to accounting standards. Specific intangible assets we focused on related to customer relationships and brand names. The size of the goodwill and intangible assets relative to the total assets of the Group (being 30.0% and 13.0% respectively) and the level of judgement required by the Group, contributed to this being a key audit matter. The models and forecast assumptions incorporated significant judgement in respect of key factors such as: discount rates, revenue growth, and forecasted funds under management, as well as economic assumptions such as inflation rates. Changes in the underlying assumptions can significantly impact the recoverable amount of the relevant intangible assets and can therefore give rise to impairment. The Group recorded an impairment charge of $28.3m against goodwill. This related to the Perennial Cash Generating Unit ("CGU") as a result of reduced profitability from lower revenues. Revenue decline has arisen due to institutional outflows. This increased the sensitivity of the model to small changes and further increased our audit effort in this key audit area.	Working with our valuation specialists, our procedures included: • Testing of key controls, such as the assessment and approval of internal forecasts, to evaluate the Group's goodwill and intangible asset valuation process; • We considered the appropriateness of the value in use method applied by the Group to perform the annual test of goodwill and intangibles for impairment against the requirements of the accounting standards. • For goodwill, customer relationships and brand names, we challenged the Group's key assumptions, in particular those relating to discount rates, revenue growth and forecasted funds under management by analysing historical data and taking into consideration expected future events, and verifying the key market related assumptions to external data, through the following procedures: - We compared relevant data in the models to the latest Board approved forecasts; - We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models; - We independently developed a discount rate range considered comparable using publicly available data for comparable entities, adjusted by risk factors specific to the Group's CGUs and the industry they operate in; - We assessed the integrity of the value in use models used, including the accuracy of the underlying formulas in the calculations; - We considered the sensitivity of the models by varying key assumptions such as revenue growth and discount rates, within a reasonably

We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.	possible range, to identify those CGUs at higher risk of impairment and to further focus our procedures; and - We assessed the key assumptions for consistent application across the Group. • We recalculated the impairment charge from the Perennial CGU model against the recorded amount and reconciled it to the amount disclosed; and • We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the accounting standards.

Other Information

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

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

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

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

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

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of IOOF Holdings Ltd for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

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

Our responsibilities

We have audited the Remuneration Report included in pages 16 to 31 of the Directors' report for the year ended 30 June 2018.

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

KPMG

KPMG

DM Waters
Partner
Melbourne
30 August 2018

KPMG

KPMG

Rachel Milum
Partner
Melbourne
30 August 2018

Consolidated statement of comprehensive income

	Note	2018 $'000	2017 $'000
Revenue	2-2	919,141	907,519
Expenses	2-3	(780,083)	(724,745)
Share of profits of associates accounted for using the equity method		2,524	3,478
Finance costs		(2,103)	(6,828)
Profit before tax		139,479	179,424
Income tax expense	2-5	(45,853)	(59,573)
Statutory fund			
Statutory fund revenue*	5-4	61,798	65,016
Statutory fund expenses*	5-4	(44,401)	(52,124)
Income tax (expense)/benefit - statutory*	5-4	(17,397)	(12,892)
Statutory fund contribution to profit, net of tax		-	-
Profit for the year		93,626	119,851
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		8,185	3,770
Exchange differences on translating foreign operations		(89)	15
Income tax on other comprehensive income		(2,444)	(1,134)
Other comprehensive income/(expense) for the year, net of income tax		5,652	2,651
Total comprehensive income for the year		99,278	122,502
Profit attributable to:			
Owners of the Company		**88,301**	**115,990**
Non-controlling interest		5,325	3,861
Profit for the year		93,626	119,851
Total comprehensive income attributable to:			
Owners of the Company		93,953	118,641
Non-controlling interest		5,325	3,861
Total comprehensive income for the year		99,278	122,502
Earnings per share:			
Basic earnings per share (cents per share)	2-7	26.4	38.7
Diluted earnings per share (cents per share)	2-7	26.4	38.6

Notes to the consolidated financial statements are included on pages 43 to 85.

*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.

	Note	2018 $'000	2017 $'000
Assets			
Cash	1-1(d)	121,441	208,218
Certificates of deposit	1-1(d)	407,443	-
Receivables	1-1(d)	99,659	108,401
Other financial assets	1-1(d)	55,087	45,430
Prepayments		17,307	14,403
Deferred acquisition costs		1,552	1,913
Associates	4-1	24,002	21,081
Property and equipment		19,339	21,480
Intangible assets	4-2	408,310	441,079
Goodwill	4-3	940,226	954,867
Assets relating to statutory funds*	5-1	1,036,491	934,119
Total assets		**3,130,857**	**2,750,991**
Liabilities			
Payables	1-1(d)	65,139	60,007
Borrowings	3-2	-	206,948
Current tax liabilities		25,615	25,813
Contingent consideration	1-1(d)	392	1,839
Provisions	4-4	116,335	64,639
Deferred tax liabilities	2-5	69,255	92,949
Deferred revenue liability		1,413	1,800
Lease incentives		3,530	2,429
Liabilities relating to statutory funds*	5-2	1,036,491	934,119
Total liabilities		**1,318,170**	**1,390,543**
Net assets		**1,812,687**	**1,360,448**
Equity			
Share capital	3-3	1,967,023	1,434,459
Reserves	3-5	19,413	13,349
Accumulated losses		(184,169)	(97,048)
Total equity attributable to equity holders of the Company		**1,802,267**	**1,350,760**
Non-controlling interest		10,420	9,688
Total equity		**1,812,687**	**1,360,448**

Notes to the consolidated financial statements are included on pages 43 to 85.

*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.

For the year ended 30 June 2018	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 year							
Profit for the year attributable to owners of the Company	-	-	-	88,301	88,301	5,325	**93,626**
Other comprehensive income for the year, net of income tax	-	-	5,652	-	5,652	-	**5,652**
Total comprehensive income for the year	-	-	5,652	88,301	93,953	5,325	**99,278**
Transactions with owners, recorded directly in equity							
Contributions by and (distributions to) owners							
Dividends paid	-	-	-	(175,645)	(175,645)	(4,593)	**(180,238)**
Share-based payments expense	-	-	2,728	-	2,728	-	**2,728**
Issue of shares	539,264	-	-	-	539,264	-	**539,264**
Transaction costs of issuing new shares	(5,917)	-	-	-	(5,917)	-	**(5,917)**
Transfer from employee equity-settled benefits reserve on exercise of performance rights	2,093	-	(2,093)	-	-	-	**-**
Treasury shares transferred to recipients during the year	(2,393)	2,393	-	-	-	-	**-**
Transfer of lapsed performance rights to retained earnings	-	-	(223)	223	-	-	**-**
Purchase of treasury shares	-	(2,876)	-	-	(2,876)	-	**(2,876)**
Total transactions with owners	533,047	(483)	412	(175,422)	357,554	(4,593)	**352,961**
Balance at 30 June 2018	1,971,648	(4,625)	19,413	(184,169)	1,802,267	10,420	**1,812,687**

Notes to the consolidated financial statements are included on pages 43 to 85.

For the year ended 30 June 2017	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 year							
Profit for the year attributable to owners of the Company	-	-	-	115,990	115,990	3,861	119,851
Other comprehensive income for the year, net of income tax	-	-	2,651	-	2,651	-	2,651
Total comprehensive income for the year	-	-	2,651	115,990	118,641	3,861	122,502
Transactions with owners, recorded directly in equity							
Contributions by and (distributions to) owners							
Dividends paid	-	-	-	(155,934)	(155,934)	(3,648)	(159,582)
Share-based payments expense	-	-	1,295	-	1,295	-	1,295
Operating Risk Financial Reserve	-	-	(144)	-	(144)	-	(144)
Transfer from employee equity-settled benefits reserve on exercise of performance rights	1,322	-	(1,322)	-	-	-	-
Treasury shares transferred to recipients during the year	(1,997)	1,997	-	-	-	-	-
Transfer of lapsed performance rights to retained earnings	-	-	(397)	397	-	-	-
Purchase of treasury shares	-	(3,323)	-	-	(3,323)	-	(3,323)
Total transactions with owners	(675)	(1,326)	(568)	(155,537)	(158,106)	(3,648)	(161,754)
Balance at 30 June 2017	1,438,601	(4,142)	13,349	(97,048)	1,350,760	9,688	1,360,448

Notes to the consolidated financial statements are included on pages 43 to 85.

