# Appendix 4E
# Annual Financial Report
# IOOF HOLDINGS LTD

## ABN 49 100 103 722

## 1. Reporting Period — 30 June 2015

Previous reporting period — 30 June 2014

## 2. Results for announcement to the market

| | $'000 | % change from previous corresponding period |
|---|---|---|
| Revenue from Shareholder activities [1] | 938,276 | up 27% |
| Profit from ordinary activities after tax attributable to owners of the Company | 138,371 | up 37% |
| Underlying Net Profit After Tax (UNPAT) [2] | 173,758 | up 41% |

| | | Amount per share (cents) | Franked amount per share (cents) |
|---|---|---|---|
| Final dividend for the year ended 30 June 2014 | | | |
| Paid: | 15 October 2014 | 25.0 | 25.0 |
| Interim dividend for the year ended 30 June 2015 | | | |
| Paid: | 10 April 2015 | 25.0 | 25.0 |
| Final dividend for the year ended 30 June 2015 | | | |
| Record date: | 24 September 2015 | | |
| To be paid: | 15 October 2015 | 28.0 | 28.0 |

*[1] Revenue from Shareholder activities excludes those revenues attributable to the activities of the consolidated benefit funds of IOOF Ltd.*

*[2] UNPAT excludes the impact of amortisation of intangible assets, acquisition and divestment transaction costs, termination and retention incentive payments, impairment of intangible assets, income tax benefit from acquisition accounting, deferred tax recognition and unwind on intangible assets, gain on disposal of intangible assets and subsidiaries, reinstates Perennial non-controlling interests and gain on Equity Trustees Ltd acquisition and divestment (prior period only). An UNPAT reconciliation is provided on the following page.*

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| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Profit attributable to Owners of the Company** | **138,371** | **101,285** |
| Underlying net profit after tax (UNPAT) adjustments: | | |
| Reverse the impact of: | | |
| Amortisation of intangible assets | 38,612 | 24,270 |
| Acquisition and divestment transaction costs | 6,381 | 1,789 |
| Termination and retention incentive payments | 5,948 | 4,880 |
| Recognition of Shadforth onerous lease contracts | 2,051 | - |
| Impairment of Plan B brand name | 1,400 | - |
| Gain on disposal of subsidiaries and associates | (1,565) | - |
| Equity Trustees Ltd acquisition and divestment (inc dividends) | - | (1,015) |
| Unwind of deferred tax liability recorded on intangible assets | (9,677) | (5,514) |
| Reinstatement of Perennial non-controlling interests | (1,765) | (1,040) |
| Income tax attributable | (5,998) | (1,608) |
| **UNPAT** | **173,758** | **123,047** |

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 can 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.

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 $2.05 trillion at the end of the March 2015 quarter. Over the 12 months to March 2015 there was a 14.3 per cent increase in total superannuation assets and retail providers had a market share of approximately 27%. Our market share of that sub-set, as represented by our platform administration segment's flows to Funds Under Administration, was approximately 7%. There is a high degree of competition between the five fund types and fragmentation and competition among the participants within each fund type.

The IOOF Group operates in the Wealth Management sector. The sector has a substantial and growing pool of funds underpinned by government compulsion and both major political parties have policy positions to lift mandatory contribution rates. 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.

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The IOOF Group's future FUMAS growth will be underpinned by organic and acquisition initiatives. Organic growth will be advanced through:
- increasing brand and product awareness to increase revenue;
- enhancing the adviser and fund member experience through continued technology development and experienced knowledgeable support staff;
- enhanced training initiatives and leading minimum qualification standards to give our staff and advisers every opportunity to optimise the experience of our clients and members;
- 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.

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

On 6 August 2014, SFG Australia Ltd (Shadforth) joined the IOOF Group via a scheme of arrangement. Shadforth was an ASX-listed financial advice and end-to-end wealth management firm. Shadforth provides a full range of wealth management services to high net worth and affluent clients, including strategic financial advice, portfolio administration, portfolio construction and management services, insurance solutions, and stockbroking. The company also provides corporate superannuation services as well as accounting and tax services.

Senior employees of IOOF and Shadforth have overseen a rigorous integration process. The first priority was to identify duplicate and non-essential roles, largely at Shadforth head office, and agree exit dates with the individuals affected. All the staff identified in this manner had departed by 31 May 2015. The consequent reduction in employee numbers, particularly among more highly remunerated managerial staff, has provided the bulk of cost synergy savings to date. We have also identified the highest cost suppliers and either terminated them in favour of in-sourced teams or pre-existing external service provision or had their services re-priced downwards as befits the additional scale arising from the increased size of the newly combined group. As the amount of Shadforth head office activity winds down, more efficient occupancy arrangements will be sought for the remaining staff.

The IOOF Group's UNPAT rose $50.8m or 41.3% to $173.8m for the year ended 30 June 2015 relative to $123.0m in the prior corresponding period. The acquisition of Shadforth is principally responsible for the material increase in our profitability, having contributed $44.8m to overall group UNPAT with no amount attributable to Shadforth in the prior corresponding period.

The Shadforth contribution represents a 21% increase on its pre-acquisition operating performance for the equivalent 11 months in the prior corresponding period. This increase was driven principally by the impact of increased equity market valuations on revenue and the realisation of cost synergies resulting from the integration process noted above.

On 2 June 2015, we announced that we expected to dispose our interests in Perennial Fixed Interest and Perennial Growth Management to the Henderson Group plc (Henderson) for an upfront consideration of $71.6m and a deferred component dependent on future business performance, payable after two and four years. Additionally, two loss making Perennial subsidiaries with sub-scale FUMA were divested in October and November 2014. The sale to Henderson is expected to complete in the first half of next financial year and will be recorded in that period as a result. The other two Perennial subsidiaries, when they operated pre-divestment, were not material in their impact on the IOOF Group's profitability. These disposals allow IOOF to concentrate on its core advice, superannuation, multimanager and trustee business. The proceeds from the sale will potentially fund congruent acquisitions, retire debt or be returned to shareholders depending on opportunities and circumstances upon receipt. Perennial Value Management and its subsidiary entities will remain a strategic portfolio investment for the IOOF Group.

The financial planning business of Credit Union Australia Ltd (CUA FP) was also acquired on 30 June 2014 for $3.3m in cash and has contributed approximately $0.7m to group UNPAT.

Analysis of the IOOF Group's result excludes the material impact of acquiring Shadforth at the beginning of the year. As noted above, there was a $44.8m increment to UNPAT as a result of this acquisition. Where the Shadforth acquisition has had an impact on other parts of the IOOF Group, for example in financing additional borrowings, that will be highlighted in the review. The contribution of CUA FP and divested Perennial businesses has been included in the review and the impact on particular items of revenue or expense highlighted where significant.

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## Gross margin increased $166.7m (increased $19.3m excl Shadforth)

During the current period FUMAS increased 26% to $153.1b. Excluding acquisition and divestment impacts, Funds Under Management, Administration and Advice (FUMA) increased by $8.1b or 9% to a total of $123.6b, which was derived roughly equally between net flows of $4.1b and from equity market driven increases of $4.0b. Platform and advice flows of $3.8b were positively impacted by high rates of satisfaction with service levels and branding initiatives. Investment management outflows of $175m were well below recent outflow trends. The first half of the year was adversely affected by the performance of the disposed Perennial entities. The improvement in the second half reflected a significant boost from new product launches in the last quarter of the period. Growth in funds contributed $28.1m overall to the increase in gross margin.

The contribution from funds growth was partly offset by the impact of product mix on earning rates or margins. Within platform administration, these lower rates principally reflected rising asset values putting a higher proportion of fund members into lower fee scales under a tiered fee structure. The introduction of the government mandated MySuper product has had no adverse impact on margins given the charging of flat management fees which are more reflective of actual costs to service these accounts. Investment management margins also reduced given the divestment of asset classes with higher fee scales. Actively managed equity portfolios generally earn higher management fees than fixed income and multi-manager portfolios. Earning rates in the trustee segment were enhanced by growth in self managed and estate administration funds and a contraction in relatively low fee rate corporate trusteeship.

## Other revenue increased $0.1m (increased $2.3m excl Shadforth)

The IOOF Group's broking businesses, Ord Minnett and Bridges, contributions were broadly equivalent to the prior corresponding period in line with market activity generally. There was a lower contribution from equity accounted investees. This arose principally from higher employment costs and net funds outflow in Perennial associated entities. No further individual other revenue item was significant in terms of movement from prior corresponding period or in its importance to the Group's core businesses.

## Operating expenditure increased $92.5m (increased $5.5m excl Shadforth)

The increase above excludes the impact of expenditure items identified as reversed in calculating UNPAT. The major sources of this increase were labour costs and computer expenditure. These costs increased in line with wage inflation generally, an additional $2.6m of staff costs associated with the acquisition of CUA FP and systems enhancements designed to improve adviser and member services. Conversely, expenditure on administration, marketing, professional fees, travel and occupancy has been reduced by approximately $1.0m as a result of prudent constraint on discretionary activity and continued negotiation of better terms from suppliers.

## Other profit impacts decreased $20.2m (decreased $1.1m excl Shadforth)

Income tax expense was $20.4m higher given acquisitions and increased profitability. In the current year, continuing treasury share purchases were partly offset by assessable income from the striking of options giving rise to a net deductible impact on income tax of $3.4m (2014: $2.8m). In addition, income tax expense benefited by $2.1m from the impacts associated with the disposal of loss making Perennial entities. Net interest expense was $3.5m higher which was almost wholly due to increased debt funding for the Shadforth acquisition. Non-controlling interests (including amounts restated to calculate UNPAT pre-amortisation) moved broadly in line with the profitability of the relevant subsidiaries.

## IOOF Holdings Ltd - Appendix 4E for the year ended 30 June 2015

### Analysis of financial results - Segments (excl Shadforth)

| Platform management and administration | 2015 $'000 | 2014 $'000 | Movement $'000 | Movement % |
|---|---|---|---|---|
| Net Operating Revenue | 222,691 | 209,152 | 13,539 | 6.5% |
| Other revenue (incl equity accounted profits) | (51) | 16 | (67) | LARGE |
| Operating expenditure | (96,113) | (89,634) | (6,479) | (7.2%) |
| Net financing | - | - | - | n/a |
| Net non-cash items | (4,337) | (3,494) | (843) | (24.1%) |
| Income tax expense and non-controlling Interest | (37,865) | (35,643) | (2,222) | (6.2%) |
| Underlying Profit after Tax | **84,325** | **80,397** | **3,928** | **4.9%** |

● Net operating revenue increase was driven primarily by funds growth derived from positive markets, positive flows and continued high client and adviser satisfaction.

● Increased operating expenditure resulted from increased salaries to a broadly unchanged number of staff and IT enhancements to products and services.

| Investment management | 2015 $'000 | 2014 $'000 | Movement $'000 | Movement % |
|---|---|---|---|---|
| Net Operating Revenue | 74,864 | 81,477 | (6,613) | (8.1%) |
| Other revenue (incl equity accounted profits) | 7,093 | 8,187 | (1,094) | (13.4%) |
| Operating expenditure | (29,547) | (35,964) | 6,417 | 17.8% |
| Net financing | 474 | (52) | 526 | LARGE |
| Net non-cash items | (1,144) | (1,046) | (98) | (9.4%) |
| Income tax expense and non-controlling Interest | (14,028) | (15,050) | 1,022 | 6.8% |
| Underlying Profit after Tax | **37,712** | **37,552** | **160** | **0.4%** |

● Net operating revenue decrease was driven primarily by divesting two loss making Perennial boutiques November - December 2014.

● Decreased operating expenditure resulted from a reduced labour force following the divestments noted above.

● Market based funds growth was partially offset by net out flows over the course of the period and reduced earning rates given changes in product mix.

| Financial advice and distribution | 2015 $'000 | 2014 $'000 | Movement $'000 | Movement % |
|---|---|---|---|---|
| Net Operating Revenue | 112,448 | 103,788 | 8,660 | 8.3% |
| Other revenue (incl equity accounted profits) | 4,172 | 3,304 | 868 | 26.3% |
| Operating expenditure | (75,482) | (74,465) | (1,017) | (1.4%) |
| Net financing | 1,550 | 1,845 | (295) | 16.0% |
| Net non-cash items | (3,827) | (5,106) | 1,279 | 25.0% |
| Net non-cash items | (13,788) | (11,358) | (2,430) | (21.4%) |
| Underlying Profit after Tax | **25,073** | **18,008** | **7,065** | **39.2%** |

● Net operating revenue increase reflected funds growth and revenue synergies derived from pricing parity with Shadforth.

● Increased operating expenditure resulted from wage increases in line with inflation.

| Trustee services | 2015 $'000 | 2014 $'000 | Movement $'000 | Movement % |
|---|---|---|---|---|
| Net Operating Revenue | 27,808 | 25,935 | 1,873 | 7.2% |
| Other revenue (incl equity accounted profits) | 2 | - | 2 | n/a |
| Operating expenditure | (17,715) | (16,274) | (1,441) | (8.9%) |
| Net financing | - | - | - | n/a |
| Net non-cash items | (181) | (163) | (18) | (11.0%) |
| Other revenue (incl equity accounted profits) | (2,983) | (2,857) | (126) | (4.4%) |
| Underlying Profit after Tax | **6,931** | **6,641** | **290** | **4.4%** |

● Net operating revenue increase reflected funds growth driven by market movements and increased numbers of estates.

● Increased operating expenditure resulted from increased staffing to facilitate organic growth initiatives and from wage increases in line with inflation.

# IOOF Holdings Ltd - Appendix 4E for the year ended 30 June 2015

## Financial Position

The IOOF Group held cash and cash equivalents of $150.5m at 30 June 2015 (30 June 2014: $109.5m). 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. During the year, an additional $75.4m in debt facilities were drawn to fulfil payment requirements to Shadforth shareholders who opted for cash rather than IOOF scrip under the terms of the scheme of arrangement. The additional debt reduced the funding cost relative to a full scrip for scrip acquisition and enhances the prospective value accretion for remaining shareholders.

The overall debt to equity ratio stood at 13% at 30 June 2015 (30 June 2014: 12%). Net debt, borrowings less cash, stood at 0.2 times underlying earnings before interest, tax, depreciation and amortisation. This compares favourably to a covenant ratio upper limit of 2.5 times. Cash flow forecasting is conducted monthly which indicates that the IOOF Group's debt levels are able to be serviced from current business operations. We also conduct stress testing of lending covenants when assessing acquisition opportunities and monitor adherence to licence conditions monthly.

## Risk

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**

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

**(ii) Competition**

There is substantial competition for the provision of financial services in the markets in which we operate. 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 on the earnings and assets. The Group manages this risk by continuously investing in product design and stakeholder relationships.

**(iii) Information technology**

IOOF relies heavily on information technology. Therefore, any significant or sustained failure in our core technology systems or cyber security could have a materially adverse effect on our operations in the short term, which in turn could undermine longer term confidence and impact our future profitability and financial position.

**(iv) Brands and reputation**

The Group's capacity to attract and retain financial planners, employees, clients and FUMAS depends to a certain extent upon the brands and reputation of its businesses. A significant and prolonged decline in key brand value or group reputation could contribute to lower new business sales, reduced inflows of investment funds and assets, damage to client strategies and may impact adversely upon our future profitability and financial position.

**(v) Provision of investment advice**

IOOF’s financial advisers and authorised representatives will 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 our advisers whilst its potential financial impact is generally mitigated by taking out appropriate insurance cover.

**(vi) Operational risks**

Operational risk is the risk arising from the daily functioning of the Group’s businesses. IOOF 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.

**(vii) 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 Group's counterparties generally do not have an independent credit rating, and we need to assess the credit quality of the debtor taking into account its financial position, past experience with the debtor, and other available credit risk information.

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

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

**(x) 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 our controlled entities are required to hold a number of licences, most notably AFS or RSE licences. If any of those entities fails to comply with the general obligations and conditions of its licence, this could result in the suspension or cancellation of the licence which enables it to operate key parts of its business. 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 we are required to hold a higher capital base.

**(xi) Insurance**
IOOF holds insurance policies, including errors and omissions (professional indemnity) and directors' and officers' insurance, which we regard as commensurate with industry standards, and adequate having regard to our business activities. These policies provide a degree of protection for IOOF's assets, liabilities, officers and employees. However, no assurance can be given that any insurance that IOOF currently maintains will:
• be available in the future on a commercially reasonable basis; or
• provide adequate cover against claims made against or by IOOF, 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).
IOOF 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 IOOF incurs uninsured losses or liabilities, its assets, profits and prospects may be adversely affected.

**(xii) 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 IOOF or its service providers could cause financial or reputation loss.

**(xiii) Dependence on key personnel**
The Group's performance is dependent on the talents and efforts of key personnel. Our 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 advisors could cause material disruption to operations in the short to medium term. While equity incentives of key personnel align their interests with the Group's future performance, they do not provide a guarantee of their continued employment.

**(xiv) Dependence on financial planners**
The success of our advice and platform business is highly dependent on the quality of the relationships we have with our financial planners and the quality of their relationships with their clients. Our ability to retain productive planners is in turn dependent on service levels, technological capability, suitability of product offerings and the quality and relevance of professional training.

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**(xv) Acquisitions**
Acquisition transactions involve inherent risks, including:
• accurately assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquired businesses;
• integration risks including the risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated;
• diversion of management attention from existing business;
• potential loss of key personnel and key clients;
• unanticipated changes in the industry or general economic conditions that affect the assumptions underlying the acquisition; and
• decline in the value of, and unanticipated costs, problems or liabilities associated with, the acquired business.
Any of these risks could result in a failure to realise the benefits anticipated to result from any acquisition of new business and could have a material adverse impact on our financial position.

**(xvi) Dilution**
IOOF'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.

**(xvii) Regulatory and legislative risk and reform**
The financial services sectors in which we operate are subject to extensive legislation, regulation and supervision by a number of regulatory bodies in multiple jurisdictions. The regulatory regimes governing our business activities are complex and subject to change. The impact of future regulatory and legislative change upon IOOF 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.

### 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 appropriate. The current year dividend pay-out ratio is marginally in excess of the upper end of this range. The extent to which the pay-out ratio exceeded 90% reflects the availability of additional cash and profitability generated by Shadforth in the month of July 2014 to which current shareholders are entitled.

Total Shareholder Return (TSR) measures the change in share value over a specified period together with the return by way of dividends received. IOOF's TSR for the twelve months to 30 June 2015 was 13.3%. TSR in the period from the acquisition of Australian Wealth Management on 30 April 2009 to 30 June 2015 was 190% in total and 19% on a compounding annualised basis.