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers		958,444	967,166
Payments to suppliers and employees		(670,098)	(725,564)
Dividends from associates		1,753	3,966
Net stockbroking purchases		(142)	(55)
Non-recurring professional fees recovered/(paid)		902	(2,013)
Termination payments		(2,304)	(3,933)
Income taxes paid		(72,682)	(60,288)
Net cash provided by operating activities	2-4	215,873	179,279
Cash flows from investing activities			
Dividends and distributions received		1,115	823
Interest received		8,051	4,313
Acquisition costs - Acquisition advisory		(5,367)	-
Acquisition costs - Integration preparation		(4,973)	-
Acquisition costs - Finance costs		(6,269)	-
Interest and other costs of finance paid		(2,061)	(6,608)
Purchase of certificates of deposit		(407,443)	-
Proceeds on divestment of subsidiaries		163	6,261
Acquisition of subsidiary, net of cash acquired		(18,329)	(1,045)
Purchase of shares in associates		(1,750)	-
Proceeds on divestment of other assets		3,967	14,814
Receipt of deferred purchase consideration		845	325
Net (purchases)/sales of financial assets		(110)	1,015
Payments for property and equipment		(9,341)	(7,440)
Amounts (advanced to)/borrowed from other entities		(114)	18
Payments for intangible assets		(1,289)	(4,934)
Net cash (used in)/provided by investing activities		(442,905)	7,542
Cash flows from financing activities			
Net borrowings repaid		(207,424)	(212)
Purchase of treasury shares		(2,876)	(3,323)
Proceeds from issue of shares		539,264	-
Transaction costs of issuing new shares		(8,452)	-
Dividends paid:			
- members of the Company		(175,645)	(155,934)
- non-controlling members of subsidiary entities		(4,593)	(3,648)
Net cash provided by/(used in) financing activities		140,274	(163,117)
Net increase in cash and cash equivalents		(86,758)	23,704
Cash and cash equivalents at the beginning of year		208,218	186,992
Cash and cash equivalents divested		-	(2,350)
Operating Risk Financial Reserve cash requirement		-	(144)
Effects of exchange rate changes on cash and cash equivalents		(19)	16
Cash and cash equivalents at the end of year		121,441	208,218

Notes to the consolidated financial statements are included on pages 43 to 85.

Section 1 - Financial instruments and risk management

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

1-1 Risk management

IOOF risk management framework

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

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

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

Financial risk

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

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

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

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

(a) Market risk

(i) Price risk

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

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

IOOF Group sensitivity

At 30 June 2018 had the price of the units / shares held by the IOOF Group in unlisted unit trusts / shares in other entities increased / decreased by 1% (2017: 1%) with all other variables held constant, post-tax profit for the year would increase / decrease by $6,000 (2017: $5,000) as a result of gains / losses recorded through profit or loss, and available-for-sale reserves would increase / decrease by $236,000 (2017: $178,000).

Section 1 - Financial instruments and risk management

1-1 Risk management (continued)

(a) Market risk (continued)

(ii) Currency risk

The IOOF Group's exposure to foreign exchange risk in relation to the financial instruments of its foreign activities in New Zealand and Hong Kong is immaterial.

(iii) Cash flow and interest rate risk

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

Short and long-term investment mixes and loans to related entities are influenced by liquidity policy requirements. Interest rates (both charged and received) are based on market rates, and are closely monitored by management. They are primarily at variable rates of interest, and expose the IOOF Group to cash flow interest rate risk.

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

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

IOOF Group sensitivity

At 30 June 2018, if interest rates had changed by +/- 100 basis points (2017: +/- 100 basis points) from the year-end rates with all other variables held constant, post tax profit for the year would have increased/decreased by $nil (2017: $1,448,000). Equity would have been higher/lower by the same amount.

(b) Credit risk

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

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

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

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

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

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

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

<u>Impaired receivables</u>

As at 30 June 2018, $2,671,000 trade receivables of the IOOF Group were past due but not impaired (2017: $3,447,000). The amount of the impairment provision was $607,000 (2017: $585,000).

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

Section 1 - Financial instruments and risk management

1-1 Risk management (continued)

(b) Credit risk (continued)

Impaired receivables (continued)

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

Movements in the provisions for impairment of trade receivables are as follows:	**2018 $'000**	**2017 $'000**
Carrying value at 1 July	585	598
Provision for impairment provided/(written back) during the year	22	(13)
Carrying value at 30 June	607	585
Ageing of trade receivables that were not impaired at 30 June		
Neither past due nor impaired	45,985	54,594
Past due 31-60 days	665	1,568
Past due 61-90 days	511	563
Past due 91-120 days	888	731
	48,049	57,456
Trade receivables past due but not impaired	2,671	3,447

(c) Statutory Fund Risk

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

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

(d) Liquidity risk

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

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

Maturities of financial liabilities

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

Section 1 - Financial instruments and risk management

1-1 Risk management (continued)

(d) Liquidity risk (continued)

Maturities of financial liabilities (continued)

2018	Carrying Amount Current $'000	Carrying Amount Non-Current $'000	Carrying Amount Total $'000	Contractual cash flows 1 year or less $'000	Contractual cash flows 1-5 years $'000	Contractual cash flows 5+ years $'000	Contractual cash flows Total contractual cash flows $'000
Financial liabilities							
Payables	65,136	3	65,139	65,136	3	-	65,139
Total payables	65,136	3	65,139	65,136	3	-	65,139
Contingent consideration	392	-	392	392	-	-	392
	65,528	3	65,531	65,528	3	-	65,531
Financial assets available to meet the above financial liabilities							
Cash	121,441	-	121,441	121,441	-	-	121,441
Certificates of deposit	407,443	-	407,443	407,443	-	-	407,443
Trade receivables	48,049	-	48,049	48,049	-	-	48,049
Other receivables	45,461	757	46,218	45,461	757	-	46,218
Security bonds	-	5,392	5,392	-	-	5,392	5,392
Total receivables	93,510	6,149	99,659	93,510	757	5,392	99,659
Fair value through profit or loss							
Shares in listed companies	18	-	18	18	-	-	18
Unlisted unit trusts	-	768	768	-	768	-	768
Available-for-sale investments	-	33,739	33,739	-	-	33,739	33,739
Loans and other receivables							
Loans to directors and executives of associated entities	-	8,404	8,404	-	-	8,404	8,404
Receivables from statutory benefit funds	5,005	-	5,005	5,005	-	-	5,005
Seed capital receivable	-	7,153	7,153	-	-	7,153	7,153
Total other financial assets	5,023	50,064	55,087	5,023	768	49,296	55,087
	627,417	56,213	683,630	627,417	1,525	54,688	683,630
Net financial assets/(liabilities)	561,889	56,210	618,099	561,889	1,522	54,688	618,099

Section 1 - Financial instruments and risk management

1-1 Risk management (continued)

(d) Liquidity risk (continued)

Maturities of financial liabilities (continued)

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

(e) Accounting policies and fair value estimation

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

Offsetting assets and liabilities

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

Section 1 - Financial instruments and risk management

1-1 Risk management (continued)

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

Non-derivative financial assets

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

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

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

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

Cash

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

Certificates of deposit

Certificates of deposit includes deposits with original maturities of more than three months.

Financial assets at fair value through profit or loss

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

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

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

Available-for-sale financial assets

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

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

Loans and receivables

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

Non-derivative financial liabilities

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

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

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

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

Payables

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

Section 1 - Financial instruments and risk management

1-1 Risk management (continued)

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

Borrowings and finance leases

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

Contingent consideration

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

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

1-2 Financial Instruments

Fair value hierarchy

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

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

30 June 2018	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total
Financial assets measured at fair value				
Available-for-sale investments	33,739	-	-	33,739
Shares in listed companies	18	-	-	18
Unlisted unit trusts	-	768	-	768
	33,757	768	-	34,525
Financial liabilities measured at fair value				
Contingent consideration	-	-	392	392
	-	-	392	392
30 June 2017				
Financial assets measured at fair value				
Available-for-sale investments	25,445	-	-	25,445
Shares in listed companies	18	-	-	18
Unlisted unit trusts	-	679	-	679
	25,463	679	-	26,142
Financial liabilities measured at fair value				
Contingent consideration	-	-	1,839	1,839
	-	-	1,839	1,839

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

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

The IOOF Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting year during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the year ended 30 June 2018.

Reconciliation of movements in level 3 financial liabilities	Contingent considerat-ion $'000
Opening balance as at 1 July 2017	1,839
Fair value gain from derecognition of contingent consideration payable	(805)
Unwinding of discount	22
Settlement of contingent consideration	(664)
Closing balance as at 30 June 2018	392

Section 2 - Results for the year

This section focuses on the results and performance of the IOOF Group. On the following pages you will find disclosures explaining the IOOF Group's results for the year, segmental information, taxation and earnings per share.
Where an accounting policy is specific to a single note, the policy is described in the note to which it relates.

2-1 Operating segments

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

Financial advice
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		Platform management and administration		Investment management		Trustee services		Corporate and other		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Management and service fees revenue	288,470	263,494	384,929	387,608	70,968	81,942	33,197	26,695	-	-	777,564	759,739
External other fee revenue	15,273	16,167	5,506	6,239	2,426	2,146	4,235	3,833	407	489	27,847	28,874
Service fees and other direct costs	(150,613)	(126,443)	(108,630)	(109,026)	(8,542)	(26,339)	(3,900)	(2,321)	384	398	(271,301)	(263,731)
Deferred acquisition costs	(179)	(372)	(141)	(157)	-	-	-	-	-	-	(320)	(529)
Gross Margin	**152,951**	**152,846**	**281,664**	**284,664**	**64,852**	**57,749**	**33,532**	**28,207**	**791**	**887**	**533,790**	**524,353**
Stockbroking revenue	96,304	85,478	-	-	-	-	-	-	-	-	96,304	85,478
Stockbroking service fees expense	(55,210)	(48,549)	-	-	-	-	-	-	-	-	(55,210)	(48,549)
Stockbroking net contribution	**41,094**	**36,929**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**41,094**	**36,929**
Inter-segment revenue(i)	76,764	75,467	2,746	-	-	-	115	283	137	139	79,762	75,889
Inter-segment expenses(i)	(2,352)	(3,434)	(74,438)	(72,214)	(2,972)	(241)	-	-	-	-	(79,762)	(75,889)
Net Operating Revenue	**268,457**	**261,808**	**209,972**	**212,450**	**61,880**	**57,508**	**33,647**	**28,490**	**928**	**1,026**	**574,884**	**561,282**
Other revenue	3,193	3,028	75	-	-	75	-	-	774	1,197	4,042	4,300
Finance income	747	603	3	1	-	436	-	-	9,848	4,190	10,598	5,230
Inter-segment revenue(i)	8	12	-	-	-	-	-	-	-	-	8	12
Share of profits of associates	713	816	-	-	1,811	2,662	-	-	-	-	2,524	3,478
Operating expenditure	(149,538)	(148,755)	(89,499)	(95,853)	(11,376)	(14,284)	(20,193)	(18,341)	(37,885)	(40,682)	(308,491)	(317,915)
Share-based payments expense	(1,263)	(102)	(359)	(189)	(95)	(211)	(50)	(15)	(961)	(778)	(2,728)	(1,295)
Finance costs	(32)	(43)	-	-	-	-	-	-	(2,071)	(6,785)	(2,103)	(6,828)
Inter-segment expenses(i)	-	-	(8)	(12)	-	-	-	-	-	-	(8)	(12)
Depreciation of property & equipment	(2,968)	(3,119)	(3,563)	(3,454)	(526)	(512)	(583)	(563)	-	-	(7,640)	(7,648)
Amortisation of intangible assets - IT Development	-	-	(524)	(1,737)	-	-	-	-	-	-	(524)	(1,737)
Non-controlling interest	(5,325)	(3,861)	-	-	-	-	-	-	-	-	(5,325)	(3,861)
Income tax expense	(35,946)	(34,033)	(35,091)	(33,939)	(14,993)	(12,967)	(3,861)	(2,876)	16,071	18,166	(73,820)	(65,649)
UNPAT	**78,046**	**76,354**	**81,006**	**77,267**	**36,701**	**32,707**	**8,960**	**6,695**	**(13,296)**	**(23,666)**	**191,417**	**169,357**

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

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

Section 2 - Results for the year

2-1 Operating segments (continued)

Reconciliation of reportable segment revenues and expenses

	Note	2018 $'000	2017 $'000
Profit attributable to Owners of the Company		88,301	115,990
Underlying net profit after tax pre-amortisation (UNPAT) adjustments:			
Amortisation of intangible assets	2-3	39,400	38,611
Acquisition costs - Acquisition advisory	2-3	5,367	-
Acquisition costs - Integration preparation	2-3	4,973	-
Acquisition costs - Finance costs	2-3	6,725	-
Onerous contracts	2-3	2,345	-
Termination payments	2-3	2,128	4,125
Profit on divestment of subsidiaries	2-2	(143)	(6,261)
Profit on divestment of assets	2-2	(2,643)	(11,930)
Non-recurring professional fees (recovered)/paid	2-3	(902)	2,013
Impairment of goodwill	2-3	28,339	38,592
Unwind of deferred tax liability recorded on intangible assets		(10,195)	(10,056)
Settlement of legal claims	2-3	44,250	-
Other	2-3	1,244	-
Acquisition tax provision release		-	(5,707)
Income tax attributable		(17,772)	3,980
UNPAT		**191,417**	**169,357**

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

2-2 Revenue

	Policy note	2018 $'000	2017 $'000
Management and service fees revenue	(i)	777,564	759,739
Stockbroking revenue	(ii)	96,304	85,478
External other fee revenue	(ii)	27,847	28,874
Finance income	(iii)		
Interest income on loans to Directors of associated entities		260	254
Interest income from non-related entities		9,128	4,098
Dividends and distributions received		1,122	824
Net fair value gains on other financial assets at fair value through profit or loss		88	54
		10,598	5,230
Other revenue			
Profit on divestment of assets		2,643	11,930
Profit on divestment of subsidiaries		143	6,261
Other		4,042	10,007
		6,828	28,198
Total revenue		919,141	907,519

Section 2 - Results for the year

2-2 Revenue (continued)

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

(i) Management and service fees revenue
The IOOF Group provide management services to unit trusts and funds operated by the IOOF Group at normal commercial rates. Management and service fees earned from the unit trusts and funds are calculated based on an agreed percentage of the respective funds under management or administration as disclosed in the respective product disclosure statements, and are recognised on an accruals basis.
Management and service fees revenue from the provision of financial advisory services together with revenue from the rendering of services are recognised at the time the service is provided.

(ii) Stockbroking revenue and external other fee revenue
Other fee revenue and stockbroking revenue from the rendering of services are recognised at the time the service is provided.

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

2-3 Expenses

	Policy note	2018 $'000	2017 $'000
Service fees and other direct costs	(i)		
Service and marketing fees expense		248,306	241,153
Stockbroking service fees expense		55,210	48,549
Other direct costs		22,995	22,578
		326,511	312,280
Operating expenditure			
Salaries and related employee expenses	(ii)	213,912	211,987
Information technology costs		33,979	41,532
Professional fees		9,038	10,959
Marketing		8,665	8,446
Office support and administration		14,010	17,120
Occupancy related expenses		23,327	21,989
Travel and entertainment		5,560	5,877
Other		-	5
		308,491	317,915
Other expenses			
Share-based payments expense	(iii)	2,728	1,295
Acquisition costs - Acquisition advisory		5,367	-
Acquisition costs - Integration preparation		4,973	-
Acquisition costs - Finance costs		6,725	-
Termination payments	(iv)	2,128	4,125
Depreciation of property and equipment		7,640	7,648
Amortisation of intangible assets	(v)	39,400	38,611
Amortisation of intangible assets - IT development	(v)	524	1,737
Impairment of goodwill	(v)	28,339	38,592
Deferred acquisition costs	(vi)	320	529
Non-recurring professional fees (recovered)/paid		(902)	2,013
Onerous contracts		2,345	-
Settlement of legal claims		44,250	-
Other		1,244	-
		145,081	94,550
Total expenses		780,083	724,745

Section 2 - Results for the year

2-3 Expenses (continued)

Accounting policies

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

(i) Service fees and other direct costs

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

(ii) Salaries and related employee expenses

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

Short-term employee benefits

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

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

Short-term incentive plans

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

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

Annual and long service leave benefits

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

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

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

Employee defined contribution plan expense

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

(iii) Share-based payments expense

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

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

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

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

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

(iv) Termination payments

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

Section 2 - Results for the year

2-3 Expenses (continued)

Accounting policies

(v) Amortisation and impairment

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

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

(vi) Deferred acquisition costs

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

2-4 Net cash provided by operating activities

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

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

	2018 $'000	2017 $'000
Profit for the year	93,626	119,851
Depreciation of property and equipment	7,640	7,648
Amortisation of intangible assets	39,924	40,348
Impairment of goodwill	28,339	38,592
Profit on divestment of assets	(2,643)	(18,228)
Interest and other costs of finance	2,103	6,828
Interest received and receivable	(9,388)	(4,352)
Dividends and distributions received and receivable	(1,115)	(823)
Dividends received from associates	1,753	3,966
Share of profits of associates accounted for using the equity method	(2,524)	(3,478)
Share-based payments expense	2,728	1,295
Acquisition costs - Acquisition advisory	5,367	-
Acquisition costs - Integration preparation	4,973	-
Acquisition costs - Finance costs	6,725	-
Other	(327)	1,144
Changes in net operating assets and liabilities:		
(Increase)/decrease in receivables	11,056	(7,575)
(Increase)/decrease in other assets	(1,171)	(833)
(Increase)/decrease in other financial assets	(1,274)	1,674
(Increase)/decrease in deferred acquisition costs	361	569
Increase/(decrease) in payables	5,098	(8,275)
Increase/(decrease) in deferred revenue liabilities	(387)	(699)
Increase/(decrease) in provisions	51,464	1,919
Increase/(decrease) in income tax payable	(112)	7,871
Increase/(decrease) in contingent consideration	-	1,089
Increase/(decrease) in other liabilities	(974)	103
Increase/(decrease) in deferred taxes	(25,369)	(9,355)
Net cash provided by operating activities	215,873	179,279