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Profit attributable to owners of the Company ($'000s)(1) | 138,371 | 101,285 | 79,769 | 19,373 | 99,489 |
| Basic EPS (cents per share) | 47.7 | 43.7 | 34.4 | 8.4 | 43.1 |
| Diluted EPS (cents per share) | 47.4 | 43.1 | 34.1 | 8.3 | 42.9 |
| UNPAT ($'000s) | 173,758 | 123,047 | 108,756 | 96,393 | 111,450 |
| UNPAT EPS (cents per share) | 59.9 | 53.1 | 46.9 | 41.6 | 48.3 |
| Dividends declared ($'000s) | 159,070 | 127,260 | 97,485 | 85,854 | 99,511 |
| Dividends per share (cents per share) | 53.0 | 47.5 | 42.0 | 37.0 | 43.0 |
| Opening share price | $ 8.40 | $ 7.36 | $ 6.05 | $ 6.60 | $ 5.99 |
| Closing share price at 30 June | $ 8.99 | $ 8.40 | $ 7.36 | $ 6.05 | $ 6.60 |
| Return on equity (non-statutory measure)(2) | 13.4% | 15.0% | 13.2% | 11.1% | 12.9% |
| Ratio to long-term bond rate | 3.9 times | 4.0 times | 3.3 times | 3.7 times | 2.5 times |

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

(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 2015 and prior years were fully franked.

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## 3. Net tangible assets

| | 30 June 2015 (cents) | 30 June 2014 (cents) |
|---|---|---|
| Net tangible assets/(liabilities) per share * | (12.7) | 6.2 |

* Net tangible assets equate to net assets excluding goodwill, intangible assets and deferred tax liabilities arising from acquisitions.

## 4. Entities over which control has been gained or lost

Control over DD Charlestown Pty Ltd was lost during the period. The Group held 100% of the shares on issue as at 30 June 2014. Due to the disposal of 70% of shares held, this effective ownership interest has reduced to 30% as at 30 June 2015.

## 5. Dividends

| | Amount $'000 | Cents per share | % Franked |
|---|---|---|---|
| Final dividend for the year ended 30 June 2014 | 75,033 | 25.0 | 100% |
| Interim dividend for the year ended 30 June 2015 | 75,033 | 25.0 | 100% |
| Record date for determining entitlements to dividends | 24 September 2015 | | |
| Date for payment of final dividend | 15 October 2015 | | |

## 6. Dividend reinvestment plans

The Company does not operate a dividend reinvestment plan.

## 7. Details of associates and joint venture entities

| | Ownership interest held at the end of period | | Contribution to net profit | |
|---|---|---|---|---|
| | Current period % | Previous corresponding period % | Current period $'000 | Previous corresponding period $'000 |
| **Equity accounted associates** | | | | |
| Perennial Value Management Ltd * | 52.4 | 52.4 | 5,070 | 6,150 |
| Other associates | | | 1,407 | 1,314 |
| | | | 6,477 | 7,464 |

* Due to voting rights associated with different classes of shares in Perennial Value Management Ltd, 52.4% ownership interest does not result in control as defined by AASB 10 *Consolidated Financial Statements.*

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## 8. Earnings per share

| | 30 June 2015 (cents) | 30 June 2014 (cents) |
|---|---|---|
| Basic earnings per share | 47.7 | 43.7 |
| Diluted earnings per share | 47.4 | 43.1 |
| UNPAT earnings per share | 59.9 | 53.1 |

| **Weighted average number of ordinary shares** | 30 June 2015 No. '000 | 30 June 2014 No. '000 |
|---|---|---|
| Basic and UNPAT earnings per share | 289,896 | 231,637 |
| UNPAT earnings per share | 292,104 | 234,774 |

At 30 June 2015, nil options were excluded from the diluted weighted average number of ordinary shares calculation as all are dilutive.

## 9. Other

The information contained in this Appendix 4E is based on the 30 June 2015 Annual Financial Report of IOOF Holdings Ltd and its subsidiaries, which have been audited by KPMG. The financial statements are not subject to qualification. A copy of the financial report is attached.

Further information regarding the IOOF Group and its business activities can be obtained at www.ioof.com.au

Dr Roger Sexton AM
**Chairman**
Melbourne
28 August 2015

# IOOF Holdings Ltd

ABN 49 100 103 722

30 June 2015

Annual Financial Report

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# 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 2015 and the auditor's report thereon.

# Directors

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

| Name, qualifications and independence status | Experience, special responsibilities and other directorships |
|---|---|
| **Dr Roger Sexton AM**<br>B.Ec. (Hons), M.Ec. Ph.D (Econ), FAICD, FAIM. SFFin, C. P Mgr, C.Univ<br>Chairman<br>Independent Non-Executive Director<br>Director since 2002 - appointed Chairman 2012. | More than 30 years experience in senior management in finance and the investment banking industry. A specialist in the areas of corporate reconstruction, mergers and acquisitions, and asset management. Chairman of Beston Global Food Company Ltd. Formerly a Director of TWT Group Ltd from 2008 to 2014 and a former Member of the Australian Accounting Standards Board.<br>Chairman of the Remuneration and Nominations Committee, Perennial Investment Partners Ltd and member of the Audit Committee. |
| **Mr Christopher Kelaher**<br>B.Ec, LL.B, F Fin.<br>Managing Director<br>Director since 2009 | Managing Director since 2009, Mr Kelaher has been instrumental in executing multiple mergers and acquisitions that have added materially to the IOOF Group and its antecedent businesses. Extensive capital markets experience from his time with Citicorp where he assisted in the establishment of Citicorp Investment Management and Global Asset Management business in Australia and New Zealand. Holds a Bachelor of Economics and a Bachelor of Laws from Monash University and is a Fellow of the Financial Services Institute of Australia. |
| **Mr Allan Griffiths**<br>B.Bus, DipLI.<br>Independent Non-Executive Director<br>Appointed 14 July 2014 | More than 30 years experience in the financial services industry with a deep understanding of the insurance sector. Mr Griffiths has held a number of executive positions within the financial services industry most notably as long term Chief Executive Officer AVIVA Australia and later, Managing Director South East Asia, AVIVA Asia Pte Ltd. Prior to joining Aviva, Mr Griffiths held executive positions with Norwich Union and Colonial Ltd. Chairman of the Risk and Compliance Committee and a member of the Audit Committee. |
| **Mr Ian Griffiths**<br>C.Acc, DipAll, FAICD.<br>Independent Non-Executive Director<br>Director since 2009 | Over 40 years' experience in the financial services and superannuation industry. Mr Griffiths' superannuation administration and business consulting career commenced with AMP. Extensive industry knowledge and skills particularly in operations, mergers and acquisitions. Member of the Remuneration and Nominations and Audit Committees. |
| **Ms Jane Harvey**<br>B.Com, MBA, FCA, FAICD.<br>Independent Non-Executive Director<br>Director since 2005 | Ms Harvey has more than 30 years' experience in the financial and advisory services industry, with previous positions in both business advisory and risk management areas including a former role as Partner at PricewaterhouseCoopers and former Director of David Jones Limited from 2012 to 2014. Ms Harvey is also a Director of UGL Limited and Duet Finance Limited, a stapled entity within the ASX Listed DUET Group. Chairperson of the Audit Committee and a member of the Risk and Compliance Committee. |
| **Mr George Venardos**<br>BComm, FCA, FGIA, FAICD, FTIA.<br>Independent Non-Executive Director<br>Director since 2009 | An experienced Director with broad listed company experience across a range of different industries, including financial services, affordable leisure, oil and gas services and technology development. Over 30 years' experience in executive roles in financial services, insurance and funds management including 10 years as CFO of Insurance Australia Group and Chairman of the Insurance Council of Australia Finance and Accounting Committee. Other ASX listed directorships include Bluglass Ltd since 2008 and Ardent Leisure Group since 2009. Former Director of Miclyn Express Offshore Ltd from 2010 to 2013. Member of the Risk and Compliance Committee and Remuneration and Nominations Committee. |

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

# Principal activities

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

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

# 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 (2014: $nil), but results in offsetting pre-tax profit and income tax amounts not available to shareholders.

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

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

| | Note | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| **Profit attributable to Owners of the Company** | | **138,371** | **101,285** |
| Underlying net profit after tax pre-amortisation (UNPAT) adjustments: | | | |
| Reverse the impact of: | | | |
| Amortisation of intangible assets | 2-4 | 38,612 | 24,270 |
| Acquisition and divestment transaction costs | 2-4 | 6,381 | 1,789 |
| Termination and retention incentive payments | 2-4 | 5,948 | 4,880 |
| Recognition of Shadforth onerous lease contracts | 2-4 | 2,051 | - |
| Impairment of Plan B brand name | 2-4 | 1,400 | - |
| Gain on disposal of subsidiaries and associates | 2-3 | (1,565) | - |
| Equity Trustees Ltd acquisition and divestment (inc dividends) | | - | (1,015) |
| Unwind of deferred tax liability recorded on intangible assets | | (9,677) | (5,514) |
| Reinstatement of Perennial non-controlling interests | | (1,765) | (1,040) |
| Income tax attributable | | (5,998) | (1,608) |
| **UNPAT** | | **173,758** | **123,047** |

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)

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 $2.05 trillion at the end of the March 2015 quarter. Over the 12 months to March 2015 there was a 14.3 per cent increase in total superannuation assets and retail providers had a market share of approximately 27%. Our market share of that sub-set, as represented by our platform administration segment's flows to Funds Under Administration, was approximately 7%. There is a high degree of competition between the five fund types and fragmentation and competition among the participants within each fund type.

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

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

- increasing brand and product awareness to increase revenue;
- enhancing the adviser and fund member experience through continued technology development and experienced knowledgeable support staff;
- enhanced training initiatives and leading minimum qualification standards to give our staff and advisers every opportunity to optimise the experience of our clients and members;
- 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.

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

On 6 August 2014, SFG Australia Ltd (Shadforth) joined the IOOF Group via a scheme of arrangement. Shadforth was an ASX-listed financial advice and end-to-end wealth management firm. Shadforth provides a full range of wealth management services to high net worth and affluent clients, including strategic financial advice, portfolio administration, portfolio construction and management services, insurance solutions, and stockbroking. The company also provides corporate superannuation services as well as accounting and tax services.

Senior employees of IOOF and Shadforth have overseen a rigorous integration process. The first priority was to identify duplicate and non-essential roles, largely at Shadforth head office, and agree exit dates with the individuals affected. All the staff identified in this manner had departed by 31 May 2015. The consequent reduction in employee numbers, particularly among more highly remunerated managerial staff, has provided the bulk of cost synergy savings to date. We have also identified the highest cost suppliers and either terminated them in favour of in-sourced teams or pre-existing external service provision or had their services re-priced downwards as befits the additional scale arising from the increased size of the newly combined group. As the amount of Shadforth head office activity winds down, more efficient occupancy arrangements will be sought for the remaining staff.

The IOOF Group's UNPAT rose $50.8m or 41.3% to $173.8m for the year ended 30 June 2015 relative to $123.0m in the prior corresponding period. The acquisition of Shadforth is principally responsible for the material increase in our profitability, having contributed $44.8m to overall group UNPAT with no amount attributable to Shadforth in the prior corresponding period.

The Shadforth contribution represents a 21% increase on its pre-acquisition operating performance for the equivalent 11 months in the prior corresponding period. This increase was driven principally by the impact of increased equity market valuations on revenue and the realisation of cost synergies resulting from the integration process noted above.

# Operating and financial review (continued)

On 2 June 2015, we announced that we expected to dispose our interests in Perennial Fixed Interest and Perennial Growth Management to the Henderson Group plc (Henderson) for an upfront consideration of $71.6m and a deferred component dependent on future business performance, payable after two and four years. Additionally, two loss making Perennial subsidiaries with sub-scale FUMA were divested in October and November 2014. The sale to Henderson is expected to complete in the first half of next financial year and will be recorded in that period as a result. The other two Perennial subsidiaries, when they operated pre-divestment, were not material in their impact on the IOOF Group's profitability. These disposals allow IOOF to concentrate on its core advice, superannuation, multimanager and trustee business. The proceeds from the sale will potentially fund congruent acquisitions, retire debt or be returned to shareholders depending on opportunities and circumstances upon receipt. Perennial Value Management and its subsidiary entities will remain a strategic portfolio investment for the IOOF Group.

The financial planning business of Credit Union Australia Ltd (CUA FP) was also acquired on 30 June 2014 for $3.3m in cash and has contributed approximately $0.7m to group UNPAT.

## Analysis of financial results - Group

Analysis of the IOOF Group's result excludes the material impact of acquiring Shadforth at the beginning of the year. As noted above, there was a $44.8m increment to UNPAT as a result of this acquisition. Where the Shadforth acquisition has had an impact on other parts of the IOOF Group, for example in financing additional borrowings, that will be highlighted in the review. The contribution of CUA FP and divested Perennial businesses has been included in the review and the impact on particular items of revenue or expense highlighted where significant.

## Gross margin increased $166.7m (increased $19.3m excl Shadforth)

During the current period FUMAS increased 26% to $153.1b. Excluding acquisition and divestment impacts, Funds Under Management, Administration and Advice (FUMA) increased by $8.1b or 9% to a total of $123.6b, which was derived roughly equally between net flows of $4.1b and from equity market driven increases of $4.0b. Platform and advice flows of $3.8b were positively impacted by high rates of satisfaction with service levels and branding initiatives. Investment management outflows of $175m were well below recent outflow trends. The first half of the year was adversely affected by the performance of the disposed Perennial entities. The improvement in the second half reflected a significant boost from new product launches in the last quarter of the period. Growth in funds contributed $28.1m overall to the increase in gross margin.

The contribution from funds growth was partly offset by the impact of product mix on earning rates or margins. Within platform administration, these lower rates principally reflected rising asset values putting a higher proportion of fund members into lower fee scales under a tiered fee structure. The introduction of the government mandated MySuper product has had no adverse impact on margins given the charging of flat management fees which are more reflective of actual costs to service these accounts. Investment management margins also reduced given the divestment of asset classes with higher fee scales. Actively managed equity portfolios generally earn higher management fees than fixed income and multi-manager portfolios. Earning rates in the trustee segment were enhanced by growth in self managed and estate administration funds and a contraction in relatively low fee rate corporate trusteeship.

## Other revenue increased $0.1m (increased $2.3m excl Shadforth)

The IOOF Group's broking businesses, Ord Minnett and Bridges, contributions were broadly equivalent to the prior corresponding period in line with market activity generally. There was a lower contribution from equity accounted investees. This arose principally from higher employment costs and net funds outflow in Perennial associated entities. No further individual other revenue item was significant in terms of movement from prior corresponding period or in its importance to the Group's core businesses.

## Operating expenditure increased $92.5m (increased $5.5m excl Shadforth)

The increase above excludes the impact of expenditure items identified as reversed in calculating UNPAT. The major sources of this increase were labour costs and computer expenditure. These costs increased in line with wage inflation generally, an additional $2.6m of staff costs associated with the acquisition of CUA FP and systems enhancements designed to improve adviser and member services. Conversely, expenditure on administration, marketing, professional fees, travel and occupancy has been reduced by approximately $1.0m as a result of prudent constraint on discretionary activity and continued negotiation of better terms from suppliers.

# Operating and financial review (continued)

### Other profit impacts decreased $20.2m (decreased $1.1m excl Shadforth)

Income tax expense was $20.4m higher given acquisitions and increased profitability. In the current year, continuing treasury share purchases were partly offset by assessable income from the striking of options giving rise to a net deductible impact on income tax of $3.4m (2014: $2.8m). In addition, income tax expense benefited by $2.1m from the impacts associated with the disposal of loss making Perennial entities. Net interest expense was $3.5m higher which was almost wholly due to increased debt funding for the Shadforth acquisition. Non-controlling interests (including amounts restated to calculate UNPAT pre-amortisation) moved broadly in line with the profitability of the relevant subsidiaries.

### Analysis of financial results - Segments (excl Shadforth)

| | 2015 | 2014 | Movement | |
|---|---|---|---|---|
| **Platform management and administration** | **$'000** | **$'000** | **$'000** | **%** |
| Net Operating Revenue | 222,691 | 209,152 | 13,539 | 6.5% |
| Other revenue (incl equity accounted profits) | (51) | 16 | (67) | LARGE |
| Operating expenditure | (96,113) | (89,634) | (6,479) | (7.2%) |
| Net financing | - | - | - | n/a |
| Net non-cash items | (4,337) | (3,494) | (843) | (24.1%) |
| Income tax expense and non-controlling Interest | (37,865) | (35,643) | (2,222) | (6.2%) |
| Underlying Profit after Tax | **84,325** | **80,397** | **3,928** | **4.9%** |

- Net operating revenue increase was driven primarily by funds growth derived from positive markets, positive flows and continued high client and adviser satisfaction.
- Increased operating expenditure resulted from increased salaries to a broadly unchanged number of staff and IT enhancements to products and services.

| | 2015 | 2014 | Movement | |
|---|---|---|---|---|
| **Investment management** | **$'000** | **$'000** | **$'000** | **%** |
| Net Operating Revenue | 74,864 | 81,477 | (6,613) | (8.1%) |
| Other revenue (incl equity accounted profits) | 7,093 | 8,187 | (1,094) | (13.4%) |
| Operating expenditure | (29,547) | (35,964) | 6,417 | 17.8% |
| Net financing | 474 | (52) | 526 | LARGE |
| Net non-cash items | (1,144) | (1,046) | (98) | (9.4%) |
| Income tax expense and non-controlling Interest | (14,028) | (15,050) | 1,022 | 6.8% |
| Underlying Profit after Tax | **37,712** | **37,552** | **160** | **0.4%** |

- Net operating revenue decrease was driven primarily by divesting two loss making Perennial boutiques November - December 2014.
- Decreased operating expenditure resulted from a reduced labour force following the divestments noted above.
- Market based funds growth was partially offset by net out flows over the course of the period and reduced earning rates given changes in product mix.

| | 2015 | 2014 | Movement | |
|---|---|---|---|---|
| **Financial advice and distribution** | **$'000** | **$'000** | **$'000** | **%** |
| Net Operating Revenue | 112,448 | 103,788 | 8,660 | 8.3% |
| Other revenue (incl equity accounted profits) | 4,172 | 3,304 | 868 | 26.3% |
| Operating expenditure | (75,482) | (74,465) | (1,017) | (1.4%) |
| Net financing | 1,550 | 1,845 | (295) | 16.0% |
| Net non-cash items | (3,827) | (5,106) | 1,279 | 25.0% |
| Income tax expense and non-controlling Interest | (13,788) | (11,358) | (2,430) | (21.4%) |
| Underlying Profit after Tax | **25,073** | **18,008** | **7,065** | **39.2%** |

- Net operating revenue increase reflected funds growth and revenue synergies derived from pricing parity with Shadforth.
- Increased operating expenditure resulted from wage increases in line with inflation.

# Operating and financial review (continued)

| Trustee services | 2015 $'000 | 2014 $'000 | Movement $'000 | Movement % |
|---|---|---|---|---|
| Net Operating Revenue | 27,808 | 25,935 | 1,873 | 7.2% |
| Other revenue (incl equity accounted profits) | 2 | - | 2 | n/a |
| Operating expenditure | (17,715) | (16,274) | (1,441) | (8.9%) |
| Net financing | - | - | - | n/a |
| Net non-cash items | (181) | (163) | (18) | (11.0%) |
| Income tax expense and non-controlling Interest | (2,983) | (2,857) | (126) | (4.4%) |
| Underlying Profit after Tax | **6,931** | **6,641** | **290** | **4.4%** |

- Net operating revenue increase reflected funds growth driven by market movements and increased numbers of estates.
- Increased operating expenditure resulted from increased staffing to facilitate organic growth initiatives and from wage increases in line with inflation.

## Financial Position

The IOOF Group held cash and cash equivalents of $150.5m at 30 June 2015 (30 June 2014: $109.5m). 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. During the year, an additional $75.4m in debt facilities were drawn to fulfil payment requirements to Shadforth shareholders who opted for cash rather than IOOF scrip under the terms of the scheme of arrangement. The additional debt reduced the funding cost relative to a full scrip for scrip acquisition and enhances the prospective value accretion for remaining shareholders.

The overall debt to equity ratio stood at 13% at 30 June 2015 (30 June 2014: 12%). Net debt, borrowings less cash, stood at 0.2 times underlying earnings before interest, tax, depreciation and amortisation. This compares favourably to a covenant ratio upper limit of 2.5 times. Cash flow forecasting is conducted monthly which indicates that the IOOF Group's debt levels are able to be serviced from current business operations. We also conduct stress testing of lending covenants when assessing acquisition opportunities and monitor adherence to licence conditions monthly.

## Risk

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**

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

**(ii) Competition**

There is substantial competition for the provision of financial services in the markets in which we operate. 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 on the earnings and assets. The Group manages this risk by continuously investing in product design and stakeholder relationships.

**(iii) Information technology**

IOOF relies heavily on information technology. Therefore, any significant or sustained failure in our core technology systems or cyber security could have a materially adverse effect on our operations in the short term, which in turn could undermine longer term confidence and impact our future profitability and financial position.

**(iv) Brands and reputation**

The Group's capacity to attract and retain financial planners, employees, clients and FUMAS depends to a certain extent upon the brands and reputation of its businesses. A significant and prolonged decline in key brand value or group reputation could contribute to lower new business sales, reduced inflows of investment funds and assets, damage to client strategies and may impact adversely upon our future profitability and financial position.

# Operating and financial review (continued)

## Risk (continued)

**(v) Provision of investment advice**
IOOF's financial advisers and authorised representatives will 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 our advisers whilst its potential financial impact is generally mitigated by taking out appropriate insurance cover.

**(vi) Operational risks**
Operational risk is the risk arising from the daily functioning of the Group's businesses. IOOF 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.

**(vii) 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 Group's counterparties generally do not have an independent credit rating, and we need to assess the credit quality of the debtor taking into account its financial position, past experience with the debtor, and other available credit risk information.

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

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

**(x) 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 our controlled entities are required to hold a number of licences, most notably AFS or RSE licences. If any of those entities fails to comply with the general obligations and conditions of its licence, this could result in the suspension or cancellation of the licence which enables it to operate key parts of its business. 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 we are required to hold a higher capital base.

**(xi) Insurance**
IOOF holds insurance policies, including errors and omissions (professional indemnity) and directors' and officers' insurance, which we regard as commensurate with industry standards, and adequate having regard to our business activities. These policies provide a degree of protection for IOOF's assets, liabilities, officers and employees. However, no assurance can be given that any insurance that IOOF currently maintains will:
- be available in the future on a commercially reasonable basis; or
- provide adequate cover against claims made against or by IOOF, 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).

IOOF 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 IOOF incurs uninsured losses or liabilities, its assets, profits and prospects may be adversely affected.

**(xii) 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 IOOF or its service providers could cause financial or reputation loss.

# Operating and financial review (continued)

## Risk (continued)

**(xiii) Dependence on key personnel**
The Group’s performance is dependent on the talents and efforts of key personnel. Our 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 advisors could cause material disruption to operations in the short to medium term. While equity incentives of key personnel align their interests with the Group’s future performance, they do not provide a guarantee of their continued employment.

**(xiv) Dependence on financial planners**
The success of our advice and platform business is highly dependent on the quality of the relationships we have with our financial planners and the quality of their relationships with their clients. Our ability to retain productive planners is in turn dependent on service levels, technological capability, suitability of product offerings and the quality and relevance of professional training.

**(xv) Acquisitions**
Acquisition transactions involve inherent risks, including:
• accurately assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquired businesses;
• integration risks including the risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated;
• diversion of management attention from existing business;
• potential loss of key personnel and key clients;
• unanticipated changes in the industry or general economic conditions that affect the assumptions underlying the acquisition; and
• decline in the value of, and unanticipated costs, problems or liabilities associated with, the acquired business.
Any of these risks could result in a failure to realise the benefits anticipated to result from any acquisition of new business and could have a material adverse impact on our financial position.

**(xvi) Dilution**
IOOF'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.

**(xvii) Regulatory and legislative risk and reform**
The financial services sectors in which we operate are subject to extensive legislation, regulation and supervision by a number of regulatory bodies in multiple jurisdictions. The regulatory regimes governing our business activities are complex and subject to change. The impact of future regulatory and legislative change upon IOOF 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.

# Operating and financial review (continued)

## 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 appropriate. The current year dividend pay-out ratio is marginally in excess of the upper end of this range. The extent to which the pay-out ratio exceeded 90% reflects the availability of additional cash and profitability generated by Shadforth in the month of July 2014 to which current shareholders are entitled.

Total Shareholder Return (TSR) measures the change in share value over a specified period together with the return by way of dividends received. IOOF's TSR for the twelve months to 30 June 2015 was 13.3%. TSR in the period from the acquisition of Australian Wealth Management on 30 April 2009 to 30 June 2015 was 190% in total and 19% on a compounding annualised basis.

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Profit attributable to owners of the Company ($'000s) (1) | 138,371 | 101,285 | 79,769 | 19,373 | 99,489 |
| Basic EPS (cents per share) | 47.7 | 43.7 | 34.4 | 8.4 | 43.1 |
| Diluted EPS (cents per share) | 47.4 | 43.1 | 34.1 | 8.3 | 42.9 |
| UNPAT ($'000s) | 173,758 | 123,047 | 108,756 | 96,393 | 111,450 |
| UNPAT EPS (cents per share) | 59.9 | 53.1 | 46.9 | 41.6 | 48.3 |
| Dividends declared ($'000s) | 159,070 | 127,260 | 97,485 | 85,854 | 99,511 |
| Dividends per share (cents per share) | 53.0 | 47.5 | 42.0 | 37.0 | 43.0 |
| Opening share price | $ 8.40 | $ 7.36 | $ 6.05 | $ 6.60 | $ 5.99 |
| Closing share price at 30 June | $ 8.99 | $ 8.40 | $ 7.36 | $ 6.05 | $ 6.60 |
| Return on equity (non-statutory measure) (2) | 13.4% | 15.0% | 13.2% | 11.1% | 12.9% |
| Ratio to long-term bond rate | 3.9 times | 4.0 times | 3.3 times | 3.7 times | 2.5 times |

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

(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 2015 and prior years were fully franked.

## 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. The amortisation of software development costs is not reversed in this manner however.

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

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

**Recognition of Shadforth onerous lease 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.

**Impairment of Plan B brand name:** Non-cash entry which reflects a one-off decision to cease use of the Plan B brand given the cost and promotional advantages afforded by the acquisition of Shadforth and its brand. The entry is not related to the conventional recurring operations of the IOOF Group.

# Operating and financial review (continued)

## UNPAT adjustments (continued)

**Gain on disposal of subsidiaries and associates:** During the year, the IOOF Group divested two loss making Perennial businesses, including certain non-core and sub-scale trusts. A non-core Advice subsidiary and associate were also divested.

**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 newly legislated 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 disposed of at their accounting values. This DTL reduces in future periods at 30% of the amortisation applicable to those assets which have different accounting values and tax cost bases. The recognition of DTL and subsequent period reductions are not reflective of conventional recurring operations and are regarded as highly unlikely to be realised due to the IOOF Group's intention to hold these assets long term.

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

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

# Dividends

In respect of the financial year ended 30 June 2015, the Directors declared the payment of a final dividend of 28.0 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares to be paid on 15 October 2015. This dividend will be paid to all shareholders recorded on the Register of Members on 24 September 2015.

The Directors declared the payment of an interim dividend of 25.0 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares paid on 10 April 2015.

In respect of the financial year ended 30 June 2014, a final dividend of 25.0 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 15 October 2014.

# 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 28.0 cents per ordinary share franked to 100% based on tax paid at 30%, to be paid on 15 October 2015.

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 2015 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 35 of the annual financial report and forms part of the Directors' Report for the year ended 30 June 2015.

# Company secretary

Ms Danielle Corcoran was appointed to the position of Company Secretary in June 2009. Ms Corcoran previously held the position of Company Secretary of Australian Wealth Management Ltd prior to its acquisition by the Company and prior to that held similar positions with other listed companies. Ms Corcoran is also General Manager Human Resources for the IOOF Group.

# Directors' meetings

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

| Director | Directors Meetings | | Committee Meetings | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Remuneration & Nominations | | Audit Committee | | Risk and Compliance Committee | |
| | Meetings attended | Meetings held | Meetings attended | Meetings held | Meetings attended | Meetings held | Meetings attended | Meetings held |
| R Sexton | 11 | 11 | 4 | 4 | 7 | 7 | n/a | n/a |
| I Griffiths | 10 | 11 | 3 | 4 | 7 | 7 | n/a | n/a |
| A Griffiths | 11 | 11 | n/a | n/a | 5 | 7 | 4 | 5 |
| J Harvey | 11 | 11 | n/a | n/a | 7 | 7 | 5 | 5 |
| C Kelaher | 11 | 11 | n/a | n/a | n/a | n/a | n/a | n/a |
| G Venardos | 10 | 11 | 3 | 4 | n/a | n/a | 5 | 5 |

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 period, 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 option, deferral arrangements and performance rights are:

| Options | | |
|---|---|---|
| Expiry date | Number of options | Exercise price per option $ |
| 4 May 16 | 30,000 | 7.01 |
| | **30,000** | |

| Performance rights | |
|---|---|
| Vesting date | Number of rights |
| 23 Nov 15 | 34,425 |
| 30 Nov 15 | 642,815 |
| 30 Jun 16 | 250,000 |
| 1 Jul 16 | 32,175 |
| 30 Jun 17 | 275,000 |
| | **1,234,415** |

| Deferred shares | |
|---|---|
| Vesting date | Number of shares |
| 30 Jul 16 | 26,984 |
| | **26,984** |

Shares allocated on vesting will rank equally with all other ordinary shares on issue.
All options expire on the earlier of their expiry date or within 90 days of the cessation of the employee's employment where performance hurdles have vested. In addition, the ability to exercise options is conditional on service and performance hurdles as detailed in section 4 of the Remuneration Report.
These options and 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.

# Indemnification and insurance (continued)

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 Class Order 98/100, dated 10 July 1998, and in accordance with that Class Order 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 ($1,035,102), by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

- 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

# Remuneration Report (continued)

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.

## 1. Overview

The IOOF Group's remuneration strategy is to achieve an appropriate linkage and balance between executive remuneration practices and the creation of shareholder value. An equally important responsibility is to ensure that the rationale for the policies and practices underlying executive remuneration are properly explained to, and understood by the IOOF Group shareholders and relevant stakeholders.

The key principles of the IOOF Group's remuneration policy remain unchanged from that of last year. These principles are designed to achieve a performance culture across the IOOF Group, subject to the constraints embodied in the IOOF Group's risk appetite framework, by aligning a large component of executive remuneration to the creation of value for our shareholders whilst ensuring we minimise risk to our clients.

The Board of Directors oversees the IOOF Group's remuneration policies on recommendations from the Remuneration and Nominations Committee (the "Remuneration Committee"). The Board and the Remuneration Committee reviews the remuneration policies of the IOOF Group each year to ensure that it supports the business strategy.

A number of amendments have been made to the policies over the past few years to ensure that the policies have remained aligned with shifts in the IOOF Group's business strategy and focus.

During the past twelve months, the Remuneration Committee has also reviewed various changes in policies adopted by other public companies in order to assess their relevance for a company of the nature of IOOF. The Remuneration Committee has reaffirmed that the policies now in application at IOOF are relevant and appropriate for the Group, given the nature of its business, activity mix, scale and focus.

The IOOF Group aims to ensure that its remuneration policies and practices are consistent with market practice in terms of:

- attracting, motivating and retaining high quality people who will contribute to the IOOF Group's growth and success;
- aligning the rewards for performance by Key Management Personnel (KMP) with the returns achieved by shareholders and clients;
- achieving the desired culture; and
- ensuring risk management and meeting the IOOF Group's risk appetite is a key factor when making remuneration decisions.

The remuneration arrangements for Executive KMP comprise three key components:

- a base package which is a fixed amount and is generally increased on an annual basis according to cost of living increases (CPI), market movements or changes in the scope of the position. The base amount will generally not be reduced except in extreme circumstances deemed appropriate by the Board (e.g. under performance or significant adverse changes impacting on the IOOF Group);
- a short term incentive (STI) amount in which a factor includes growth in shareholder value as measured by the returns received by shareholders from dividends and the growth in the share price; and
- a long term incentive (LTI) which is intended to provide an incentive to the Executive KMP to remain with the IOOF Group to enhance the sustainable performance of the IOOF Group over the long term.

The values of LTIs disclosed in the Remuneration Report are the accounting value of the grants of deferred shares, options and performance rights. The benefits derived by Executive KMP from LTIs vary in line with the movements in the Company's share price.

### 1.1 Managing Director remuneration outcomes for 2015

Performance outcomes for 2015 for the Managing Director were as follows:

- the maximum opportunity for STI in 2015 was 100% of base salary. Assessment against Key Performance Indicators (KPIs) resulted in awarding 62% of the Managing Director's base salary. Two thirds of this payment was paid in cash ($491,115) and one third in 26,984 deferred shares;
- the Committee performed a look-back for the 36,217 deferred shares awarded in July 2014 and determined it is still appropriate to award the deferred shares. These were released to Mr Kelaher in August 2015;
- the performance rights awarded in 2013 were subject to performance testing during 2015. The Group's TSR of 85.3% over the three year performance period placed it at the 76th percentile relative to the ASX 200 as a comparator group. This percentile ranking means that 100%, or 250,000 of the 250,000 performance rights awarded to Mr Kelaher, have vested; and
- 75,000 performance rights were granted at the November 2014 Annual General Meeting, subject to performance hurdles for the period 1 July 2014 to 30 June 2017 to be assessed in July 2017.

# Remuneration Report (continued)

**1.2 Non-Executive Directors**

The total fees paid to the Chairman and the Non-Executive Directors on the Board (including fees paid for their involvement on Board committees) are kept within the total amount approved by shareholders. The Board determined that no increase would be made to the total fees payable to Non-Executive Directors in 2015 other than CPI adjustments. In order to maintain independence, Non-Executive Directors do not receive performance payments.

## 2. Employee Culture (unaudited)

With a growing business who's strategy is based equally on organic and acquisition led growth, the incorporation of new entities has further enhanced the Group's understanding of the critical importance placed on its people.

With a large and geographically diverse employee base, clear communication and transparency, providing clarity on employee role purpose and overall group direction is paramount to success. With mutual respect and professionalism at the heart of how we work, the Board and leadership group encourage collaboration between divisions and teams, to share projects and experiences whilst providing support and assistance to one another.

Whilst striving to be a values driven business, the IOOF Group Values reflect the core behaviours the business recognises as key to its success. Encouraged and shared through the business' induction, orientation program and yearly performance management processes, the values are embedded as core to how we work.

Our culture is reflected through six key Values and their underpinning behaviours, these are:

**Integrity:** Because we do as we say and adhere to our moral and ethical beliefs. True to label, living by the values, honesty and transparency, doing the right thing.

**Commitment:** Because we aspire to be the best in chosen markets. Raising the bar, performance benchmarking, measurement, quality, knowledge and capability.

**Innovation:** Because we continuously seek better ways and continuous improvement.

**Empathy:** Because we care. Putting ourselves in others' shoes, consideration, understanding, listening.

**Recognition:** Because we value achievement. Acknowledging, rewarding, communicating, encouraging, constructive feedback.

**Efficiency:** Because we want to be easy to deal with. Clear processes, differentiated by simplicity, responsive.

Investing in our employees is crucial to attracting and retaining the right talent and at the same time enhancing capability to continue to provide the business with a competitive edge. IOOF provides a vast number of initiatives incorporated into its human resources program, including career and succession planning, extensive tailored learning and development opportunities and commitment to financial study support. These programs not only provide scope to extend skills but remain critical to succeed in a complex and diverse industry landscape.

IOOF believes that in order to best leverage the full potential of its people it requires a well-rounded workforce of diverse individuals. Enabling innovation and broader thinking, IOOF includes diversity as critical to its commercial success. The Group recognises that building a diverse, inclusive workforce increases the possibility to recruit, retain and develop the best talent whilst forging a stronger understanding and connection with its clients and broader communities.

Upon being surveyed in August 2014, which represented 45% of employees across all states nationally, IOOF has over 54 different cultural backgrounds, with a workforce broadly and evenly split across age and gender demographics, family responsibilities, marital status, education level, life experience and socio-economic backgrounds.

IOOF continues to look for innovative ways to address Diversity enhancement and more specifically Gender equality, with the purpose of engaging both genders in the workplace without isolation. The business has fostered awareness through the continued reinforcement and momentum of the IOOF Women's committee and their active nature and representation across the country.