Section 2 - Results for the year

2-5 Income taxes

	2018 $'000	2017 $'000
Current tax expense		
Current year	74,716	70,408
Adjustment for prior years	(3,495)	(1,478)
	71,221	68,930
Deferred tax expense		
Origination and reversal of temporary differences	(25,159)	(9,460)
Adjustments recognised in the current year in relation to the deferred tax of prior years	(209)	103
	(25,368)	(9,357)
Total income tax expense	**45,853**	**59,573**

Income tax recognised in other comprehensive income	2018 $'000			2017 $'000		
	Before tax	Tax expense	Net of tax	Before tax	Tax expense	Net of tax
Available-for-sale financial assets	8,185	(2,456)	5,729	3,770	(1,131)	2,639
Exchange differences on translating foreign operations	(89)	12	(77)	15	(3)	12
	8,096	(2,444)	5,652	3,785	(1,134)	2,651

Reconciliation of effective tax rate	2018 %	2018 $'000	2017 %	2017 $'000
Profit before tax		139,479		179,424
Tax using the IOOF Group's domestic tax rate	30.0%	41,844	30.0%	53,827
Tax effect of:				
Share of tax credits with statutory funds	0.7%	1,032	0.5%	978
(Non assessable income)/Non-deductible expenses	(0.1%)	(178)	(1.8%)	(3,264)
Impairment of goodwill	6.1%	8,502	6.5%	11,578
Share of profits of associates	(0.5%)	(757)	(0.6%)	(1,044)
Assessable associate dividends	2.7%	3,792	2.1%	3,771
Imputation credits	(2.9%)	(4,068)	(2.2%)	(4,012)
Other	(0.4%)	(610)	(0.5%)	(886)
Under/(over) provided in prior years	(2.7%)	(3,704)	(0.8%)	(1,375)
	32.9%	**45,853**	**33.2%**	**59,573**

For statutory reporting purposes, the Group had an effective tax rate of 32.9% on its continuing operations for the year ended 30 June 2018 (2017: 33.2%) 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 year ended 30 June 2017, the rate difference was primarily due to impairment of goodwill, research and development (R&D) tax offsets, tax offsets for fully franked dividend income and prior period amendments. 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 28.7%, and 11.8% respectively for the year ended 30 June 2018 (2017: 29.7% and 18.0% respectively).

Deferred tax assets and liabilities	2018 $'000	2017 $'000
Deferred tax asset balance comprises temporary differences attributable to:		
Salaries and related employee expenses	20,234	18,721
Provisions, accruals and creditors	17,690	3,349
Carry forward capital and revenue losses	97	99
Other	3,067	1,934
Deferred tax asset balance as at 30 June	41,088	24,103
Set-off of deferred tax liabilities pursuant to set-off provisions	(41,088)	(24,103)
Net deferred tax asset balance as at 30 June	-	-

Section 2 - Results for the year

2-5 Income taxes (continued)

	2018 $'000	2017 $'000
Deferred tax liability balance comprises temporary differences attributable to:		
Customer relationships	98,941	107,534
Unrealised gains	7,566	5,087
Fixed assets and computer software	130	1,230
Other	3,706	3,201
	110,343	117,052
Set-off of deferred tax liabilities pursuant to set-off provisions	(41,088)	(24,103)
Net deferred tax liability balance as at 30 June	69,255	92,949

	2018 $'000	2017 $'000
Reconciliation of movements		
Net carrying amounts at the beginning of the year	(92,949)	(101,163)
Acquisitions and divestments	(1,754)	(9)
Credited/(charged) to profit or loss	25,368	9,357
Temporary differences directly attributable to equity	80	(1,134)
Carrying amount at the end of the year	(69,255)	(92,949)

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

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

Accounting policies

Income tax

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

Current tax

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

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

Deferred tax

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

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

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

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

Section 2 - Results for the year

2-5 Income taxes (continued)

Accounting policies (continued)

Tax consolidation

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

Tax transparency

The IOOF Group is committed to tax transparency and integrity. It has been a signatory to the Board of Taxation's Voluntary Tax Transparency Code (the Code), since January 2017.

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

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

Information about international related party dealings

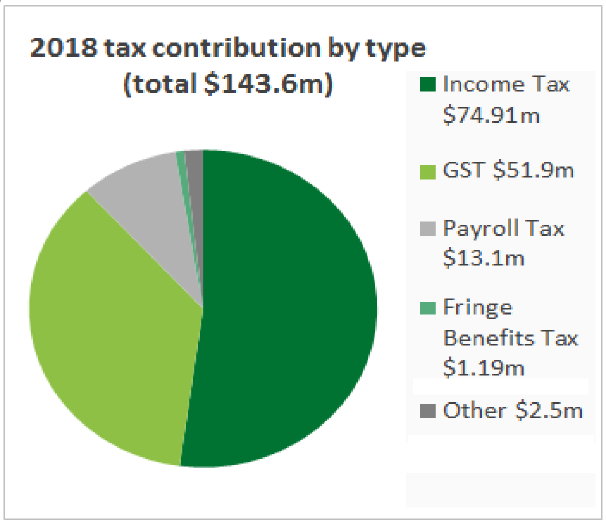
The IOOF Group conducts foreign activities in New Zealand, via IOOF New Zealand, and in Hong Kong, via share broking business, Ord Minnett. Each of those entities is subject to the local tax regime and effective tax rates are disclosed with the IOOF Group's effective tax rate. Related party dealings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

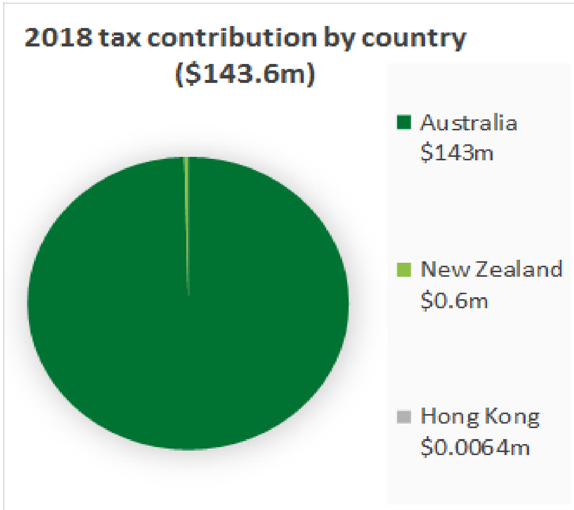
Approach to tax strategy and governance

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

Tax contribution analysis

The IOOF Group contributed a total of $143.6m in taxes to Australian, New Zealand and Hong Kong governments (state and federal) in the 2018 tax year. $143m or 99.6% of this amount was attributable to the Australian Government. The below tables provide an analysis of the types of taxes the IOOF Group is liable for and those payable in Australia versus those in foreign jurisdictions.





Further taxes paid by the IOOF Group on behalf of others, including employees and members, are not directly borne by the Group. These include income tax, GST, pay-as-you-earn withholding taxes, and local duties, which total a further $123m.

Section 2 - Results for the year

2-6 Dividends

After 30 June 2018 the following dividends were declared by the directors. The dividends have not been provided for and there are no income tax consequences.

	Cents per share	Total amount $'000	Date of payment	Franked / unfranked
Final 2018 dividend	27.0	94,791	4 September 2018	Franked

	2018 $'000	2017 $'000
Dividend franking account		
30 per cent franking credits available to shareholders of IOOF Holdings Ltd for subsequent financial years	77,399	84,469

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:
(a) franking credits that will arise from the payment of the current tax liabilities; and
(b) franking credits that the IOOF Group may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends declared after the balance date but not recognised as a liability is to reduce it by $40,625,000 (2017: $34,730,000).

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

	Cents per share	Total amount $'000	Date of payment	Franked / unfranked
2018				
Interim 2018 dividend	27.0	94,791	14 March 2018	Franked
Final 2017 dividend	27.0	81,036	01 September 2017	Franked
	54.0	175,827		
2017				
Interim 2017 dividend	26.0	78,035	30 March 2017	Franked
Final 2016 dividend	26.0	78,035	13 October 2016	Franked
	52.0	156,070		

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

2-7 Earnings per share

	2018 Cents per share	2017 Cents per share
Basic earnings per share	26.4	38.7
Diluted earnings per share	26.4	38.6

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:

	2018 $'000	2017 $'000
Profit for the year attributable to owners of the Company	88,301	115,990
Earnings used in the calculation of basic EPS	88,301	115,990

Section 2 - Results for the year

2-7 Earnings per share (continued)

Weighted average number of ordinary shares	**2018** No. '000	**2017** No. '000
Weighted average number of ordinary shares (basic)	334,072	299,820
Effect of unvested performance rights	750	673
Weighted average number of ordinary shares (diluted)	334,822	300,493

Accounting policies

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

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

At 30 June 2018, there were no options outstanding.