# Remuneration Report (continued)

## 2. Employee Culture (unaudited) (continued)

Initiatives which have continued and have been endorsed to continue for the next 12 months include:

- Networking luncheons hosted in each state across the country, mix of women and men across the business;
- 2 day dedicated workshop for 40 Women's committee members held in May dedicated to developing strategic direction for gender equality initiatives for a 12 month period;
- Education across all levels on work/life choices, understanding what flexibility is already available and relevant to different individual needs;
- Mentoring program for self-nominated women in the group who pick from a list of internal group mentors; and
- Leadership capability program, building confidence and empowerment within and creating forums for discussion with both senior genders on their journey within their careers.

Diversity and Equality will continue to be monitored and measured through the bi annual surveys, and plans to ensure the application of initiatives are yielding a positive return.

We continue to allow those businesses which are not wholly owned, such as Ord Minnett Ltd and the subsidiaries of Perennial Investment Partner to develop an employee culture more specifically aligned to their industry sectors and shared ownership models while ensuring that the overall value framework in this companies are kept consistent with that used within the broader IOOF Group.

## 3. Remuneration Framework

### 3.1 Objectives

The principal objective of the Board is to achieve superior returns for our shareholders and clients within the financial services industry in which it operates. In pursuing this objective, the Board ensures work practices recognise compliance obligations in all facets of the IOOF Group's operations while managing risk in a prudent manner for all stakeholders. To realise this objective, the Board has recognised that it is fundamental to align the interests of employees with those of the shareholders by attracting, motivating and retaining high performing Executives, their successors and other high performing employees.

The Board has adopted a practice that the IOOF Group's remuneration policy will:

- Be competitive in the markets in which the IOOF Group operates in order to attract, motivate and retain high calibre employees who will contribute to the IOOF Group's success;
- Reinforce and deliver on the short and long term objectives of the IOOF Group as set out in the strategic business plans endorsed by the Board; and
- Provide a common interest between employees and shareholders by linking the rewards that accrue to management to the creation of value for shareholders and our clients, while at the same time ensuring that remuneration policy has regard to market practice and conditions.

The policy seeks to support the IOOF Group's objective to be seen in the market place as "an employer of choice" by offering remuneration levels which are competitive relative to those offered by comparable employers and providing strong, transparent linkages between individual and IOOF Group performance and rewards.

### 3.2 Remuneration governance

The Board is responsible for ensuring that the IOOF Group's remuneration policies are equitable, competitive and aligned with the medium and long term interests of our shareholders and our clients. In performing this function, the Board is conscious of the imperative for decisions on employee remuneration to be carefully evaluated against these objectives and be in line with market practice.

To assist in this task, and to advise the Board on enhancement and administration of the IOOF Group's remuneration policies, the Board has established a Remuneration Committee.

# Remuneration Report (continued)

### 3.2 Remuneration governance (continued)

The remuneration framework put in place 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 Executive KMP remuneration arrangements;
- Ensuring remuneration policies are appropriate to Non-Executive Directors;
- Ensuring that succession planning and development plans are in place for Executive 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 Managing Directors' and the IOOF Group's performance against those key performance indicators;
- Overall compensation arrangements of the IOOF Group;
- 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 Executive KMP and Executive and Non-Executive Directors of the IOOF Group.

Further details of the Remuneration Committee's charter and policies are available on the Corporate Governance page of the Company's website at www.ioof.com.au/about_us/corporate_governance

### 3.3 Committee members

The Remuneration Committee is comprised solely of Non-Executive Directors, all of whom are independent.

The members of the Remuneration Committee during 2015 were Dr Roger Sexton AM (Chairman), Mr Ian Griffiths and Mr George Venardos.

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

In order to ensure that it is fully informed when making remuneration decisions, the Remuneration Committee receives regular reports and updates from the Company Secretary and General Manager of Human Resources and other members of management who the Remuneration Committee invites to attend meetings as and when appropriate. The Remuneration Committee can also draw on services from a range of external sources, including access to benchmarking material and remuneration consultants (refer 3.5 below).

### 3.4 How remuneration is determined

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, skills and qualifications, market benchmarks and the remuneration environment.

The remuneration framework is the responsibility of the Remuneration Committee, or in the case of Ord Minnett Ltd and Perennial Investment Partners Ltd, the separately constituted boards of those companies. These separately constituted boards extend to include members of the Board to ensure alignment and consistency across the IOOF Group.

The Remuneration Committee engages independent remuneration consultants from time to time to perform reviews and benchmarking exercises to assess remuneration levels paid to Directors (both Executive and Non-Executive) and Executive KMP.  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.  Remuneration policies and arrangements are also reviewed and, where appropriate, updated to reflect relevant changes in legislation and regulation.

# Remuneration Report (continued)

### 3.4 How remuneration is determined (continued)

**Executive remuneration**

Executive remuneration comprises a number of components including total fixed remuneration (TFR), short term incentive (STI) opportunity, partly (cash) deferred STI (for the Managing Director) and long term incentives (LTI) in the form of deferred shares (Managing Director only), performance rights and options over ordinary shares. LTIs are subject to appropriate, pre-determined performance hurdles. The use of multiple performance hurdles has been adopted as a means of evaluating performance both from a market perspective and from an IOOF Group perspective. Each of these forms of remuneration is 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, accountability, knowledge, experience and market competitiveness.

**Short Term Incentive (STI) opportunity**

The STI opportunity is a cash-based incentive forming part of the Executive's total compensation opportunity, the value of which is tied to the successful achievements of a set of performance scorecard objectives (including financial, strategic, customer and people objectives) for the annual performance period. STI opportunities vary for each individual. For the Managing Director, the maximum STI is up to 100% of total fixed remuneration. The other Executives' maximum STI opportunity for 2015 is up to 50% with the exception of the Chief Investment Officer who has up to 100% if additional KPIs on the performance of the investment management business are satisfied (ie. top quartile performance).

Objectives for each participant are drawn from the following categories:

- Financial measures
  Performance measures include Underlying Profit After Tax (UNPAT), Total Shareholder Return (TSR) and Return on Equity (RoE).

- Business excellence
  Performance measures for the year ended 30 June 2015 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, acquisition growth, divestment of non-core assets and product rationalisation initiatives.

- Governance adherence
  Each Executive KMP is provided with a number of targets at the beginning of the performance period that are set and agreed with the Managing Director. Each Executive KMP has included in their targets an objective relating to risk management, regulatory and IOOF Group compliance and ensuring that outcomes from internal and external audit are actioned. In addition, Executive KMP have specific targets relating to their businesses to ensure they are working towards the IOOF Group's overall objectives.

**Long Term Incentive (LTI) opportunity**

The Board considers a long-term performance-related incentive component to be an important element of the executive reward framework. The IOOF Group utilises equity based incentives in the form of deferred shares (Managing Director only), performance rights and options over ordinary shares. These LTIs are subject to the achievement of appropriate performance hurdles.

# Remuneration Report (continued)

### 3.4 How remuneration is determined (continued)

**Long Term Incentive (LTI) opportunity (continued)**

The purpose of equity based remuneration is to:
- drive medium to long-term performance outcomes;
- link the interest of senior management to those of shareholders;
- provide competitive rewards to attract, motivate and retain employees;
- strengthen the link between remuneration and performance; and
- manage risk.

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

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

The performance hurdle for current LTI plans has been linked to IOOF Group TSR compared to S&P ASX200 companies at the date of grant. TSR represents the change in the value of a share plus the value of dividends paid. TSR was chosen as the most appropriate comparative measure as it focuses on the delivery of shareholder value and is a well understood and tested metric of performance.
The Remuneration Committee has authorised Finance to engage the services of an external organisation (Value Adviser Associates) to calculate the IOOF Group's performance against the TSR performance hurdles. The LTI element of the Managing Director's remuneration is described in detail in the next section of this report.

**Deferral arrangements**

The Board has implemented deferral arrangements and look back provisions on a portion of the STI (cash payment) and LTI for the Managing Director. The deferral element of the Managing Director's remuneration is described in detail in Section 4 of this report.

**Hedging of unvested securities**

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

**Remuneration mix**

The table below shows the Executive TFR and target and actual performance base remuneration as a proportion of the total of all forms of remuneration for the 2015 financial year:

| Position | | TFR % | STI % | LTI % |
|---|---|---|---|---|
| Managing Director | Target | 35 | 35 | 30 |
| | Actual(1) | 44 | 27 | 28 |
| Chief Investment Officer | Target | 46 | 45 | 9 |
| | Actual | 60 | 29 | 11 |
| Other Executives | Target | 56 | 28 | 16 |
| | Actual | 60 | 23 | 18 |

(1) Actual STI for the Managing Director includes one third of the STI awarded for the 2015 year settled in deferred shares.

# Remuneration Report (continued)

### 3.5 Services from consultants

The Board seeks and considers advice from independent, external remuneration consultants where appropriate. Remuneration consultants are engaged directly by and report to the Remuneration Committee.

In selecting remuneration consultants, the Remuneration Committee takes into account potential conflicts of interest and requires independence from the IOOF Group's management. The advice and recommendations of external consultants are used as a guide, but do not serve as a substitute for thorough consideration of the issues by each Director. No remuneration consultants were engaged during 2015 or 2014.

## 4. Managing Director and Executive KMP Remuneration

The following is designed to provide a summary of the IOOF Group's remuneration policies and structure and provide an overview of the actual value of the remuneration received by the Managing Director and Executive KMP in 2015.

For the purposes of this report, the Executive KMP (excluding the Managing Director - Christopher Kelaher) are as follows:

| Name | Position |
|---|---|
| **Executive KMP** | |
| Mr David Coulter | Chief Financial Officer |
| Mr Michael Farrell | Group General Manager Advice |
| Mr Stephen Merlicek | Chief Investment Officer |
| Mr Renato Mota | General Manager Distribution |
| Mr Gary Riordan | Group General Counsel & General Manager Trustee Services |

Remuneration report disclosures include Executive KMP with key responsibility for the strategic direction and management of the IOOF Group and of the revenue generating businesses or who have the capacity to significantly affect the IOOF Group's financial standing.

### 4.1 Managing Director remuneration

The remuneration of Mr Kelaher is set by the Board and is based on a market review of the level of remuneration required to attract and retain a high calibre individual suitable for the role. During the financial year ended 30 June 2015, Mr Kelaher received a remuneration package comprising total fixed remuneration of $1,188,181. Mr Kelaher was entitled to a total STI opportunity of up to a maximum of $1,188,181 (100% of TFR) based on achievement of superior performance against set targets determined by the Remuneration Committee. In July 2015 the Remuneration Committee assessed Mr Kelaher's performance against those targets and determined an STI amount of $736,672, being 62% of the eligible amount.

In terms of his remuneration arrangements, the STI opportunity was settled two thirds by cash and a third in the form of deferred shares. The number of deferred shares granted to Mr Kelaher was determined on the basis of the STI deferral amount divided by the five day Volume Weighted Average Price up to and including 30 June 2015, which was $9.10. The number of deferred shares to be issued accordingly is 26,984 (capped at 75,000 annually) and there is no consideration payable for the grant of the deferred shares.

The Board has determined that the portion of STI awarded as deferred shares will be subject to Board 'look back' arrangements. This means the Board will conduct a review of Mr Kelaher and the IOOF Group's performance in July 2016 and assess whether any significant unexpected or unintended consequences have occurred that were not foreseen by the Remuneration Committee when it made its decision in July 2015, and whether it is still appropriate to award the deferred shares.

During July 2015, the Remuneration Committee performed a 'look back' review in regards to the 36,217 deferred shares issued in July 2014. The Remuneration Committee determined, and the Board supported, that all of the deferred shares were to vest in accordance with the terms of the arrangement. The 36,217 shares have since been transferred to Mr Kelaher.

# Remuneration Report (continued)

### 4.1.1 Short term incentive: targets and outcomes

The key areas of focus for the Managing Director's short term incentive targets/objectives for the 2015 performance period are shown below. The targets / objectives which were set for the 2014/2015 year included both objective and subjective measures. The Board through its Remuneration Committee assessed each of the Managing Director's targets and awarded a STI amount of $736,672. The STI awarded represents 62% of the total opportunity for the 2015 performance period.

| KPI | Measure | Outcome |
|---|---|---|
| Growth / Strategy | SFG Acquisition and integration | Acquired SFG Australia in August 2014 |
| | Realise planned synergies as set out in scheme | Integration completed |
| | Identify and retain key management | Integration completed |
| | Integrate shared services into IOOF | Integration completed |
| | Ensure alignment of policies and procedures | Integration completed |
| | Rationalisation of investments in funds management activities | Achieved |
| Advisers Education and Training | Ensure improvement of standards and management practices | Achieved |
| | Continue to lift education and training of advisers | Achieved |
| | Ensure compliance with FOFA requirements | Achieved |
| Information Technology | Complete integration and development milestones | Achieved |
| | Rationalisation of systems and products | Achieved |

### 4.1.2 Long term incentive: targets and outcomes

**Performance rights**

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

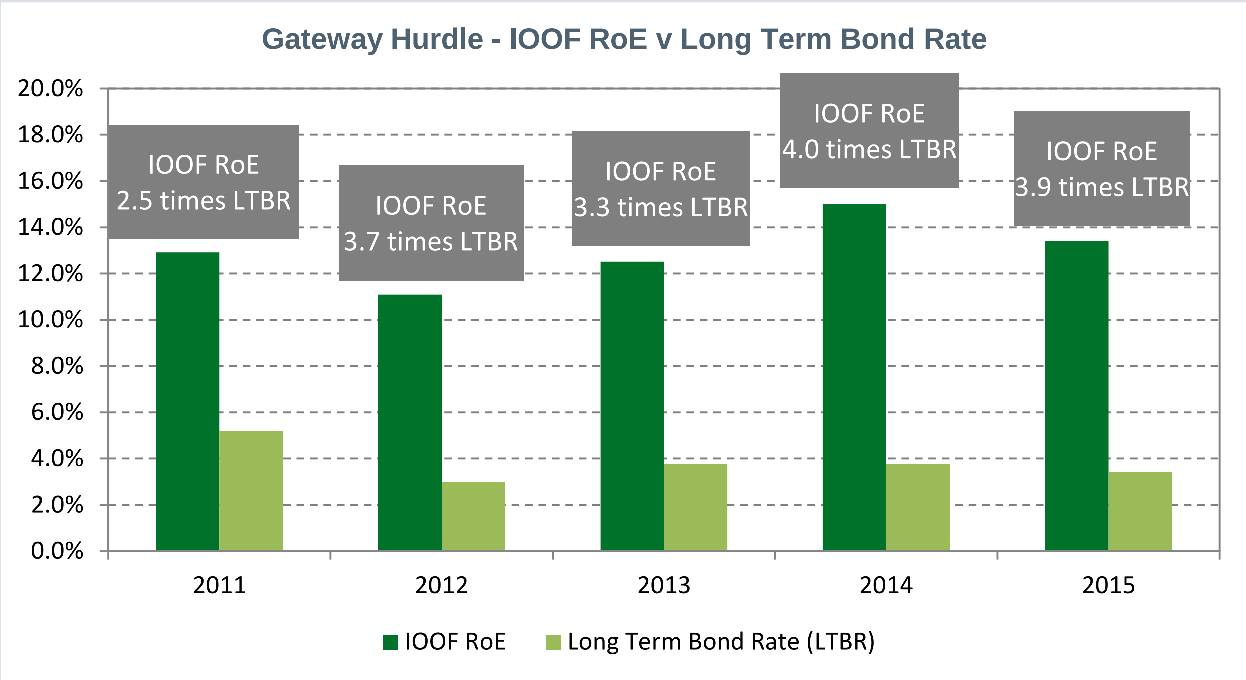
| Year | LTI Targets | Grant date | Perform-ance period | Rights eligible to vest | Vesting date |
|---|---|---|---|---|---|
| 2015 | Tiered gateway hurdle - RoE in excess of 1.5 times the long term bond rate<br>Second hurdle - TSR greater than median TSR of the S&P/ASX200 (progressive vesting) | 25 Nov 14 | 2015-2017 | 75,000 | 30 Jun 17 |
| 2014 | Tiered gateway hurdle - RoE in excess of 1.5 times the long term bond rate<br>Second hurdle - TSR greater than median TSR of the S&P/ASX200 (progressive vesting) | 26 Nov 13 | 2014-2016 | 100,000 | 30 Jun 16 |
| 2013 | Gateway hurdle - RoE in excess of long term bond rate<br>Second hurdle - TSR greater than median TSR of the S&P/ASX200 (100% satisfied) | 27 Nov 12 | 2013-2015 | 250,000 | 30 Jun 15 |
| 2012 | Average RoE of 5.5% and TSR greater than median TSR of the S&P/ASX200 (85.8% satisfied) | 01 Jul 11 | 2012-2014 | 32,175<br>32,175 | 1 Jul 15<br>1 Jul 16 |
| 2011 | Average RoE of 5.5% and TSR greater than median TSR of the S&P/ASX200 (91.8% satisfied) | 23 Nov 10 | 2011-2013 | 34,425 | 23 Nov 15 |

Upon exercise of the performance rights, shares will be allocated to Mr Kelaher. Shares allocated to Mr Kelaher will rank equally with all other ordinary shares on issue.

# Remuneration Report (continued)

### 4.1.2 Long term incentive: targets and outcomes (continued)

Return on equity is calculated by dividing UNPAT pre-amortisation by average equity on issue during the year.




**<u>2015 series performance hurdles</u>**

As approved at the Annual General Meeting of Shareholders on 25 November 2014, Mr Kelaher is entitled to participate in an LTI program offering a maximum reward opportunity of 75,000 performance rights in respect of the 1 July 2014 to 30 June 2017 performance period.

In order for the performance rights of the Managing Director to be eligible to vest, the IOOF Group will have to achieve a minimum RoE of 1.5 times the long term bond rate (10 year bond yield). That is, if less than 1.5 times long term bond rate is achieved, no performance rights are eligible to vest. If 1.5 to 2 times the Long Term Bond rate is achieved, 50% of the performance rights are eligible to vest. If 2.0 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 long term bond rate is achieved. The RoE hurdles have been developed by the Board ensure that an LTI is not paid in a period of low or negative performance.

Following the tiered gateway test as above, the second performance hurdle will be assessed. This hurdle relates to the IOOF Group's TSR over a three year period from 1 July 2014 to 30 June 2017 measured against the TSR of a group of companies comprising the S&P ASX 200 as at 1 July 2014. Should the IOOF Group achieve a median TSR performance or better, the performance rights which are eligible to vest following the RoE performance hurdle will progressively vest in accordance with the schedule as set out below. If the IOOF Group fails to achieve a median performance, all remaining rights will lapse and will not be retested.

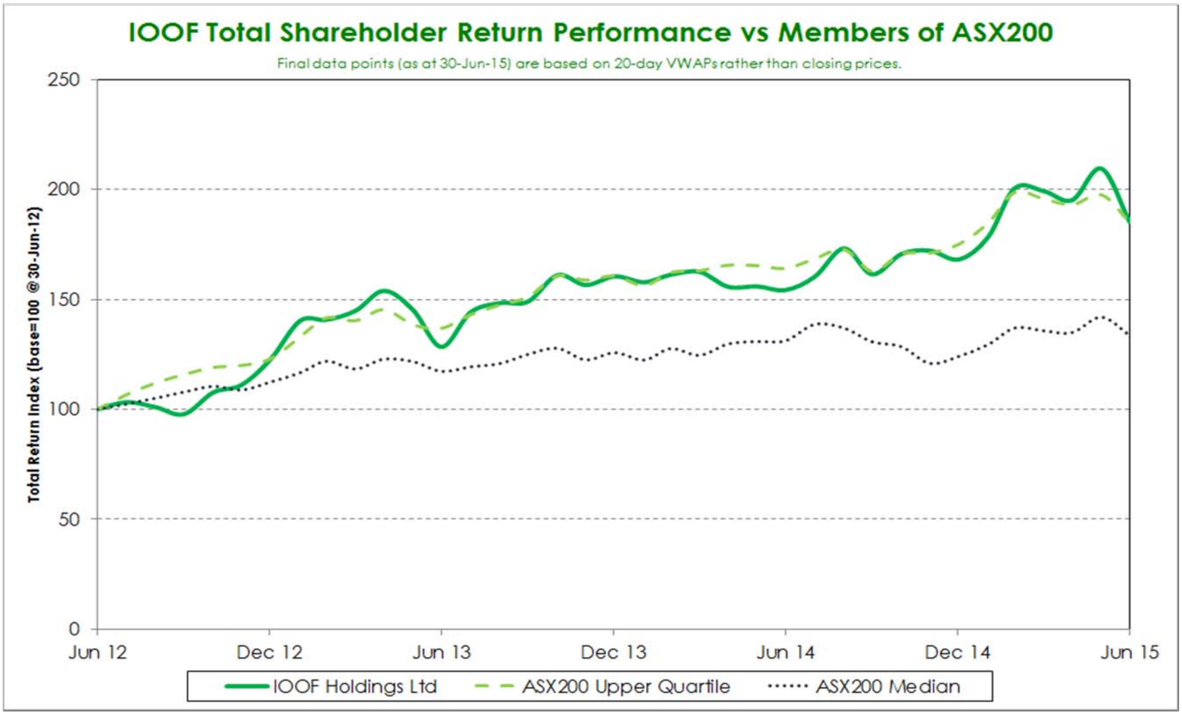
| Relative TSR performance | % of performance rights vesting |
|---|---|
| At or above 75$^{th}$ percentile | 100% |
| At or above median | 50% |
| Between median and 75$^{th}$ percentile | Progressive vesting on a straight line basis, such that 2% of LTI awards vest for each 1% ranking increase from 50$^{th}$ percentile. |
| Below median | 0% |

# Remuneration Report (continued)

**4.1.2 Long term incentive: targets and outcomes (continued)**

**2013-2015 performance results (2013 series performance rights)**

The below figure compares IOOF's TSR performance against the median TSR of the ASX 200 over the 2013 to 2015 measurement period.




The IOOF Group's TSR performance over the period was 85.3% placing it at the 76th percentile relative to the ASX 200. This resulted in 100% or 250,000 of 250,000 performance rights awarded to Mr Kelaher in July 2015.

Notwithstanding these hurdles, the awarding of performance rights or similar remuneration bonuses always remains at the discretion of our Board regardless of KPI based entitlements. In the case of the STI rewards to the Managing Director for example, the Board resolved to make a payment of 62% of his entitlement in respect of the 2015 year (2014: 79%).

The Board is very conscious of its responsibilities to the shareholders in balancing the rewards to our employees (the providers of our human capital) with the rewards to our shareholders (the providers of our risk capital) and has undertaken a lot of work to ensure that the remuneration structures (and actual remuneration payments) to Executives are tied to the performance of the IOOF Group. The Board takes into account current market practices in the financial services industry and companies of similar size in addition to feedback from shareholders and other stakeholders when reviewing these structures, and the payment of rewards to Executives, on an annual basis.

**2016 Series Approval to be sought at the November 2015 Annual General Meeting - Managing Director**

Approval will be sought at the 26 November 2015 Annual General Meeting for the issue of 70,000 performance rights. The performance hurdles will remain the same as those selected during the 2015 performance period being relative performance against the long term bond rate as a three tiered gateway hurdle and achieving at least median TSR performance against a group of companies comprising the S&P ASX 200 as at 1 July 2015. The performance period will be from 1 July 2015 to 30 June 2018 with vesting occurring on 1 July 2018.

The Board believes that the use of an RoE gateway hurdle is important to ensure that a bonus is not paid to the Managing Director in periods of low or negative return to shareholders. The actual RoE achieved by the IOOF Group over the last four years has averaged 3.5 times the long term bond rate (as depicted on page 22). The gateway RoE hurdle as explained above is a sliding scale which starts at 1.5 times (50% of performance rights eligible to vest) and rises to 2.5 times before 100% eligibility occurs.

# Remuneration Report (continued)

### 4.1.3 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 and share options may become exercisable.

Except where employment is terminated for serious misconduct, Mr Kelaher may be entitled to receive any LTIs that have vested as at the date of termination. 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 |

### 4.1.4 Remuneration for the year ended 30 June 2016

The Board, on the recommendation of the Remuneration Committee, has increased the Managing Director’s total fixed annual remuneration to $1,207,206 for the financial year commencing 1 July 2015.

STI terms will be the same as for the year ended 30 June 2015, with an opportunity of up to 100% of total fixed remuneration, with specific performance hurdles relating to: the continuing growth of the business, product development, achievement of management efficiencies, succession planning, profitability, compliance, risk management and corporate governance. The STI deferral arrangements remain unchanged with two thirds of the STI award to be paid in cash shortly after the performance assessment has been completed at year end, and one third will be used to purchase Company shares which will vest in July 2017 after a “look back” review.

### 4.2 Other Executive KMP remuneration

The remuneration of other Executive KMP is determined by the Managing Director and is approved by the Board.

### 4.2.1 Short term incentive: targets and outcomes

At the end of the performance period, 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.

| Key management personnel | TFR $ | STI opportunity $ | STI awarded $ | % awarded in year | % forfeited in year |
|---|---|---|---|---|---|
| D Coulter | 355,000 | 177,500 | 150,000 | 85% | 15% |
| M Farrell | 390,000 | 195,000 | 150,000 | 77% | 23% |
| S Merlicek | 409,000 | 409,000 | 204,500 | 50% | 50% |
| R Mota | 390,000 | 195,000 | 170,000 | 87% | 13% |
| G Riordan | 450,000 | 225,000 | 110,000 | 49% | 51% |

# Remuneration Report (continued)

### 4.2.2 Long term incentive: targets and outcomes

A summary of the current performance rights and options on issue to key management personnel are as shown below. The performance rights are subject to a three year performance period commencing on the date of grant.

50% of 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. The remaining 50% vest if the participant continues to be an employee of the IOOF Group at vesting date.

| Year | Performance period | Grant date | IOOF TSR for the period % | Ranking relative to ASX200 | Vesting status at 30 Jun 2015 | Vesting date |
|---|---|---|---|---|---|---|
| 2016 | 1 July 2015 - 30 June 2018 | 02 Jul 15 | Performance period not complete | | | 30 Jun 18 |
| 2015 | 1 July 2014 - 30 June 2017 | 18 Jul 14 | Performance period not complete | | | 30 Jun 17 |
| 2014 | 1 July 2013 - 30 June 2016 | 21 Aug 13 | Performance period not complete | | | 30 Jun 16 |
| 2013 | 1 July 2012 - 30 June 2015 | 20 Aug 12 | 85.3% | 76th | 100% vested | 30 Jun 15 |

## 5. Remuneration tables

### 5.1 Executive key management personnel remuneration

The following table sets out the remuneration received by the Managing Director and Executive KMP for the financial year ended 30 June 2015 and the comparative year. No termination benefits or other long term benefits were paid or payable in the current or comparative period. The share-based payments shown below are not amounts actually received by key management personnel during the year, as they include accounting values for unvested share awards. Actual share-based payment amounts received are shown as cash remuneration.

| | | Short term employee benefits | | | Post-employ-ment | Share-based payment[3] | | |
|---|---|---|---|---|---|---|---|---|
| | | Salary & fees $ | Bonus[1] $ | Non-monetary[2] $ | Super-annuation $ | Options & Performa-nce Rights $ | Total $ | Cash remun-eration[4] $ |
| **Managing Director** | | | | | | | | |
| C Kelaher | **2015** | **1,169,279** | **491,115** | **10,277** | **18,783** | **1,009,286** | **2,698,739** | **3,618,566** |
| | 2014 | 1,136,003 | 632,546 | 6,502 | 17,775 | 795,122 | 2,587,948 | 3,129,493 |
| **Other executive key management personnel** | | | | | | | | |
| D Coulter | **2015** | **335,925** | **150,000** | **4,719** | **18,783** | **137,217** | **646,644** | **1,744,248** |
| | 2014 | 323,671 | 135,000 | 3,498 | 17,775 | 185,124 | 665,068 | 451,446 |
| M Farrell | **2015** | **370,562** | **150,000** | **-** | **18,783** | **39,463** | **578,808** | **514,346** |
| | 2014 | 343,115 | 125,000 | - | 17,775 | - | 485,890 | 405,890 |
| S Merlicek | **2015** | **389,979** | **204,500** | **5,663** | **18,783** | **79,145** | **698,070** | **973,302** |
| | 2014 | 379,872 | 200,000 | 3,498 | 17,775 | 139,612 | 740,757 | 1,009,647 |
| R Mota | **2015** | **370,024** | **170,000** | **4,719** | **18,783** | **137,217** | **700,743** | **903,347** |
| | 2014 | 355,013 | 150,000 | 5,470 | 17,775 | 185,124 | 713,382 | 1,025,262 |
| G Riordan | **2015** | **431,163** | **110,000** | **-** | **18,783** | **137,217** | **697,163** | **949,486** |
| | 2014 | 417,210 | 135,000 | - | 17,775 | 185,225 | 755,210 | 1,242,814 |
| **Total** | **2015** | **3,066,932** | **1,275,615** | **25,378** | **112,698** | **1,539,543** | **6,020,166** | **8,703,295** |
| | 2014 | 2,954,884 | 1,377,546 | 18,968 | 106,650 | 1,490,207 | 5,948,255 | 7,264,552 |

1 The bonus reflects amounts provided under the short-term incentive program in relation to the financial year. One third of the bonus awarded to Mr Kelaher has been deferred into shares which will vest in July 2016; this component of the STI is included as a share-based payment. 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 and options over shares in the Company. The value of the number of shares and options expected to vest has been apportioned over the term from grant date to vesting date.

4 This non-statutory disclosure provides shareholders with a view of the cash and other benefits received by KMP. Cash remuneration includes all remuneration paid during the financial year including superannuation and STIs which were awarded for performance in previous financial years. In addition, any shares received by the KMP during the period are included at the value the shares were or could have been converted to cash on the date they were received (refer section 5.4 for shares received on exercise of options). This value has been determined as the cash received by the employee where known, or the closing share price on the date the shares were allocated to the KMP less any consideration paid.

# Remuneration Report (continued)

### 5.2 Remuneration components as a percentage of total remuneration

| Remuneration components (based on annualised amounts) | | | | | | |
|---|---|---|---|---|---|---|
| Name | Fixed | | Total Incentive Compensation Award | | Total Remuneration | |
| | 2015 % | 2014 % | 2015 % | 2014 % | 2015 % | 2014 % |
| C Kelaher | 44 | 45 | 56 | 55 | 100 | 100 |
| D Coulter | 56 | 52 | 44 | 48 | 100 | 100 |
| M Farrell | 67 | 74 | 33 | 26 | 100 | 100 |
| S Merlicek | 59 | 54 | 41 | 46 | 100 | 100 |
| R Mota | 56 | 53 | 44 | 47 | 100 | 100 |
| G Riordan | 65 | 58 | 35 | 42 | 100 | 100 |

### 5.3 Deferred shares, options and performance rights over equity instruments granted as compensation during 2015

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

| Name | Type of instrument | Number granted | Grant date | Vesting date | Instrument fair value | Vested during 2015 |
|---|---|---|---|---|---|---|
| C Kelaher | LTI performance rights | 75,000 | 25-Nov-14 | 30-Jun-17 | $ 5.30 | - |
| | STI deferred shares | 26,984 | 30-Jun-15 | 01-Jul-16 | $ 9.10 | - |
| D Coulter | LTI performance rights | 25,000 | 18-Jul-14 | 30-Jun-17 | $ 5.53 | - |
| G Riordan | LTI performance rights | 25,000 | 18-Jul-14 | 30-Jun-17 | $ 5.53 | - |
| M Farrell | LTI performance rights | 25,000 | 18-Jul-14 | 30-Jun-17 | $ 5.53 | - |
| S Merlicek | LTI performance rights | 25,000 | 18-Jul-14 | 30-Jun-17 | $ 5.53 | - |
| R Mota | LTI performance rights | 25,000 | 18-Jul-14 | 30-Jun-17 | $ 5.53 | - |

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 section 4 of the Remuneration Report.

### 5.4 Exercise of options granted as compensation

During the period, the following shares were purchased and issued on the exercise of options previously granted as compensation:

| Key management personnel | Date exercised | Number of shares | Exercise price | Closing share price | Value of options |
|---|---|---|---|---|---|
| C Kelaher | 22 Apr 15 | 79,156 | $ 5.20 | $ 9.91 | 372,825 |
| D Coulter | 12 Mar 15 | 200,000 | $ 6.14 | $ 10.59 | 890,000 |

There are no unpaid amounts on the shares issued as a result of the exercise of the options during the period.
The value of options exercised during the year is calculated as the market price of shares of the Company as at close of trading on the date the options were exercised after deducting the price paid to exercise the option.

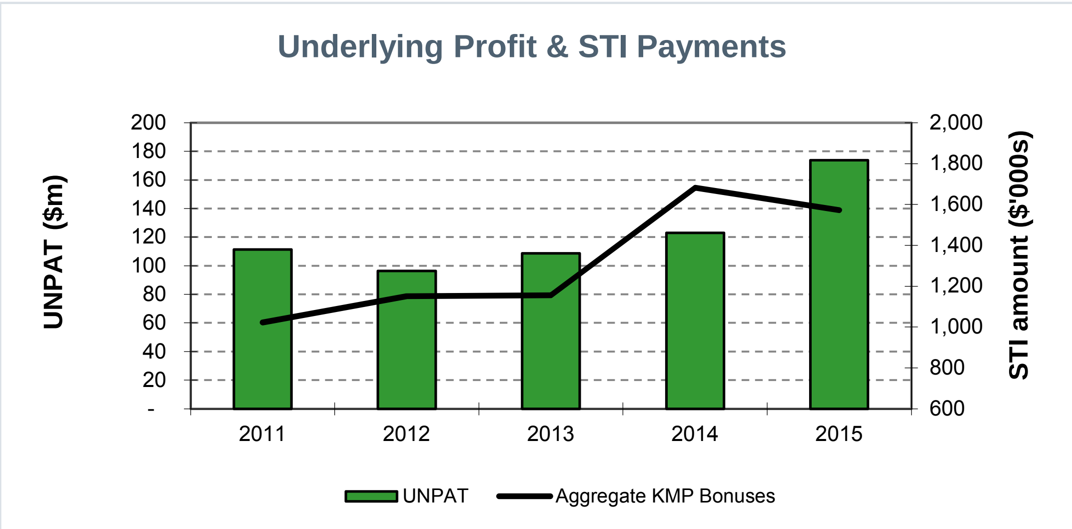
# Remuneration Report (continued)

### 5.5 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.

| | 2015 | 2014 | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|
| Profit attributable to owners of the Company ($'000s) | 138,371 | 101,285 | 79,769 | 19,373 | 99,489 |
| UNPAT ($'000s)(1) | 173,758 | 123,047 | 108,756 | 96,393 | 111,450 |
| UNPAT EPS (cents per share) | 59.9 | 53.1 | 46.9 | 41.6 | 48.3 |
| Basic EPS (cents per share) | 47.7 | 43.7 | 34.4 | 8.4 | 43.1 |
| Share price at start of year | $8.40 | $7.36 | $6.05 | $6.60 | $5.99 |
| Share price at end of year | $8.99 | $8.40 | $7.36 | $6.05 | $6.60 |
| Change in share price | $0.59 | $1.04 | $1.31 | $(0.55) | $0.61 |
| Dividends per share (cents per share) | 53.0 | 47.5 | 42.0 | 37.0 | 43.0 |
| Return on equity (non-statutory measure)(2) | 13.4% | 15.0% | 13.2% | 11.1% | 12.9% |
| Total STIs paid to key management personnel ($'000s) | 1,573 | 1,681 | 1,156 | 1,151 | 1,022 |

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




STI payments broadly conform to the IOOF Group's increased profitability and scale. As is consistent with the IOOF Group's adherence to effective cost management, STI levels from 2011 to 2015 have been constrained and recognise KPIs specific to individuals rather than being rigidly tied to enhanced profitability.

# Remuneration Report (continued)

### 5.6 Key management personnel deferred shares, options and performance rights holdings

No terms of share-based payment transactions have been altered or modified during the current or the prior reporting period. No options are vested but not exercisable as at 30 June 2014 or 2015.