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

Section 3 - Capital management and financing

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

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

3-1 Capital management

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

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

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

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

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

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

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

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

Section 3 - Capital management and financing

3-1 Capital management (continued)

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

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

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

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

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

3-2 Borrowings

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

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

	2018 $'000	2017 $'000
Syndicated facility agreement	-	206,908
Finance lease liabilities - refer (c)	-	40
	-	206,948

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

(a) Cash Advance & Working Capital Facility

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

	2018 $'000	2017 $'000
Total facilities	-	225,000
Used at 30 June	-	206,908
Unused at 30 June	-	18,092

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

	Borrowings $'000
Opening balance 1 July 2017	206,948
Net borrowings repaid	(207,424)
Capitalised establishment fees	476
Closing balance 30 June 2018	-

Accounting policies

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

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

(b) Other bank facilities

In addition to the cash advance and working capital facilities, the IOOF Group has a number of facilities including equipment finance and contingent liability facilities. The aggregate of these facilities is $40m (2017: $40m) of which $38.9m was used at 30 June 2018 (2017: $34.3m). The IOOF Group had other facilities of $8m at 30 June 2017 where $5.05m was used.

Section 3 - Capital management and financing

3-2 Borrowings (continued)

(c) Finance lease liabilities

Finance leases relate to computer hardware.

IOOF Group Finance lease liabilities are payable as follows:	2018 Future minimum lease payments $'000	2018 Present value of minimum lease payments $'000	2017 Future minimum lease payments $'000	2017 Present value of minimum lease payments $'000
Less than one year	-	-	40	40
Between one and five years	-	-	-	-
	-	-	40	40
Less future finance charges	-		-	
	-		40	

3-3 Share capital

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

	2018 $'000	2017 $'000
351,076,027 fully paid ordinary shares (2017: 300,133,752)	1,971,648	1,438,601
484,964 treasury shares (2017: 476,411)	(4,625)	(4,142)
	1,967,023	1,434,459

	2018 No. '000	2018 $'000	2017 No. '000	2017 $'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	-	2,093	-	1,322
Treasury shares transferred to recipients during the year	-	(2,393)	-	(1,997)
On issue at 30 June	351,076	1,971,648	300,134	1,438,601
Treasury shares				
On issue at 1 July	(476)	(4,142)	(321)	(2,816)
Purchase of treasury shares	(287)	(2,876)	(380)	(3,323)
Treasury shares transferred to recipients during the year	278	2,393	225	1,997
On issue at 30 June	(485)	(4,625)	(476)	(4,142)
	350,591	1,967,023	299,658	1,434,459

Accounting policies

Ordinary shares

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

Treasury shares

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

Section 3 - Capital management and financing

3-4 Capital commitments and contingencies

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

Operating lease commitments

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

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

2018	Less than one year $'000	1 to 5 years $'000	Later than five years $'000	Total $'000
Premises	17,967	54,114	34,904	106,985

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

Guarantees and underwriting commitments	2018 $'000	2017 $'000
Rental bond guarantees	12,256	16,281
ASX settlement bond guarantee	1,000	500
ASIC bond guarantees	20	140
Other guarantees	3,000	3,000
	16,276	19,921

On 26 July 2018, the IOOF Group entered into a non-binding term sheet with Australia and New Zealand Banking Group Limited (ANZ) in respect of implementing an accelerated economic completion of the acquisition of ANZ's One Path Pensions and Investments (ANZ P&I) business and full legal ownership of ANZ's Aligned Dealer Groups (ADGs).

Pursuant to the planned acquisition of ANZ Wealth Management, the purchase price will be funded through a combination of the fully underwritten institutional placement conducted during the year and debt facilities of $675m. The IOOF Group has committed to take up the following facilities prior to acquisition completion and intends to leverage domestic and international Debt Capital Markets in its longer term finance strategy beyond these repayment terms:
- $240m with a 5 year repayment term from date of draw down with commercial margins against 90 day BBSY;
- $375m with a 3 year repayment term from date of drawdown with commercial margins against 90 day BBSY; and
- $60m revolving facility to cover regulatory and property guarantees and capital commitments.

A committment fee is to be paid under conventional terms until draw down is required.

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.

3-5 Reserves

	2018 $'000	2017 $'000
Available-for-sale investment revaluation reserve	18,804	13,074
Business combinations reserve	(326)	(326)
Foreign currency translation reserve	44	121
Operating Risk Financial Reserve*	2,655	2,655
Share-based payments reserve	(1,764)	(2,175)
	19,413	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.

Section 4 - Operating assets and liabilities

4-1 Associates

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

The IOOF Group has interests in a number of associates. For one of these associates, Perennial Value Management Limited, the IOOF Group owns 52.4% (2017: 52.4%) of the equity interests but has 42.4% of the voting rights and dividend entitlements. The IOOF Group has determined that it does not have control but has significant influence because it has representation on the board of the investee.

The table below discloses material associates individually:

Associate	Country of incorporation	Ownership interest 2018	Ownership interest 2017	Carrying value	IOOF Group's share of profit
		%	%	$'000	$'000
Perennial Value Management Ltd	Australia	52.4	52.4	10,274	1,811
Other associates				13,728	713
				24,002	2,524

Associates had a carrying value of $21,081,000 and share of profit of $3,478,000 in 2017.

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

	2018 $'000	2017 $'000
Beneficial ownership interest	**42.4%**	**42.4%**
Current assets	17,222	14,655
Non-current assets	7,422	7,516
Current liabilities	(6,967)	(5,376)
Non-current liabilities	(408)	(619)
Net assets (100%)	**17,269**	**16,176**
IOOF Group's share of net assets (42.4%)	7,313	6,851
IOOF Group's share of movements in equity and other reserves (42.4%)	(1,490)	(1,569)
Goodwill	4,451	4,451
Carrying value of interest in associate	**10,274**	**9,733**
Revenue (100%)	26,202	27,196
Profit and total comprehensive income (100%)	4,278	6,285
Profit and total comprehensive income (42.4%)	1,811	2,662
Dividends received by the IOOF Group	1,270	2,961

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

Dividends received from associates

During the year, the IOOF Group has received dividends of $1,753,000 (2017: $3,966,000) from its associates.

Accounting policies

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

Section 4 - Operating assets and liabilities

4-2 Intangible assets (other than goodwill)

	2018 $'000	2017 $'000
Cost	677,147	670,159
Accumulated amortisation	(268,837)	(229,080)
	408,310	441,079

	IT Development $'000	Computer software $'000	Customer relationships $'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	1,167	-	-	-	122	1,289
Divestments	-	-	(20)	-	(302)	(322)
Amortisation expense	(524)	(979)	(35,790)	(801)	(1,830)	(39,924)
Carrying value at 30 June 2018	1,284	4,267	331,936	66,945	3,878	408,310

Accounting policies

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

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

Subsequent expenditure

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

Amortisation

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

- brand names 20 years
- computer software 2.5 - 10 years
- customer relationships 10 - 20 years
- IT development 3 - 5 years
- other 5 - 10 years

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

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

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

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

Indefinite life intangible assets

The indefinite life intangible assets relate to brand names. The below table excludes $8.7m of intangibles which have a finite life. The aggregate carrying amounts of indefinite-life intangible assets allocated to each CGU are as follows:

Section 4 - Operating assets and liabilities

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

	2018 $'000	2017 $'000
Shadforth	51,000	51,000
Ord Minnett group	6,773	6,773
Lonsdale	500	500
	58,273	58,273

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

The recoverable amount for the brand names have been determined based on a royalty savings method of calculating value in use. The calculation incorporates estimated costs of brand maintenance. The discount rate of 12.7% (2017: 12.5%) used reflects the IOOF Group's pre-tax nominal weighted average cost of capital (WACC). Management's assessment of indefinite life intangible value-in-use exceeds the value of the intangible asset allocated to the CGU, therefore any reasonably possible changes to assumptions used in management's assessment is not expected to result in impairment.

4-3 Goodwill

	2018 $'000	2017 $'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	954,867	991,712
Acquisition through business combination	13,698	1,747
Impairment of goodwill	(28,339)	(38,592)
Carrying value at 30 June	940,226	954,867

A non-cash impairment of $28.3m has been recognised in relation to goodwill allocated to Perennial Investment Partners Limited (2017: $38.6m). Reduced profitability from lower revenue 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 below benchmark performance in certain core products and changing market dynamics, where larger institutions now weight a greater proportion of funds to indexed products.

Accounting policies

Goodwill represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised. Its cost is the amount the IOOF Group has paid in acquiring a business over and above the fair value of the individual assets and liabilities acquired. The value of goodwill is an 'intangible' value that comes from, for example, a uniquely strong market position and the outstanding productivity of its employees. The goodwill recognised by the IOOF Group has all arisen as a result of business combinations.
For the measurement of goodwill at initial recognition, see section 7-3(b)(i) Business combinations.