Details on deferred ordinary shares in the Company that were granted as compensation to each key management person during the reporting period and details on deferred shares that vested during the reporting period are as follows:

| Name | Type of instrument | Balance as at 1 Jul 14 | Granted as compen-sation | Exercised | Forfeited/ Lapsed | Balance as at 30 Jun 15 | Vested during the year |
|---|---|---|---|---|---|---|---|
| C Kelaher | 2015 rights | - | 75,000 | - | - | 75,000 | - |
| | 2014 rights | 100,000 | - | - | - | 100,000 | - |
| | 2013 rights | 250,000 | - | - | - | 250,000 | - |
| | 2012 rights | 128,700 | - | (64,350) | - | 64,350 | - |
| | 2011 rights | 68,850 | - | (34,425) | - | 34,425 | - |
| | 2010 rights | 37,500 | - | (37,500) | - | - | - |
| | 2015 deferred shares[1] | 26,984 | - | - | - | 26,984 | - |
| | 2014 deferred shares | 36,217 | - | - | - | 36,217 | 36,217 |
| | 2013 deferred shares | 27,874 | - | (27,874) | - | - | - |
| | 2010 options | 79,156 | - | (79,156) | - | - | - |
| D Coulter | 2015 rights | - | 25,000 | - | - | 25,000 | - |
| | 2014 rights | 25,000 | - | - | - | 25,000 | - |
| | 2013 rights | 25,000 | - | - | - | 25,000 | - |
| | 2012 rights | 41,805 | - | (41,805) | - | - | - |
| | 2011 options | 200,000 | - | (200,000) | - | - | - |
| M Farrell | 2015 rights | - | 25,000 | - | - | 25,000 | - |
| S Merlicek | 2015 rights | - | 25,000 | - | - | 25,000 | - |
| | 2013 rights | 25,000 | - | - | - | 25,000 | - |
| | 2012 rights | 41,805 | - | (41,805) | - | - | - |
| R Mota | 2015 rights | - | 25,000 | - | - | 25,000 | - |
| | 2014 rights | 25,000 | - | - | - | 25,000 | - |
| | 2013 rights | 25,000 | - | - | - | 25,000 | - |
| | 2012 rights | 41,805 | - | (41,805) | - | - | - |
| G Riordan | 2015 rights | - | 25,000 | - | - | 25,000 | - |
| | 2014 rights | 25,000 | - | - | - | 25,000 | - |
| | 2013 rights | 25,000 | - | - | - | 25,000 | - |
| | 2012 rights | 41,805 | - | (41,805) | - | - | - |

(1) In July 2015, Mr Kelaher was awarded an STI amount of $736,672for the 2015 financial year of which one-third was settled in the form of deferred shares. The number of deferred shares issued was 26,984 which will vest in July 2016 subject to Board look-back provisions.

# Remuneration Report (continued)

### 5.7 Vesting profiles of deferred shares, options and performance rights

Details of vesting profiles of the deferred shares, options and performance rights granted as remuneration to each key management person of the IOOF Group are detailed below.

| Name | Type of instrument | Exercise price | Number granted | Grant date | Financial years in which grant vests/vested |
|---|---|---|---|---|---|
| C Kelaher | 2014 rights | $ - | 100,000 | 26-Nov-13 | 2016 |
| | 2013 rights | $ - | 250,000 | 27-Nov-12 | 2015 |
| | 2012 rights | $ - | 150,000 | 01-Jul-11 | 2015 - 2017 |
| | 2011 rights | $ - | 150,000 | 23-Nov-10 | 2014 - 2016 |
| | 2010 rights | $ - | 150,000 | 27-Nov-09 | 2013 - 2015 |
| | 2015 deferred shares | $ - | 26,984 | 19-Aug-15 | 2017 |
| | 2014 deferred shares | $ - | 36,217 | 30-Jul-14 | 2016 |
| | 2013 deferred shares | $ - | 27,847 | 30-Jun-13 | 2015 |
| | 2010 options | $ 5.20 | 316,624 | 27-Nov-09 | 2013 - 2015 |
| D Coulter | 2015 rights | $ - | 25,000 | 18-Jul-14 | 2017 |
| | 2014 rights | $ - | 25,000 | 21-Aug-13 | 2016 |
| | 2013 rights | $ - | 25,000 | 20-Aug-12 | 2015 |
| S Merlicek | 2015 rights | $ - | 25,000 | 18-Jul-14 | 2017 |
| | 2013 rights | $ - | 25,000 | 20-Aug-12 | 2015 |
| M Farrell | 2015 rights | $ - | 25,000 | 18-Jul-14 | 2017 |
| R Mota | 2015 rights | $ - | 25,000 | 18-Jul-14 | 2017 |
| | 2014 rights | $ - | 25,000 | 21-Aug-13 | 2016 |
| | 2013 rights | $ - | 25,000 | 20-Aug-12 | 2015 |
| G Riordan | 2015 rights | $ - | 25,000 | 18-Jul-14 | 2017 |
| | 2014 rights | $ - | 25,000 | 21-Aug-13 | 2016 |
| | 2013 rights | $ - | 25,000 | 20-Aug-12 | 2015 |

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

| Name | Type of instrument | % vested in year | % forfeited in year(1) |
|---|---|---|---|
| C Kelaher | 2013 deferred shares | 100.0% | 0.0% |
| | 2013 rights | 100.0% | 0.0% |
| D Coulter | 2013 rights | 100.0% | 0.0% |
| S Merlicek | 2013 rights | 100.0% | 0.0% |
| R Mota | 2013 rights | 100.0% | 0.0% |
| G Riordan | 2013 rights | 100.0% | 0.0% |

(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.

# Remuneration Report (continued)

### 5.8 Options and performance rights granted since the end of the financial year

The Board resolved on 02 July 2015 to offer the following performance rights to Executive KMP during July 2015:

| Name | Type of instrument | Number granted | Vesting date | Exercise price $ |
|---|---|---|---|---|
| D Coulter | LTI performance rights | 15,000 | 01-Jul-18 | $nil |
| M Farrell | LTI performance rights | 15,000 | 01-Jul-18 | $nil |
| S Merlicek | LTI performance rights | 15,000 | 01-Jul-18 | $nil |
| R Mota | LTI performance rights | 15,000 | 01-Jul-18 | $nil |
| G Riordan | LTI performance rights | 15,000 | 01-Jul-18 | $nil |

In addition to continued service to the IOOF Group, the performance hurdle for the LTI plan 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 TSR will be tested over a three year performance period commencing 1 July 2015.

## 6. Summary of Executive Contracts

Remuneration and other terms of employment for the Managing Director and Executive KMP are formalised in employment 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 |
|---|---|---|---|
| C Kelaher | Ongoing | 12 months | 12 months |
| D Coulter | Ongoing | 6 months | 3 months |
| M Farrell | Ongoing | 3 months | 3 months |
| S Merlicek | Ongoing | 6 months | 3 months |
| R Mota | Ongoing | 7 months | 5 weeks |
| G Riordan | Ongoing | 6 months | 6 months |

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

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

# Remuneration Report (continued)

## 7. Shareholdings of Executive KMP

The relevant interest of each key management personnel in the shares issued by the Company, is as follows:

| Ordinary shares | | Balance at 1 July No. | Received on exercise of options No. | Received on vesting of performance rights No. | Net other change No. | Balance at 30 June [(1)] No. |
|---|---|---|---|---|---|---|
| **Executive Key Management Personnel** | | | | | | |
| D Coulter | **2015** | **238** | **200,000** | **41,805** | **-** | **242,043** |
| | 2014 | 238 | - | - | - | 238 |
| C Kelaher | **2015** | **4,612,986** | **79,156** | **164,149** | **-** | **4,856,291** |
| | 2014 | 4,391,503 | 79,156 | 142,327 | - | 4,612,986 |
| S Merlicek | **2015** | **170,000** | **-** | **41,805** | **(70,000)** | **141,805** |
| | 2014 | - | 200,000 | - | (30,000) | 170,000 |
| R Mota | **2015** | **38,103** | **-** | **41,805** | **(72,301)** | **7,607** |
| | 2014 | 38,103 | 200,000 | - | (200,000) | 38,103 |
| G Riordan | **2015** | **-** | **-** | **41,805** | **(41,805)** | **-** |
| | 2014 | - | 250,000 | - | (250,000) | - |

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

## 8. Non-Executive Directors' Remuneration

### 8.1 Objectives

An objective of the Remuneration Committee is to ensure the IOOF Group is able to retain and attract high calibre Non-Executive Directors, as members of Key Management Personnel. Non-Executive Directors are remunerated by way of fixed fees, including superannuation, and do not participate in remuneration programs designed to provide an incentive to Executive Directors and Executive KMP.

Non-Executive Directors' remuneration is independent of the IOOF Group's earnings or growth in shareholder value to encourage Non-Executive Directors to perform their roles independently of Executive KMP.

### 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.

### 8.3 Components of Non-Executive Director remuneration

Non-Executive Directors are remunerated for their skilled input, time responsibilities and commitment to the IOOF Group through the payment of a fixed fee plus superannuation. The Non-Executive Directors do not receive any performance related remuneration. An additional fee is paid to the Chairperson of the Board. Non-Executive Directors do not receive additional fees for service on individual Board Committees or subsidiary companies.

Consistent with this approach the Chairperson of the IOOF Group assumed the role of Chairperson of Perennial Investment Partners Ltd in 2013 for which no additional fee has been paid. Previously this role was undertaken by a person who was independent of the Board and a separate fee was paid.

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.

The total fees paid to the Chairman and the Non-Executive Directors on the Board (including fees paid for their involvement on Board committees) are kept within the $1,250,000 fee pool approved by shareholders.

# Remuneration Report (continued)

### 8.3 Components of Non-Executive Director remuneration (continued)

| Elements | Details |
|---|---|
| **Current Board fees** | **2014/2015 Fees per annum were:**<br>Board Chairperson fee $ 257,250<br>Board Non-Executive Director fee $ 154,350<br><br>Each of the Non-Executive Directors also hold Board positions on each of the following Australian Financial Services Licensed companies within the IOOF Group, IOOF Investment Management Ltd; Australian Executor Trustees Ltd; Questor Financial Services Ltd and IOOF Ltd. Each of these Boards meets at least four times per annum. |
| **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.<br><br>The Board has withdrawn the retirement benefit from the potential remuneration for new Non-Executive Directors. The program continues for Directors appointed prior to 13 April 2003 to fulfil the terms of historical agreement. However the Chairperson has voluntarily agreed that the maximum payment available be capped at $475,000. This benefit provides for a cash based payment to Non-Executive Directors at the time of their retirement and, subject to the cap noted above, is calculated as follows: |

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

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

The retirement benefits plan will remain in operation for Dr Sexton (being the only remaining participant) for the year ending 30 June 2015, subject to the maximum cap.

The accrued entitlement for current Non-Executive Directors under the retirement benefits plan as at 30 June 2015 was $475,000 attributable to Dr Sexton.

### 8.4 Remuneration table

| | | Short-term benefits | | | Post-employment benefits | Total Shareholder approved remuneration (3) | Post-employment benefits | |
|---|---|---|---|---|---|---|---|---|
| **Non-Executive Directors** | | Directors fees (1) $ | Shares (2) $ | Non-monetary $ | Superannuation $ | $ | Retirement benefits (4) $ | **Total** $ |
| R Sexton | **2015** | **238,557** | **-** | **-** | **18,783** | **257,340** | **57,191** | **314,531** |
| | 2014 | 231,694 | - | - | 17,775 | 249,469 | 76,667 | 326,136 |
| J Harvey | **2015** | **141,008** | **-** | **-** | **13,396** | **154,404** | **-** | **154,404** |
| | 2014 | 131,728 | 5,989 | 305 | 12,211 | 150,233 | - | 150,233 |
| A Griffiths | **2015** | **133,729** | **-** | **-** | **11,858** | **145,587** | **-** | **145,587** |
| I Griffiths | **2015** | **141,081** | **-** | **-** | **13,403** | **154,484** | **-** | **154,484** |
| | 2014 | 137,300 | - | - | 12,727 | 150,027 | - | 150,027 |
| G Venardos | **2015** | **141,008** | **-** | **-** | **13,396** | **154,404** | **-** | **154,404** |
| | 2014 | 137,211 | - | - | 12,718 | 149,929 | - | 149,929 |
| K White | 2014 | 118,200 | - | - | 10,933 | 129,133 | - | 129,133 |
| Total | **2015** | **795,383** | **-** | **-** | **70,835** | **866,218** | **57,191** | **923,409** |
| | 2014 | 756,133 | 5,989 | 305 | 66,364 | 828,791 | 76,667 | 905,458 |

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

(2) Shares represent Directors' fees sacrificed into the Non-Executive Director Deferred Share Purchase Plan.

(3) Shareholder Approved Remuneration amounted to $866,218 and was within the shareholder approved limit of $1,250,000 per annum.

(4) Non-Executive Directors appointed after 13 April 2003 are not entitled to retirement benefits. Non-Executive Directors appointed prior to this date accrue retirement benefits. Where entitled, the provision is based on the average emoluments of Non-Executive Directors over the previous three years' of service. The benefit accrues after three years of service and varies according to the number of years of service, reaching twice the average annual emoluments after ten years of service. Refer to 'retirement benefits' above for further details.

# Remuneration Report (continued)

### 8.5 Shareholdings of Non-Executive Directors

The relevant interest of each 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 2014 | Shares from changes during the year | Balance as at 30 Jun 2015[1] | Balance as at report sign-off date |
|---|---|---|---|---|
| A Griffiths | - | 10,000 | 10,000 | 10,000 |
| I Griffiths | 3,800,039 | - | 3,800,039 | 3,800,039 |
| J Harvey | 14,878 | 8,700 | 23,578 | 23,578 |
| R Sexton | 83,350 | 7,000 | 90,350 | 90,350 |
| G Venardos | 20,013 | 11,803 | 31,816 | 31,816 |

[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 2015: A Griffiths - 10,000; I Griffiths - 1,039,620; J Harvey - 23,578; and R Sexton - 68,037.

### 9. Payments to persons before taking office

No Director or member of senior management appointed during the period 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 with a resolution of the Directors:

Dr Roger Sexton AM
**Chairman**
28 August 2015

# 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 89, and the Remuneration Report, set out on pages 13 to 33 in the Directors' Report, are in accordance with the Corporations Act 2001 including:

  (i) giving a true and fair view of the Company's and Group's financial position as at 30 June 2015 and of their 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 2015.

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:

Dr Roger Sexton AM
**Chairman**
Melbourne
28 August 2015

***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 for the financial year ended 30 June 2015 there have been:

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

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

KPMG

KPMG

DM Waters
*Partner*

Melbourne

28 August 2015

KPMG

## Independent auditor's report to the members of IOOF Holdings Ltd

### Report on the financial report

We have audited the accompanying financial report of IOOF Holdings Ltd (the Company), which comprises the consolidated statement of financial position as at 30 June 2015, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, sections 1 to 7 comprising a summary of significant accounting policies and other explanatory information and the Directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

*Directors' responsibility for the financial report*

The Directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the Directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In section 7-2, the Directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

*Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG

*Independence*

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

*Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

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

(b) the financial report also complies with International Financial Reporting Standards as disclosed in section 7-2.

## Report on the remuneration report

We have audited the Remuneration Report included in pages 13 to 33 of the Directors' report for the year ended 30 June 2015. 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 responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

*Auditor's opinion*

In our opinion, the remuneration report of IOOF Holdings Ltd for the year ended 30 June 2015 complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

DM Waters
*Partner*

Melbourne

28 August 2015

## Consolidated statement of comprehensive income

| | Note | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| Revenue | 2-3 | 938,276 | 740,214 |
| Expenses | 2-4 | (746,484) | (603,398) |
| Share of profits of associates accounted for using the equity method | | 6,477 | 7,464 |
| Finance costs | | (8,725) | (3,684) |
| **Profit before tax** | | 189,544 | 140,596 |
| Income tax expense | 2-6 | (49,017) | (37,218) |
| **Statutory fund** | | | |
| Statutory fund revenue* | 5-4 | 66,424 | 77,101 |
| Statutory fund expenses* | 5-4 | (56,484) | (58,074) |
| Income tax (expense)/benefit - statutory* | 5-4 | (9,940) | (19,027) |
| **Statutory fund contribution to profit, net of tax** | | - | - |
| **Profit for the period** | | 140,527 | 103,378 |
| | | | |
| **Other comprehensive income** | | | |
| **Items that will not be reclassified to profit or loss:** | | | |
| Net change in fair value of share buy back liability | | (3,393) | (2,802) |
| | | | |
| **Items that may be reclassified subsequently to profit or loss:** | | | |
| Net change in fair value of available-for-sale financial assets | | 4,940 | 3,624 |
| Exchange differences on translating foreign operations | | (12) | (11) |
| Income tax on other comprehensive income | | (1,454) | (851) |
| *Total items that may be reclassified subsequently to profit or loss* | | 3,474 | 2,762 |
| **Other comprehensive income/(expense) for the period, net of income tax** | | 81 | (40) |
| **Total comprehensive income for the period** | | 140,608 | 103,338 |
| | | | |
| **Profit attributable to:** | | | |
| **Owners of the Company** | | **138,371** | **101,285** |
| Non-controlling interest | | 2,156 | 2,093 |
| **Profit for the period** | | 140,527 | 103,378 |
| | | | |
| **Total comprehensive income attributable to:** | | | |
| Owners of the Company | | 138,452 | 101,245 |
| Non-controlling interest | | 2,156 | 2,093 |
| **Total comprehensive income for the period** | | 140,608 | 103,338 |
| | | | |
| **Earnings per share:** | | | |
| Basic earnings per share (cents per share) | | 47.7 | 43.7 |
| Diluted earnings per share (cents per share) | | 47.4 | 43.1 |

Notes to the consolidated financial statements are included on pages 43 to 89.