Subsequent measurement

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

Impairment testing for cash-generating units containing goodwill

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

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

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

Section 4 - Operating assets and liabilities

4-3 Goodwill (continued)

	2018 $'000	2017 $'000	Value in Use element: Cash inflows yrs 2-5	Cash outflows yrs 2-5	Cash flows - perpetuity
Shadforth	431,191	431,191	B	E	2.3% growth from yr 5
Platform management and administration	347,509	347,509	B	E	2.3% growth from yr 5
Perennial	9,490	37,829	C	E	2.3% growth from yr 5
DKN	80,339	80,339	B	E	2.3% growth from yr 5
Multi manager	39,735	39,735	B	E	2.3% growth from yr 5
IOOF Ltd	11,970	11,970	D	D	2.3% growth from yr 5
Consultum	4,344	4,344	A	E	2.3% growth from yr 5
Bridges	1,950	1,950	B	E	2.3% growth from yr 5
Australian Executor Trustees	13,698	-	F	F	2.3% growth from yr 5
	940,226	954,867			

A Reserve Bank of Australia forecast GDP growth rate[1]

B Blended rate of the 2019 budgeted rates by asset class and business unit

C Forecast for Perennial Value Management Limited

D Observed Australian friendly societies annual compounding growth for March 2013 to March 2018[2]

E Blended rate of the underlying Australian forecast inflation levels and the applicable Reserve Bank of Australia GDP growth rate[1]

F Arose from a recently concluded, arms-length transaction which provides a reasonable estimate of fair value

1 source - RBA Statement of Monetary Policy

2 source - ABS 5655.0 Managed Funds Australia

The recoverable amounts for goodwill allocated to all CGUs have been determined based on value-in-use calculations using 2018 actual balances to forecast 2019 and beyond cash flows. The manner in which the IOOF Group conducts each impairment assessment for years 2 to 5 and into perpetuity is discussed below for each relevant CGU.

The growth rates applied do not exceed the long-term average growth rate for businesses in which each CGU operates. The pre-tax discount rate of 12.7% (2017: 12.5%) used reflects the IOOF Group's pre-tax nominal weighted average cost of capital (WACC). Management's assessment of goodwill's value-in-use exceeds the value of goodwill allocated to these CGUs, except for the Perennial CGU where a $28.3m non-cash impairment has been recognised in 2018. Any reasonably possible changes to assumptions used in management's assessment is not expected to result in impairment.

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

4-4 Provisions

	2018 $'000	2017 $'000
Onerous contracts	985	350
Employee entitlements	67,487	62,456
Other	47,863	1,833
	116,335	64,639

	Onerous contracts $'000	Employee entitlements $'000	Other $'000	Total $'000
Balance at 1 July 2017	350	62,456	1,833	64,639
Acquisition through business combination	-	337	1,977	2,314
Provisions made during the year[3]	2,345	41,865	45,203	89,413
Provisions utilised during the year	(1,710)	(37,171)	(1,150)	(40,031)
Balance at 30 June 2018	985	67,487	47,863	116,335

[3] Other includes $44.3m settlements with the representative plaintiffs in the Provident Proceedings.

Section 4 - Operating assets and liabilities

4-4 Provisions (continued)

Accounting policies

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

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

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

A provision for employee benefits in the form of an incentive plan is recognised when there is no realistic alternative but to settle the liability, and at least one of the following conditions is met:
- there are formal terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

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

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

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

Section 5 - Statutory funds

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

5-1 Assets relating to statutory funds

	Statutory 2018 $'000	Statutory 2017 $'000
Cash at bank	4,178	3,717
Receivables	49,691	32,794
Unlisted unit trusts	951,855	875,079
Loans to policyholders	30,767	22,529
Investments backing policyholder liabilities designated at fair value through profit or loss	1,036,491	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 parties of the IOOF Group.

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

Section 5 - Statutory funds

5-2 Liabilities relating to statutory funds

	Statutory	
	2018 $'000	2017 $'000
Payables	9,955	6,360
Seed capital	7,153	7,153
Deferred tax liabilities	4,501	2,307
Investment contract liabilities with DPF	240,379	267,220
Investment contract liabilities	774,503	651,079
Policyholder liabilities	1,036,491	934,119

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

Accounting policies

Contract classification

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

(i) Insurance contracts

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

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

(ii) Investment contracts

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

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

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

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

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

5-3 Reconciliation of movements in contract liabilities

	Statutory	
	2018 $'000	2017 $'000
Investment contract liabilities with DPF		
Investment contract liabilities with DPF at beginning of the year	267,220	300,259
Net increase in investment contract liabilities with DPF	1,249	2,371
Investment contract liabilities with DPF contributions	5,701	6,249
Investment contract liabilities with DPF withdrawals	(33,791)	(41,659)
Investment contract liabilities with DPF at end of the year	240,379	267,220

Section 5 - Statutory funds

5-3 Reconciliation of movements in contract liabilities (continued)

	Statutory 2018 $'000	Statutory 2017 $'000
Other investment contract liabilities		
Investment contract liabilities at beginning of the year	651,079	563,798
Net increase in investment contract policy liabilities	45,192	36,490
Investment contract contributions	169,009	129,571
Investment contract withdrawals	(90,777)	(78,780)
Investment contract liabilities at end of the year	774,503	651,079

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

	Statutory 2018 $'000	Statutory 2017 $'000
Statutory fund revenue		
Interest income	794	563
Dividends and distributions received	58,035	54,595
Net fair value gains on other financial assets designated as fair value through profit or loss	13,488	4,999
Investment contracts with DPF:		
Contributions received - investment contracts with DPF	5,701	6,249
DPF policyholder liability decrease	26,841	33,038
Non - DPF policyholder liability (increase)	(45,192)	(36,490)
Other fee revenue	2,131	2,062
	61,798	**65,016**
Statutory fund expenses		
Service and marketing fees expense	10,533	10,354
Direct operating expenses	5	5
Investment contracts with DPF:		
Benefits and withdrawals paid	33,732	41,636
Termination bonuses	58	23
Interest	73	106
	44,401	**52,124**
Income tax	**17,397**	**12,892**
Statutory fund contribution to profit or loss, net of tax	-	-

Accounting policies

Investment contracts with DPF

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

Other investment contracts

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

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

Insurance contract liabilities and claims expense

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

5-5 Actuarial assumptions and methods

The effective date of the actuarial report on the policy liabilities and capital adequacy reserves is 30 June 2018. The actuarial report for IOOF Ltd was prepared by Mr Andrew Mead, FIAA, and was dated 15 August 2018. The actuarial report indicates that Mr Mead is satisfied as to the accuracy of the data upon which the policy liabilities have been determined.

Section 5 - Statutory funds

5-5 Actuarial assumptions and methods (continued)

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

Processes used to select assumptions

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

Other Assumptions

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

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

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

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

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

5-7 Capital adequacy position

Capital adequacy reserves are required to meet the prudential standards determined in accordance with Prudential Standard LPS 110 *Capital Adequacy* issued by the Australian Prudential Regulation Authority under paragraph 230A(1)(a) of the Life Insurance Act 1995. Capital adequacy reserves provide additional protection to policy holders against the impact of fluctuations and unexpected adverse circumstances on the Company.
The figures in the table below represent the number of times coverage of the aggregate of all benefit funds and statutory funds in the Life Group over the prescribed capital amount.

	Statutory	
	2018 $'000	2017 $'000
(a) Capital Base	16,749	35,139
(b) Prescribed capital amount	7,534	14,883
Capital in excess of prescribed capital amount = (a) - (b)	9,215	20,256
Capital adequacy multiple (%) (a) / (b)	222%	236%
Capital Base comprises:		
Net Assets	16,749	35,139
Regulatory adjustment applied in calculation of Tier 1 capital	-	-
(A) Common Equity Tier 1 Capital	**16,749**	**35,139**

Section 5 - Statutory funds

5-7 Capital adequacy position (continued)

	Statutory	
	2018 $'000	2017 $'000
(B) Total Additional Tier 1 Capital	-	-
(C) Total Tier 2 Capital	-	-
Total capital base	**16,749**	**35,139**

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

Section 6 - Other disclosures

6-1 Parent entity financials

As at and throughout the financial year ended 30 June 2018, the parent entity of the IOOF Group was IOOF Holdings Ltd.

	2018 $'000	2017 $'000
Result of the parent entity		
Profit for the year	189,175	159,871
Total comprehensive income for the year	189,175	159,871
Financial position of parent entity at year end		
Current assets	428,765	75,845
Total assets	2,017,840	1,677,687
Current liabilities	24,244	114,215
Total liabilities	24,245	231,124
Total equity of the parent entity comprising of:		
Share capital	1,971,647	1,438,601
Share-based payments reserve	2,473	2,062
Retained earnings	19,475	5,900
Total equity	1,993,595	1,446,563

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

6-2 Share-based payments

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

IOOF Executive and Employee Share Option Plan
The IOOF Group has an ownership-based compensation scheme for executives and senior employees.