*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 | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash | 1-1(d) | 150,533 | 109,505 |
| Receivables | 1-1(d) | 103,340 | 80,393 |
| Other financial assets | 1-1(d) | 42,911 | 35,961 |
| Prepayments | | 12,455 | 12,669 |
| Assets held for sale | 2-2 | 9,055 | - |
| Deferred acquisition costs | | 3,639 | 5,581 |
| Associates | 4-2 | 21,898 | 26,910 |
| Property and equipment | | 21,507 | 10,959 |
| Intangible assets | 4-3 | 523,457 | 288,641 |
| Goodwill | 4-4 | 1,013,105 | 578,090 |
| Assets relating to statutory funds | 5-1 | 901,187 | 870,271 |
| **Total assets** | | **2,803,087** | **2,018,980** |
| **Liabilities** | | | |
| Payables | 1-1(d) | 71,519 | 60,085 |
| Borrowings | 3-2 | 207,846 | 111,059 |
| Current tax liabilities | | 44,028 | 24,962 |
| Contingent consideration | 1-1(d) | 7,298 | 2,157 |
| Share buy-back liabilities | 1-1(d) | 27,327 | 26,629 |
| Provisions | 4-5 | 67,676 | 48,651 |
| Deferred tax liabilities | 2-6 | 92,527 | 53,713 |
| Liabilities held for sale | 2-2 | 4,725 | - |
| Deferred revenue liability | | 3,736 | 5,901 |
| Lease incentives | | 2,960 | 2,212 |
| Liabilities relating to statutory funds | 5-2 | 901,187 | 870,271 |
| **Total liabilities** | | **1,430,829** | **1,205,640** |
| **Net assets** | | **1,372,258** | **813,340** |
| **Equity** | | | |
| Share capital | 3-3 | 1,437,757 | 859,965 |
| Reserves | 3-5 | (8,918) | (4,456) |
| Accumulated losses | | (66,224) | (55,004) |
| **Total equity attributable to equity holders of the Company** | | **1,362,615** | **800,505** |
| Non-controlling interest | | 9,643 | 12,835 |
| **Total equity** | | **1,372,258** | **813,340** |

Notes to the consolidated financial statements are included on pages 43 to 89.

| For the year ended 30 June 2015 | Ordinary shares $'000 | Treasury shares $'000 | Reserves $'000 | Accumulated losses $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 July 2014 | 868,084 | (8,119) | (4,456) | (55,004) | 800,505 | 12,835 | **813,340** |
| **Total comprehensive income for the period** | | | | | | | |
| Profit for the period attributable to owners of the Company | - | - | - | 138,371 | 138,371 | 2,156 | **140,527** |
| Other comprehensive income for the year, net of income tax | - | - | 81 | - | 81 | - | **81** |
| **Total comprehensive income for the period** | - | - | 81 | 138,371 | 138,452 | 2,156 | **140,608** |
| *Contributions by and (distributions to) owners* | | | | | | | |
| Dividends to equity holders | - | - | - | (149,755) | (149,755) | (3,239) | **(152,994)** |
| Share-based payment expense | - | - | 3,559 | - | 3,559 | - | **3,559** |
| Fair value of shares issued in business combination | 581,535 | - | - | - | 581,535 | - | **581,535** |
| Transaction costs of issuing new shares | (293) | - | - | - | (293) | - | **(293)** |
| Proceeds from exercise of options under executive and employee share option plan | 4,880 | - | - | - | 4,880 | - | **4,880** |
| Transfer from employee equity-settled benefits reserve on exercise of options | 7,938 | - | (7,938) | - | - | - | **-** |
| Treasury shares transferred to employees during the period | (16,999) | 16,999 | - | - | - | - | **-** |
| On-market purchase of shares transferred to option and rights holders during the year | (242) | - | - | - | (242) | - | **(242)** |
| Transfer of lapsed share options to retained earnings | - | - | (164) | 164 | - | - | **-** |
| Purchase of treasury shares | - | (16,026) | - | - | (16,026) | - | **(16,026)** |
| Return of capital to non-controlling members of subsidiary entities | - | - | - | - | - | (1,640) | **(1,640)** |
| Purchase of non-controlling shares | - | - | - | - | - | (469) | **(469)** |
| Total transactions with owners | 576,819 | 973 | (4,543) | (149,591) | 423,658 | (5,348) | **418,310** |
| **Balance at 30 June 2015** | 1,444,903 | (7,146) | (8,918) | (66,224) | 1,362,615 | 9,643 | **1,372,258** |

Notes to the consolidated financial statements are included on pages 43 to 89.

## For the year ended 30 June 2014

| | Ordinary shares $'000 | Treasury shares $'000 | Reserves $'000 | Accumulated losses $'000 | Total $'000 | Non-controlling interest $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|
| Balance at 1 July 2013 | 869,269 | (6,948) | (6,088) | (52,139) | 804,094 | 12,457 | 816,551 |
| **Total comprehensive income for the period** | | | | | | | |
| Profit for the period attributable to owners of the Company | - | - | - | 101,285 | 101,285 | 2,093 | 103,378 |
| Other comprehensive income for the year, net of income tax | - | - | (40) | - | (40) | - | (40) |
| **Total comprehensive income for the period** | - | - | (40) | 101,285 | 101,245 | 2,093 | 103,338 |
| **Transactions with owners, recorded directly in equity** | | | | | | | |
| *Contributions by and (distributions to) owners* | | | | | | | |
| Dividends to equity holders | - | - | - | (104,352) | (104,352) | (1,723) | (106,075) |
| Share-based payment expense | - | - | 5,459 | - | 5,459 | - | 5,459 |
| Issue of shares on exercise of options under share option plan | 9,600 | - | - | - | 9,600 | - | 9,600 |
| Transfer from employee equity-settled benefits reserve on exercise of options | 3,585 | - | (3,585) | - | - | - | - |
| Treasury shares transferred to employees during the year | (14,050) | 14,050 | - | - | - | - | - |
| Purchase of treasury shares | - | (15,221) | - | - | (15,221) | - | (15,221) |
| Transfer of lapsed share options to retained earnings | - | - | (202) | 202 | - | - | - |
| On-market purchase of shares transferred to option and rights holders during the year | (320) | - | - | - | (320) | - | (320) |
| Derecognition of non-controlling interest on disposal of subsidiary | - | - | - | - | - | 8 | 8 |
| Total transactions with owners | (1,185) | (1,171) | 1,672 | (104,150) | (104,834) | (1,715) | (106,549) |
| **Balance at 30 June 2014** | 868,084 | (8,119) | (4,456) | (55,004) | 800,505 | 12,835 | 813,340 |

Notes to the consolidated financial statements are included on pages 43 to 89.

## Consolidated statement of cash flows

| | Note | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | 1,037,747 | 765,661 |
| Payments to suppliers and employees | | (791,240) | (591,035) |
| Dividends from associates | | 8,141 | 5,890 |
| Net stockbroking purchases | | (122) | (103) |
| Termination and retention incentive payments | | (5,857) | (4,880) |
| Income taxes paid | | (62,483) | (36,447) |
| **Net cash provided by/(used in) operating activities** | **2-5** | 186,186 | 139,086 |
| **Cash flows from investing activities** | | | |
| Dividends and distributions received | | 753 | 1,138 |
| Interest received | | 4,112 | 3,506 |
| Acquisition of subsidiary, net of cash acquired | | (35,779) | - |
| Acquisition and divestment transaction costs | | (6,381) | (1,789) |
| Interest and other costs of finance paid | | (8,337) | (3,561) |
| Net proceeds on disposal of interests in associates | | 3,612 | 2,569 |
| Proceeds on disposal of intangible assets | | 691 | 1,431 |
| Receipt of deferred purchase consideration | | 1,003 | - |
| Purchase of non-controlling interests in subsidiaries | | (1,444) | - |
| Net proceeds from sales/(purchases) of financial assets | | 6,443 | (4,731) |
| Payments for property and equipment | | (6,890) | (3,402) |
| Amounts (advanced to)/borrowed from other entities | | (23) | 142 |
| Payments for intangible assets | | (4,988) | (13,536) |
| **Net cash provided by/(used in) investing activities** | | (47,228) | (18,233) |
| **Cash flows from financing activities** | | | |
| Net borrowings drawn | | 75,435 | 4,421 |
| Purchase of treasury shares | | (16,268) | (15,541) |
| Proceeds from exercise of IFL share options | | 4,880 | 9,600 |
| Proceeds from exercise of share options in subsidiaries | | 662 | - |
| Cost of issuing additional shares | | (291) | - |
| Return of capital to non-controlling members of Group entities | | (1,640) | - |
| Dividends paid: | | | |
| - members of the Company | | (149,755) | (104,352) |
| - non-controlling members of subsidiary entities | | (3,239) | (1,723) |
| - shareholders entitled to contractual share buy-back | | (2,383) | (2,030) |
| **Net cash provided by/(used in) financing activities** | | (92,599) | (109,625) |
| **Net increase/(decrease) in cash and cash equivalents** | | 46,359 | 11,228 |
| **Cash and cash equivalents at the beginning of period** | | 109,505 | 98,252 |
| Effects of exchange rate changes on cash and cash equivalents | | (17) | 25 |
| Effects of cash reclassified to assets held for sale | | (5,314) | - |
| **Cash and cash equivalents at the end of period** | | 150,533 | 109,505 |

Notes to the consolidated financial statements are included on pages 43 to 89.

# Section 1 - Financial instruments and risk management

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

## 1-1 Risk management

**IOOF risk management framework**

Risk is defined as the chance of an event occurring that will have an impact on the strategic or business objectives of the IOOF Group, including a failure to exploit opportunities. The IOOF Group's strategy to manage risk involves the identification of risks by type, consequence and likelihood, implementation of controls to mitigate 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. Risk Management Procedures are put in place to control and mitigate the risks faced by the IOOF Group and vary 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 any anticipated risk exposure, is 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, available for sale financial assets and the share buy-back liability.

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. The price risk of a foreign unit trust investment was managed by entering into over-the-counter foreign exchange and index swaps. The investment fund has been redeemed, and the associated swaps were therefore terminated, during the year. Available for sale financial assets are exposed to price risk as the share price fluctuates.

# Section 1 - Financial instruments and risk management

## 1-1 Risk management (continued)

### (a) Market risk (continued)

#### (i) Price risk (continued)

The share buy-back liability recorded at balance date is reflective of the fair value of the underlying shares of certain Perennial subsidiaries. The price risk associated with this liability is that the fair value of the particular equities could change as a result of a change in the projected profitability of those subsidiaries. It is considered impractical to manage the price risk associated with this liability, and it is worth noting that the more successful the IOOF Group is in growing its business in the relevant sectors, the greater this liability will grow (all other things being equal).

*IOOF Group sensitivity*

At 30 June 2015 had the price of the units / shares held by the IOOF Group in unlisted unit trusts / shares in other entities increased / decreased by 1% (2014: 1%) with all other variables held constant, post-tax profit for the year would increase / decrease by $8,000 (2014: $40,000) as a result of gains / losses recorded through profit or loss, and available-for-sale reserves would increase / decrease by $122,000 (2014: $89,000).

At 30 June 2015, had the value of the underlying equity in relation to the share buy-back liabilities increased/decreased by 1% (2014: 1%) with all other variables held constant, consolidated equity would decrease/increase by $273,000 (2014: $266,000).

#### (ii) Currency risk

The IOOF Group is exposed to insignificant foreign exchange risk in relation to the financial instruments of its foreign activities in New Zealand and Hong Kong (2014: $nil).

#### (iii) Cash flow and fair value interest rate risk

Interest rate risk is the risk to the IOOF Group's earnings and capital arising from changes in market interest rates. The financial instruments held that 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, within investment guidelines acceptable to the Board.

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 2015, if interest rates had changed by +/- 100 basis points (2014: +/- 100 basis points) from the year-end rates with all other variables held constant, post tax profit for the year would have increased/decreased by $1,329,000 (2014: $704,000). 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.

# Section 1 - Financial instruments and risk management

## 1-1 Risk management (continued)

### (b) Credit risk (continued)

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

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

Impaired receivables

As at 30 June 2015, $4,974,000 trade receivables of the IOOF Group were past due or impaired (2014: $3,527,000). The amount of the impairment provision was $605,000 (2014: $nil).

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.

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 period, 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:** | **2015 $'000** | **2014 $'000** |
|---|---|---|
| Carrying value at 1 July | - | - |
| Acquisition through business combination | 880 | - |
| Provision for impairment written back during the year | (256) | - |
| Receivables written back during the year as collectible | (19) | - |
| **Carrying value at 30 June** | 605 | - |

| **Ageing of trade receivables that were not impaired at 30 June** | **2015 $'000** | **2014 $'000** |
|---|---|---|
| Neither past due nor impaired | 51,237 | 36,922 |
| Past due 31-60 days | 1,230 | 264 |
| Past due 61-90 days | 1,486 | 446 |
| Past due 91-120 days | 1,653 | 2,817 |
| | 55,606 | 40,449 |

### (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.

Refer to Section 5 - Statutory funds for further details.

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.

# Section 1 - Financial instruments and risk management

## 1-1 Risk management (continued)

### (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 period 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.

| 2015 | Note | Carrying amount $'000 | Contractual cash flows 1 year or less $'000 | 1-5 years $'000 | 5+ years $'000 | Total contractual cash flows $'000 |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Payables | | 71,519 | 71,519 | - | - | 71,519 |
| Total payables | | 71,519 | 71,519 | - | - | 71,519 |
| Borrowing facilities | 3-2 | 206,562 | - | 206,562 | - | 206,562 |
| Finance lease liabilities | 3-2 | 1,284 | 1,088 | 253 | - | 1,341 |
| Total borrowings | | 207,846 | 1,088 | 206,815 | - | 207,903 |
| Contingent consideration | | 7,298 | 6,279 | 1,200 | - | 7,479 |
| Share buy-back liabilities | | 27,327 | - | - | 27,327 | 27,327 |
| | | 313,990 | 78,886 | 208,015 | 27,327 | 314,228 |
| **Financial assets available to meet the above financial liabilities** | | | | | | |
| Cash | | 150,533 | 150,533 | - | - | 150,533 |
| Trade receivables | | 55,606 | 55,606 | - | - | 55,606 |
| Other receivables | | 42,362 | 40,082 | 2,280 | - | 42,362 |
| Security bonds | | 5,372 | - | - | 5,372 | 5,372 |
| Total receivables | | 103,340 | 95,688 | 2,280 | 5,372 | 103,340 |
| Fair value through profit or loss | | | | | | |
| Certificates of deposit | | 129 | 129 | - | - | 129 |
| Shares in listed companies | | 68 | 68 | - | - | 68 |
| Unlisted unit trusts | | 1,044 | - | 1,044 | - | 1,044 |
| Available-for-sale investments | | 17,474 | - | - | 17,474 | 17,474 |
| Loans and other receivables | | | | | | |
| Loans to directors and executives | | 10,059 | - | - | 10,059 | 10,059 |
| Receivables from statutory benefit funds | | 6,984 | 6,984 | - | - | 6,984 |
| Seed capital receivable | | 7,153 | - | - | 7,153 | 7,153 |
| Total other financial assets | | 42,911 | 7,181 | 1,044 | 34,686 | 42,911 |
| | | 296,784 | 253,402 | 3,324 | 40,058 | 296,784 |
| Net financial assets/(liabilities) | | (17,206) | 174,516 | (204,691) | 12,731 | (17,444) |

# Section 1 - Financial instruments and risk management

## 1-1 Risk management (continued)

### (d) Liquidity risk (continued)

| 2014 | Note | Carrying amount $'000 | Contractual cash flows: 1 year or less $'000 | 1-5 years $'000 | 5+ years $'000 | Total contractual cash flows $'000 |
|---|---|---|---|---|---|---|
| **Financial liabilities** | | | | | | |
| Payables | | 59,923 | 59,923 | - | - | 59,923 |
| Payables to statutory benefit funds and other related parties | | 162 | 162 | - | - | 162 |
| Total payables | | 60,085 | 60,085 | - | - | 60,085 |
| Borrowing facilities | 3-2 | 110,000 | 90,000 | 20,000 | - | 110,000 |
| Finance lease liabilities | 3-2 | 1,059 | 597 | 524 | - | 1,121 |
| Total borrowings | | 111,059 | 90,597 | 20,524 | - | 111,121 |
| Contingent consideration | | 2,157 | 733 | 1,600 | - | 2,333 |
| Share buy-back liabilities | | 26,629 | - | - | 26,629 | 26,629 |
| | | 199,930 | 151,415 | 22,124 | 26,629 | 200,168 |
| **Financial assets available to meet the above financial liabilities** | | | | | | |
| Cash | | 109,505 | 109,505 | - | - | 109,505 |
| Trade receivables | | 40,449 | 40,449 | - | - | 40,449 |
| Other receivables | | 34,578 | 33,437 | 1,141 | - | 34,578 |
| Security bonds | | 5,366 | - | - | 5,366 | 5,366 |
| Total receivables | | 80,393 | 73,886 | 1,141 | 5,366 | 80,393 |
| Fair value through profit or loss | | | | | | |
| Certificates of deposit | | 125 | 125 | - | - | 125 |
| Shares in listed companies | | 401 | 401 | - | - | 401 |
| Unlisted unit trusts | | 5,260 | - | 5,260 | - | 5,260 |
| Foreign exchange and index swap | | 87 | 87 | - | - | 87 |
| Available-for-sale investments | | 12,653 | - | - | 12,653 | 12,653 |
| Loans and other receivables | | | | | | |
| Loans to directors and executives | | 10,282 | - | - | 10,282 | 10,282 |
| Seed capital receivable | | 7,153 | - | - | 7,153 | 7,153 |
| Total other financial assets | | 35,961 | 613 | 5,260 | 30,088 | 35,961 |
| | | 225,859 | 184,004 | 6,401 | 35,454 | 225,859 |
| Net financial assets/(liabilities) | | 25,929 | 32,589 | (15,723) | 8,825 | 25,691 |

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

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

#### Offsetting assets and liabilities

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

# Section 1 - Financial instruments and risk management

## 1-1 Risk management (continued)

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

**Non-derivative financial assets**

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

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

The IOOF Group has the following non-derivative financial assets:
- cash;
- financial assets at fair value through profit or loss;
- loans and receivables; and
- available-for-sale financial assets.

***Cash***

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

***Financial assets at fair value through profit or loss***

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

Units in unlisted trusts are carried at the current unit price for redemption of those units with the trust.
The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets is the closing price.

***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the IOOF Group provides money, assets, or services directly to a debtor with no intention of selling the receivable. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and other receivables are carried at amortised cost using the effective interest method and closely approximate their estimated fair value due to their short-term nature.

***Available-for-sale financial assets***

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

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

**Non-derivative financial liabilities**

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

The IOOF Group has the following non-derivative financial liabilities:
- payables;
- borrowings (including finance leases); and
- other financial liabilities (including share buy-back liabilities and 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.

# Section 1 - Financial instruments and risk management

## 1-1 Risk management (continued)

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

***Payables***

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

***Borrowings and finance leases***

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

***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 3-6%. The estimated fair values are reasonable and the most appropriate at the balance date.

***Share buy-back liabilities***

The IOOF Group is required to buy back vested shares held by executives of some Perennial Group subsidiaries in the event of the death of those serving executives. Hence the probability of the total liability becoming payable in any individual financial year is low. In addition, there are provisions that enable executives to put back their shares to the IOOF Group, but the maximum the IOOF Group is obliged to purchase in any individual financial year is capped at 10% of the class of shares of the relevant subsidiary per annum. No contractual obligation exists in respect of these put options until a notice is received from an executive. As at balance date, two notices had been received. The Perennial Group subsequently bought back shares in a subsidiary for total consideration of $2.1m. Henderson has agreed to purchase these shares at that price as part of the Perennial transaction.

Purchase commitments to reacquire interests from non-controlling shareholders are accounted for in accordance with AASB 132 *Financial Instruments: Presentation* which specifies that an obligation for an entity to purchase its own equity instruments for cash gives rise to a financial liability.

The above liabilities are recorded at fair value and changes therein, are recognised in other comprehensive income and presented within equity in the share buy-back revaluation reserve. Determination of fair value has required assumptions concerning future growth, discount rates and fund flows.