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

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

Options granted under the plan carry no dividend or voting rights. All plans are equity-settled. There were no options granted in 2018.

Section 6 - Other disclosures

6-2 Share-based payments (continued)

IOOF Executive Performance Rights Plan

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

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

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

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

Deferred Share Plan

A Short Term Incentive (STI) mandatory deferral program exists with equity deferral relating to half of the Managing Director's STI. This also applies to Executive STIs from 2018 onwards.

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

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

	Performance Rights	Deferred Shares	Total
	Number of rights	Number of shares	Number of rights & shares
	No.	No.	No.
Opening balance at 1 July 2017	647,817	77,315	725,132
Forfeited or lapsed during the year	(135,000)	-	(135,000)
Exercised during the year	(243,027)	(41,895)	(284,922)
Granted during the year	383,168	187,492	570,660
Outstanding at 30 June 2018	652,958	222,912	875,870
Exercisable at 30 June 2018	-	-	-

Disclosure of share-based payment plans

Series - Recipient	Exercise price	Opening balance as at 1 July 2017	Granted	Forfeited or lapsed	Exercised	Closing balance as at 30 June 2018
Performance rights						
2015-01 Executives	$nil	103,750	-	-	(103,750)	-
2015-02 Managing Director	$nil	49,500	-	-	(49,500)	-
2016-01 Executives	$nil	60,000	-	(30,000)	-	30,000
2016-02 Managing Director	$nil	75,000	-	(75,000)	-	-
2017-01 Executives	$nil	180,000	-	(30,000)	-	150,000
2017-02 Managing Director	$nil	120,000	-	-	-	120,000
2017-03 Executives	$nil	30,000	-	-	-	30,000
2017-04 Other Key Stakeholders	$nil	29,567	-	-	-	29,567
2018-01 Executives	$nil	-	155,000	-	-	155,000
2018-02 Managing Director	$nil	-	122,500	-	-	122,500
2018-03 Other Key Stakeholders[1]	$nil	-	89,777	-	(89,777)	-
2018-04 Other Key Stakeholders	$nil	-	15,891	-	-	15,891
		647,817	383,168	(135,000)	(243,027)	652,958

[1] Shares are held in trust for 18 months and may be forfeited in the event of compliance breaches.

Section 6 - Other disclosures

6-2 Share-based payments (continued)

Series - Recipient	Exercise price	Opening balance as at 1 July 2017	Granted	Forfeited or lapsed	Exercised	Closing balance as at 30 June 2018
Deferred shares						
2016-03 Managing Director	$nil	41,895	-	-	(41,895)	-
2017-03 Managing Director	$nil	35,420	-	-	-	35,420
2018-05 Managing Director	$nil	-	36,632	-	-	36,632
2018-06 Executives	$nil	-	150,860	-	-	150,860
		77,315	187,492	-	(41,895)	222,912
		725,132	**570,660**	**(135,000)**	**(284,922)**	**875,870**

There are no options outstanding at 30 June 2018.

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

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

Series	Fair value	Grant date share price	Expected volatility	Expected life (years)	Dividend yield	Risk-free interest rate
2018-01 Executives	$ 8.32	$ 11.08	25%	3	4.7%	2.0%
2018-02 Managing Director	$ 6.61	$ 10.92	25%	3	4.7%	1.8%
2018-03 Other Key Stakeholders	$ 9.81	$ 11.44	n/a	2	4.6%	1.9%
2018-04 Other Key Stakeholders	$ 9.21	$ 10.74	n/a	3	5.0%	2.0%

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

Performance Rights Series - Recipient	Exercise price	Earliest vesting date	Last tranche vesting date	Performance related vesting conditions
2018-04 Other Key Stakeholders	nil	30-Jun-20	n/a	n/a
2018-03 Other Key Stakeholders[1]	nil	19-Apr-18	n/a	n/a
2018-02 Managing Director	nil	30-Jun-20	n/a	TSR & RoE
2018-01 Executives	nil	30-Jun-20	n/a	TSR
2017-04 Other Key Stakeholders	nil	30-Jun-19	n/a	n/a
2017-03 Executives	nil	31-Dec-19	n/a	TSR
2017-02 Managing Director	nil	30-Jun-19	n/a	TSR & RoE
2017-01 Executives	nil	30-Jun-19	n/a	TSR
2016-02 Managing Director	nil	30-Jun-18	n/a	TSR & RoE
2016-01 Executives	nil	30-Jun-18	n/a	TSR
2015-02 Managing Director	nil	30-Jun-17	n/a	TSR & RoE
2015-01 Executives	nil	30-Jun-17	n/a	TSR
2012-01 Managing Director	nil	01-Jul-14	01-Jul-16	TSR & RoE

[1] Shares are held in trust for 18 months and may be forfeited in the event of compliance breaches.

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

Section 6 - Other disclosures

6-2 Share-based payments (continued)

Recipient	2018 $'000	2017 $'000
Managing Director	893	753
Senior Management	833	513
Other Key Stakeholders	1,002	29
	2,728	1,295

Accounting policies

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

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

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

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

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

6-3 IOOF Group subsidiaries

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

	Country of incorporation	Ownership interest 2018 %	Ownership interest 2017 %
Parent entity			
IOOF Holdings Ltd	Australia		
Material subsidiaries			
AET Corporate Trust Pty Limited	Australia	100.0	100.0
Australian Executor Trustees Limited	Australia	100.0	100.0
Bridges Financial Services Pty Limited	Australia	100.0	100.0
Consultum Financial Advisers Pty Ltd	Australia	100.0	100.0
Executive Wealth Management Financial Services Pty Limited	Australia	100.0	100.0
I.O.O.F. Investment Management Limited	Australia	100.0	100.0
IOOF Ltd	Australia	100.0	100.0
IOOF Equity Plan Trust	Australia	100.0	100.0
IOOF NZ Ltd	New Zealand	100.0	100.0
IOOF Service Co Pty Ltd	Australia	100.0	100.0
Lonsdale Financial Group Limited	Australia	100.0	100.0
SFG Australia Limited	Australia	100.0	100.0
Financial Acuity Limited	Australia	100.0	100.0
Shadforth Financial Group Limited	Australia	100.0	100.0
Actuate Alliance Services Pty Ltd	Australia	100.0	100.0

Section 6 - Other disclosures

6-3 IOOF Group subsidiaries (continued)

	Country of incorporation	Ownership interest 2018 %	Ownership interest 2017 %
Ord Minnett Limited	Australia	70.0	70.0
Ord Minnett Financial Planning Pty Limited	Australia	70.0	70.0
Ord Minnett Management Limited	Australia	70.0	70.0

Unconsolidated structured entities

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

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

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

6-4 Remuneration of auditors

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

	2018 $	2017 $
Audit services		
Auditors of the Company		
KPMG Australia		
Audit and review of financial reports	2,721,222	2,903,518
Other regulatory audit services	1,010,007	1,052,624
	3,731,229	3,956,142
Other services		
Auditors of the Company		
KPMG Australia		
Taxation services	271,280	131,452
Due diligence services	122,488	185,744
Other services	417,427	182,762
	811,195	499,958
	4,542,424	4,456,100

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

Section 6 - Other disclosures

6-5 Key management personnel

The key management personnel compensation comprised:

	2018 $	2017 $
Short-term employee benefits	4,888,456	5,452,163
Post-employment benefits	179,290	176,413
Share-based payments	2,429,027	1,511,047
	7,496,773	7,139,623

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

Executive key management personnel	6,531,773	6,151,285
Non-executive Directors	965,000	988,338
	7,496,773	7,139,623

Individual Directors and executives compensation disclosures

Information regarding individual Directors and executives compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' Report.

No Director has entered into a material contract with the IOOF Group since the end of the prior financial year and there were no material contracts involving directors' interests existing at year-end.

6-6 Related party transactions

(a) Ultimate parent entity

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

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

	Financial year	Opening balance 1 July $	Closing balance June $	Interest paid and payable during the year $	Highest balance during the year $
Interest free loans					
Perennial Value Management Limited	**2018**	**2,286,717**	**2,286,717**	**-**	**2,286,717**
	2017	2,286,717	2,286,717	-	2,286,717
Interest bearing loans					
Perennial Value Management Limited	**2018**	**6,267,091**	**6,402,062**	**239,898**	**6,402,062**
	2017	6,263,882	6,267,091	234,588	6,336,367

The amounts above were advanced by Perennial Investment Partners Pty Ltd and I.O.O.F. Investment Management Limited for the specific purpose of assisting executives to acquire an equity interest in subsidiaries and associates of the Company. Secured interest bearing loans totalling $6,402,062 were made on commercial terms and conditions and loans totalling $2,286,717 are unsecured interest free loans.

(c) Transactions with key management personnel

i. Key management personnel compensation

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

Section 6 - Other disclosures

6-6 Related party transactions (continued)

(c) Transactions with key management personnel (continued)

ii. Loans to key management personnel

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

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

During the financial year the IOOF Group purchased artwork from Mr C Kelaher for $35,000. The amount paid represents the fair value as determined by a third-party independent valuation.

There were no other transactions with key management personnel of the IOOF Group during the 2018 and 2017 financial years.

Section 7 - Basis of preparation

This section sets out the IOOF Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to a single note, the policy is described in the note to which it relates. This section also shows new accounting standards, amendments and interpretations, and whether they are effective in 2018 or later years. How these changes are expected to impact the financial position and performance of the IOOF Group is explained in this section.

7-1 Reporting entity

The Company is a public company listed on the Australian Stock Exchange (trading under the symbol 'IFL'), domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2018 comprise the Company and its controlled entities and the IOOF Group's interests in associates.

The IOOF Group is a for-profit entity and is primarily involved in the provision of wealth management services.

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

7-2 Basis of preparation

(a) Statement of compliance

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

The annual financial report was approved by the Board of Directors on 30 August 2018.

(b) Basis of measurement

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

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

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

(c) Functional and presentation currency

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

(d) Rounding of amounts

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

(e) Use of estimates and judgements

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

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

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

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

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

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

Section 7 - Basis of preparation

7-3 Other significant accounting policies

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

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

(a) Changes in accounting policies

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

(b) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2018 and the results of all controlled subsidiaries for the year then ended. This includes the benefit funds of its subsidiary, IOOF Ltd, and any controlled trusts.

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

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

(i) Business combinations

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

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquiree's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

(ii) Non-controlling interests (NCI)

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

(iii) Subsidiaries

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

(iv) Loss of control

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

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

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

(vi) Transactions eliminated on consolidation

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

Section 7 - Basis of preparation

7-3 Other significant accounting policies (continued)

(c) Foreign currency

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

Foreign operations
The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions.
Foreign currency differences are recognised directly in equity in the foreign currency translation reserve.

(d) Property and equipment

(i) Recognition and measurement
Property and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses.
Cost includes expenditure that is directly attributable to the acquisition of the asset.
The gain or loss on divestment of an item of property and equipment is determined by comparing the proceeds from divestment with the carrying amount of the property and equipment and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

(ii) Subsequent costs
Subsequent costs are included in the asset’s carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the IOOF Group. Repairs and maintenance costs are charged to profit or loss as they are incurred.

(iii) Depreciation
Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the IOOF Group will obtain ownership by the end of the lease term.
Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative year are as follows:
- office equipment 3-10 years
- leasehold improvements 3-10 years
- equipment under finance lease 3-10 years

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

(e) Impairment

(i) Non-derivative financial assets
A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.
Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the IOOF Group on terms that the IOOF Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the IOOF Group, economic conditions that correlate with defaults or the disappearance of an active market of a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

Section 7 - Basis of preparation

7-3 Other significant accounting policies (continued)

(e) Impairment (continued)

(i) Non-derivative financial assets (continued)

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

Available-for-sale financial assets
Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in the investment revaluation reserve, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.
Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent year, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

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

(ii) Non-financial assets

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

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

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

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

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

Section 7 - Basis of preparation

7-3 Other significant accounting policies (continued)

(f) Goods and service tax (GST)

Revenues, expenses and assets (excluding receivables) are recorded net of GST. GST input tax credits are initially recorded as an asset and GST collected as a liability. These balances are offset as at the reporting date and recognised as either an amount receivable or payable to the Australian Taxation Office. The GST portion relating to financial supplies and non-deductible expenditure, for which an input tax credit cannot be claimed, is expensed or is recognised as part of the cost of acquisition of an asset.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the statement of financial position.

Cash flows are presented in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the Australian Taxation Office are presented as operating cash flows.

(g) Leases

Leases in terms of which the IOOF Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Other leases are operating leases and are not recognised on the IOOF Group's statement of financial position.

7-4 New standards and interpretations not yet adopted

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

The IOOF Group currently recognises investment manager fees as a reduction to management and service fees revenue. Upon adoption of IFRS 15 these fees will be recognised in service and marketing fees expense. This change will not impact the IOOF Group's profit.

The IOOF Group currently recognises insurance revenue when it is received. Upon adoption of IFRS 15 revenue will be recorded upfront at the commencement of the policy. As the advisers of the IOOF Group have an obligation to review the suitability of the product’s offered on an annual basis unless otherwise specified, this is not expected to have a material impact.

(i) Management and service fees revenue

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

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

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

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

Section 7 - Basis of preparation

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

IFRS 9 Financial Instruments (continued)
At 30 June 2018, the IOOF Group had equity investments classified as available-for-sale with a fair value of $33.7m 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.

The IOOF Group have assessed the impact of IFRS 9 on the consolidated financial statements. Given no financial instruments are held by the IOOF Group which could result in a reclassification, the adoption of IFRS 9 is not expected to have a significant impact on the recognition and measurement of the IOOF Group's financial instruments. The derecognition rules have not been changed from the previous requirements, and the IOOF Group does not apply hedge accounting.

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-Incentive* s 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 $91.4m. The nature of expenses related to those leases will now change as IFRS 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the IOOF Group's finance leases.

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

IFRS 17 Insurance Contracts
IFRS 17 replaces AASB 4 *Insurance Contracts* and similarly applies to insurance contracts. The classification of insurance contracts is similar to AASB 4 *Insurance Contracts* however unbundling rule changes may mean some contract components now need to be measured under IFRS 17.

The new standard contains a lower level of aggregation/smaller portfolios, changes to contract boundaries and valuation approaches, the application of Contractual Service Margins to policies valued under certain methodologies, changes in treatment to reinsurance and an ability to use Other Comprehensive Income for changes in asset values.

The IOOF Group is in the process of assessing the potential impact of its consolidated financial statements and plans to adopt IFRS 17 in the consolidated financial statements for the year ended 30 June 2021.

Disclosure Initiative (Amendments to IAS 7)

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

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

To satisfy the new disclosure requirements, the Group has presented a reconciliation between the 2017 opening and 2018 closing balances for liabilities with changes arising from financing activities. This is shown in Note 3-2 Borrowings.

Section 7 - Basis of preparation

7-4 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);
- Clarification of the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency (issuance of IFRIC 22);
- Entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits (amendment to AASB 112);
- Treatment of any borrowings originally made to develop a qualifying asset as part of general borrowings when the asset is ready for its intended use or sale (amendment to AASB 123);
- Accounting for income tax treatments that have yet to be accepted by tax authorities (issuance of IFRIC 23 and the consequential amendment to AASB 1); and
- Transfer of assets in transaction with associate or JV (amendment to AASB 3).

7-5 Subsequent events

The Directors have declared the payment of a final dividend of 27.0 cents per ordinary share franked to 100% based on tax paid at 30%, to be paid on 4 September 2018.

On 7 August 2018, the IOOF Group announced, in accordance with its continuous disclosure obligations, that it's wholly-owned subsidiary, Australian Executor Trustees Limited (AET), agreed settlements in relation to certain of the legal proceedings to which AET is party in connection with its role as debenture trustee of Provident Capital Limited (Provident and the Provident Proceedings).

AET entered into a settlement deed with Mr Creighton and has now finalised and will shortly execute the terms of a settlement deed with Mr and Mrs Smith, the representative plaintiffs in the two proceedings brought against AET in relation to Provident. Those settlements, when finalised, are expected to result in full and final settlement, without any admission as to liability, of all claims (including as to legal costs) made against AET as part of the Provident Proceedings. These settlements remain subject to approval by the Supreme Court of New South Wales.

As a result, and subject to Court approval of the settlements with Mr and Mrs Smith and Mr Creighton, the amount AET is expected to be obliged to pay to the plaintiffs and group members in the Provident Proceedings is $44.3m.

AET also agreed settlements with PwC and HLB Mann Judd in respect of the cross-claims brought by AET against those parties as part of the Provident Proceedings, which relate to their role as auditors of Provident.

Subject to Court approval, these settlements are expected to resolve all aspects of the Provident Proceedings other than AET's and the IOOF Group's cross-claims against their insurers and insurance broker.

The IOOF Group and AET will continue to vigorously pursue their claims against their insurers and insurance broker to judgment (if a satisfactory settlement cannot be achieved prior). In pursuing those claims, AET and the IOOF Group are seeking to recover from those parties up to the whole of the amount that they are obliged to pay the plaintiffs and group members in the Provident Proceedings (less amounts recovered through the settlements with PwC and HLB Mann Judd), together with their costs of those Proceedings.

The IOOF Group will continue to keep the market informed in relation to the outcome of the Provident Proceedings and any settlement discussions in accordance with its continuous disclosure obligations.

The settlements with the representative plaintiffs amount to $44.3m and have been provided for in the year ended 30 June 2018 as an adjusting event given the Provident Proceedings were active throughout that financial year.

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