The fair value is determined using valuation techniques irrespective of the probability of the exercise of the right by non-controlling shareholders. Discounted cash flow valuation models have been established in consultation with professional accounting firms, using generally accepted valuation methodologies. These include estimated discounted cash flows. Certain assumptions are made that are based on market conditions existing at each balance date. Assumptions used included terminal growth rates of 3% which do not exceed the long-term average growth rate for each of the businesses and pre-tax discount rates in the range of 13-16%. The estimated fair values resulting from the valuation techniques are reasonable and the most appropriate at the balance date.

# Section 1 - Financial instruments and risk management

## 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 2015** | **Level 1 $'000** | **Level 2 $'000** | **Level 3 $'000** | **Total** |
|---|---|---|---|---|
| **Financial assets measured at fair value** | | | | |
| Available-for-sale investments | 17,474 | - | - | 17,474 |
| Certificates of deposit | 129 | - | - | 129 |
| Shares in listed companies | 68 | - | - | 68 |
| Unlisted unit trusts | - | 1,044 | - | 1,044 |
| | 17,671 | 1,044 | - | 18,715 |
| **Financial liabilities measured at fair value** | | | | |
| Share buy-back liabilities | - | - | 27,327 | 27,327 |
| Contingent consideration | - | - | 7,298 | 7,298 |
| | - | - | 34,625 | 34,625 |
| **30 June 2014** | | | | |
| **Financial assets measured at fair value** | | | | |
| Available-for-sale investments | 12,653 | - | - | 12,653 |
| Certificates of deposit | 125 | - | - | 125 |
| Shares in listed companies | 401 | - | - | 401 |
| Unlisted unit trusts | - | 5,260 | - | 5,260 |
| Foreign exchange and index swap | - | 87 | - | 87 |
| | 13,179 | 5,347 | - | 18,526 |
| **Financial liabilities measured at fair value** | | | | |
| Share buy-back liabilities | - | - | 26,629 | 26,629 |
| Contingent consideration | - | - | 2,157 | 2,157 |
| | - | - | 28,786 | 28,786 |

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 fair value of level 3 share buy-back liabilities is determined using valuation techniques in consultation with professional accounting and specialist valuation firms, using generally accepted valuation methodologies. Refer to section 1-1(e) for further information.

The IOOF Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the year ended 30 June 2015.

| **Reconciliation of movements in level 3 financial liabilities** | **Contingent consid-eration $'000** | **Share buy-back liabilities $'000** |
|---|---|---|
| Opening balance as at 1 July 2014 | 2,157 | 26,629 |
| Assumed in a business combination | 6,360 | - |
| Unwinding of discount | 318 | - |
| Settlement of contingent consideration | (1,537) | - |
| Dividends paid to shareholders entitled to contractual share buy-back | - | (2,382) |
| Settlement of share buy-back liability | - | (975) |
| Proceeds from exercise of share options | - | 662 |
| Revaluation of shareholder liabilities in other comprehensive income | - | 3,393 |
| Closing balance as at 30 June 2015 | 7,298 | 27,327 |

# Section 2 - Results for the period

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

## 2-1 Operating segments

The IOOF Group has the following six 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.

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. Investment management segment includes revenue and results of the Perennial Group.

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

Shadforth
Shadforth was an ASX-listed financial advice and end-to-end wealth management firm. Shadforth provides a full range of wealth management services to high net worth and affluent clients, including strategic financial advice, portfolio administration, portfolio construction and management services, insurance solutions, and stockbroking. The company also provides corporate superannuation services as well as accounting and tax services.

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.

## 2-1 Operating segments (continued)

| | Platform management and administration | | Investment management | | Shadforth (11 months since acquisition) | | Financial advice and distribution | | Trustee services | | Corporate and other | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 | 2015 $'000 | 2014 $'000 |
| External management and service fee revenue | 401,693 | 379,409 | 121,638 | 131,498 | 156,335 | - | 109,149 | 94,815 | 24,039 | 22,355 | - | - | 812,854 | 628,077 |
| External other fee revenue | 9,608 | 9,371 | 1,946 | 1,867 | 11,337 | - | 12,303 | 12,708 | 3,449 | 3,365 | 715 | 325 | 39,358 | 27,636 |
| Service fees and other direct costs | (112,727) | (108,718) | (48,385) | (51,379) | (20,210) | - | (112,593) | (103,610) | 19 | (57) | 13 | 254 | (293,883) | (263,510) |
| Deferred acquisition costs | (1,104) | (1,966) | - | - | - | - | (853) | (611) | - | - | - | - | (1,957) | (2,577) |
| **Gross Margin** | **297,470** | **278,096** | **75,199** | **81,986** | **147,462** | **-** | **8,006** | **3,302** | **27,507** | **25,663** | **728** | **579** | **556,372** | **389,626** |
| Stockbroking revenue | - | - | - | - | 1,772 | - | 71,435 | 74,334 | - | - | - | - | 73,207 | 74,334 |
| Stockbroking service fees expense | - | - | - | - | - | - | (41,669) | (42,923) | - | - | - | - | (41,669) | (42,923) |
| **Stockbroking net contribution** | **-** | **-** | **-** | **-** | **1,772** | **-** | **29,766** | **31,411** | **-** | **-** | **-** | **-** | **31,538** | **31,411** |
| Inter-segment revenue(i) | - | - | - | - | - | - | 74,817 | 69,247 | 304 | 272 | 137 | 137 | 75,258 | 69,656 |
| Inter-segment expenses(i) | (74,779) | (68,944) | (335) | (509) | - | - | (141) | (172) | (3) | - | - | (31) | (75,258) | (69,656) |
| **Net Operating Revenue** | **222,691** | **209,152** | **74,864** | **81,477** | **149,234** | **-** | **112,448** | **103,788** | **27,808** | **25,935** | **865** | **685** | **587,910** | **421,037** |
| Other external revenue | - | - | 2,022 | 2,037 | 608 | - | 2,766 | 1,752 | 2 | - | 48 | 411 | 5,446 | 4,200 |
| Finance income | - | - | 727 | 273 | 1,128 | - | 1,665 | 1,916 | - | - | 2,326 | 2,491 | 5,846 | 4,680 |
| Inter-segment revenue(i) | - | - | - | - | - | - | 179 | 254 | - | - | - | - | 179 | 254 |
| Share of net profits of associates | (51) | 16 | 5,071 | 6,150 | 230 | - | 1,227 | 1,298 | - | - | - | - | 6,477 | 7,464 |
| Operating and other expenditure | (95,949) | (89,504) | (29,547) | (35,889) | (85,099) | - | (75,482) | (74,465) | (17,715) | (16,274) | (39,419) | (36,512) | (343,211) | (252,644) |
| Share-based payments expense | (766) | (947) | (385) | (410) | - | - | (1,580) | (3,133) | (26) | (34) | (802) | (935) | (3,559) | (5,459) |
| Finance costs | - | - | (253) | (325) | (1,697) | - | (115) | (71) | - | - | (6,660) | (3,077) | (8,725) | (3,473) |
| Inter-segment expenses(i) | (164) | (130) | - | (75) | - | - | - | - | - | - | (15) | (49) | (179) | (254) |
| Depreciation | (1,909) | (1,347) | (759) | (636) | (1,079) | - | (2,247) | (1,973) | (155) | (129) | (2) | (1) | (6,151) | (4,086) |
| Amortisation of intangible assets - IT Development | (1,662) | (1,200) | - | - | - | - | - | - | - | - | - | - | (1,662) | (1,200) |
| Non-controlling interests | - | - | (1,765) | (1,040) | - | - | (2,156) | (2,094) | - | - | - | 1 | (3,921) | (3,133) |
| Income tax expense | (37,865) | (35,643) | (12,263) | (14,010) | (18,527) | - | (11,632) | (9,264) | (2,983) | (2,857) | 18,578 | 17,435 | (64,692) | (44,339) |
| **UNPAT** | **84,325** | **80,397** | **37,712** | **37,552** | **44,798** | **-** | **25,073** | **18,008** | **6,931** | **6,641** | **(25,081)** | **(19,551)** | **173,758** | **123,047** |

(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 period

## 2-1 Operating segments (continued)

### Reconciliation of reportable segment revenues and expenses

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Segment revenues** | | |
| External management and service fee revenue | 812,854 | 628,077 |
| External other fee revenue | 39,358 | 27,636 |
| Stockbroking revenue | 73,207 | 74,334 |
| Other external revenue | 5,446 | 4,200 |
| Finance income | 5,846 | 4,680 |
| **Total segment revenues** | 936,711 | 738,927 |
| Equity Trustees Ltd acquisition and divestment (inc dividends) | - | 1,287 |
| Gain on disposal of subsidiary | 1,565 | - |
| **Total reported revenue** | 938,276 | 740,214 |
| **Segment expenses** | | |
| Service fees and other direct costs | 293,883 | 263,510 |
| Stockbroking service fees expense | 41,669 | 42,923 |
| Deferred acquisition costs | 1,957 | 2,577 |
| Operating expenditure & loss on disposal of non-current assets | 343,211 | 252,644 |
| Share-based payments expense | 3,559 | 5,459 |
| Depreciation of property and equipment | 6,151 | 4,086 |
| Amortisation of intangible assets - IT Development | 1,662 | 1,200 |
| **Total segment expenses** | 692,092 | 572,399 |
| Amortisation of intangible assets | 38,612 | 24,270 |
| Acquisition transition costs | 6,381 | 1,789 |
| EQT finance costs | - | 60 |
| Recognition of Shadforth onerous lease contracts | 2,051 | - |
| Impairment of Plan B brand name | 1,400 | - |
| Termination and retention incentive payments | 5,948 | 4,880 |
| **Total reported expenses** | 746,484 | 603,398 |

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 in note 7-2 *Basis of preparation*.

## 2-2 Disposal group held for sale

On 2 June 2015, we announced that we expected to dispose our interests in Perennial Fixed Interest and Perennial Growth Management to Henderson for an upfront consideration of $71.6m and a deferred component dependent on future business performance, payable after two and four years. The sale to Henderson is expected to complete in the first half of next financial year and will be recorded in that period as a result.

These components of the Perennial Group were not previously classified as held-for-sale or as a discontinued operation.

# Section 2 - Results for the period

## 2-2 Disposal group held for sale (continued)

### Assets and liabilities of disposal group

As at 30 June 2015, the disposal group was stated at fair value less costs to sell and comprised the following assets and liabilities.

| | 2015 $'000 |
|---|---|
| Cash | 5,314 |
| Receivables | 3,187 |
| Other financial assets | 525 |
| Prepayments | 29 |
| **Assets held for sale** | 9,055 |
| | |
| Payables | 1,964 |
| Current tax liabilities | 1,105 |
| Provisions | 1,653 |
| Deferred tax liabilities | 3 |
| **Liabilities held for sale** | 4,725 |

| **Results of disposal group held for sale** | 2015 $'000 |
|---|---|
| Revenue | 32,571 |
| Expenses | (23,515) |
| **Results from operating activities** | 9,056 |
| Income tax | (2,704) |
| **Results from operating activities, net of tax** | 6,352 |
| Reinstatement of Perennial non-controlling interests | (1,765) |
| **Underlying contribution from operating activities, net of tax** | 4,587 |

### Cumulative income or expenses included in other comprehensive income

The total cumulative expense included in other comprehensive income relating to the disposal group is $19,010,000 relating to the share buy-back liability revaluation.

***Reinstatement of Perennial non-controlling interests***

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

### Accounting policies

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to financial assets or deferred tax assets which continue to be measured in accordance with the Group's other accounting policies. Impairment losses on initial classification as held-for-sale and subsequent gains and losses on remeasurement are recognised in profit or loss.

Once classified as held-for-sale, intangible assets and property and equipment are no longer amortised or depreciated, and any equity-accounted investee is no longer equity accounted.

# Section 2 - Results for the period

## 2-3 Revenue

| | Policy note | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| Management and service fees revenue | (i) | 812,854 | 628,077 |
| Stockbroking revenue | (ii) | 73,207 | 74,334 |
| External other fee revenue | (ii) | 39,358 | 27,636 |
| Finance income | (iii) | | |
| Interest income on loans to Directors of controlled and associated entities | | 408 | 410 |
| Interest income from non-related entities | | 4,113 | 3,037 |
| Dividends and distributions received | | 753 | 1,138 |
| Net fair value gains/(losses) on other financial assets at fair value through profit or loss | | 26 | (283) |
| Profit on sale of assets | | 546 | 1,665 |
| | | 5,846 | 5,967 |
| Other revenue | | | |
| Service revenue charged to related parties | | 1,905 | 1,937 |
| Gain on disposal of subsidiaries and associates | | 1,565 | - |
| Other | | 3,541 | 2,263 |
| | | 7,011 | 4,200 |
| **Total revenue** | | 938,276 | 740,214 |

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

# Section 2 - Results for the period

## 2-4 Expenses

| | Policy note | 2015 $'000 | 2014 $'000 |
|---|---|---|---|
| Service Fees and other direct costs | (i) | | |
| Service and marketing fees expense | | 270,871 | 251,052 |
| Stockbroking service fees expense | | 41,669 | 42,923 |
| Other direct costs | | 23,012 | 12,458 |
| | | 335,552 | 306,433 |
| Operating expenditure | | | |
| Salaries and related employee expenses | (ii) | 213,222 | 152,156 |
| Employee defined contribution plan expense | (iii) | 14,648 | 10,688 |
| Information technology costs | | 51,361 | 39,049 |
| Professional fees | | 7,252 | 5,287 |
| Marketing | | 9,776 | 9,065 |
| Office support and administration | | 17,905 | 14,865 |
| Occupancy related expenses | | 22,602 | 16,246 |
| Travel and entertainment | | 6,338 | 5,154 |
| Other | | 53 | 113 |
| | | 343,157 | 252,623 |
| Other expenses | | | |
| Share-based payments expense | (iv) | 3,559 | 5,459 |
| Acquisition and divestment transaction costs | | 6,381 | 1,789 |
| Termination and retention incentive payments | (v) | 5,948 | 4,880 |
| Depreciation of property and equipment | | 6,151 | 4,086 |
| Amortisation of intangible assets | (vi) | 38,612 | 24,270 |
| Amortisation of intangible assets - IT development | (vi) | 1,662 | 1,200 |
| Loss on disposal of non-current assets | | 54 | 81 |
| Deferred acquisition costs | (vii) | 1,957 | 2,577 |
| Recognition of Shadforth onerous lease contracts | | 2,051 | - |
| Impairment of Plan B brand name | (vi) | 1,400 | - |
| | | 67,775 | 44,342 |
| **Total expenses** | | 746,484 | 603,398 |

### Accounting policies

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

***(i) Service Fees and other direct costs***

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

***(ii) Salaries and related employee expenses***

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

***Short-term employee benefits***

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

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

***Short-term incentive plans***

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

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

# Section 2 - Results for the period

## 2-4 Expenses (continued)

### Accounting policies (continued)

***(ii) Salaries and related employee expenses (continued)***

***Annual and long service leave benefits***

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

***(iii) Employee defined contribution plan expense***

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised in profit or loss in the periods 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. The plan has not been in use during the year.

***(iv) Share-based payments expense***

The grant date fair value of share-based payment awards granted to employees is recognised as a share-based payment expense, with a corresponding increase in the share-based payments reserve, over the period 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 and strategic direction.
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.
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 salary sacrifice base salary or future incentive entitlements in order to acquire shares.  As the purchase is funded by Directors' salary sacrifice, no additional expense is recorded by the IOOF Group.

***(v) Termination and retention incentive payments***

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

***(vi) Amortisation and impairment***

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

***(vii) Deferred acquisition costs***

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

# Section 2 - Results for the period

## 2-5 Net cash provided by operating activities

Cash includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.
This note reconciles the operating profit to the cash provided by operating activities per the cash flow statement.

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Profit for the period | 140,527 | 103,378 |
| Depreciation on property and equipment | 6,151 | 4,086 |
| Amortisation of intangible assets | 40,274 | 25,470 |
| (Profit)/loss on disposal of assets | (2,078) | (1,729) |
| Interest and other costs of finance | 8,725 | 3,684 |
| Interest received and receivable | (4,521) | (3,447) |
| Dividends and distributions received and receivable | (753) | (1,138) |
| Impairment of Plan B brand name | 1,400 | - |
| Dividends received from associates | 8,141 | 5,890 |
| Share of profits of associates accounted for using the equity method | (6,477) | (7,464) |
| Share-based payments expense | 3,559 | 5,459 |
| Acquisition and divestment transaction costs | 6,381 | 1,789 |
| Foreign currency gains | - | (15) |
| Other | 23 | 25 |
| Changes in net operating assets and liabilities: | | |
| (Increase)/decrease in receivables | (10,396) | (16,995) |
| (Increase)/decrease in other assets | 2,907 | 2,521 |
| (Increase)/decrease in other financial assets | (32) | 53 |
| (Increase)/decrease in deferred acquisition costs | 2,102 | 2,531 |
| Increase/(decrease) in payables | (13,090) | 10,046 |
| Increase/(decrease) in deferred revenue liabilities | (2,165) | (2,650) |
| Increase/(decrease) in provisions | 10,357 | 170 |
| Increase/(decrease) in income tax payable | 19,422 | 13,113 |
| Increase/(decrease) in other liabilities | 1,022 | (99) |
| Increase/(decrease) in deferred taxes | (25,293) | (5,592) |
| Net cash provided by operating activities | 186,186 | 139,086 |

## 2-6 Income taxes

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Current tax expense | | |
| Current period | 75,992 | 42,787 |
| Adjustment for prior periods | (2,458) | (1,190) |
| Taxable losses not recognised | 785 | 1,213 |
| | 74,319 | 42,810 |
| Deferred tax expense | | |
| Origination and reversal of temporary differences | (27,131) | (5,985) |
| Adjustments recognised in the current year in relation to the deferred tax of prior years | 1,829 | 393 |
| | (25,302) | (5,592) |
| **Total income tax expense from continuing operations** | **49,017** | **37,218** |
| **Income tax recognised in other comprehensive income** | | |
| Available-for-sale financial assets | | |
| Before tax | 4,978 | 3,624 |
| Tax (expense)/benefit | (1,479) | (851) |
| Net of tax | 3,499 | 2,773 |

# Section 2 - Results for the period

## 2-6 Income taxes (continued)

| Reconciliation of effective tax rate | 2015 % | 2015 $'000 | 2014 % | 2014 $'000 |
|---|---|---|---|---|
| Profit before tax | | 189,544 | | 140,596 |
| Tax using the IOOF Group's domestic tax rate | 30.0% | 56,863 | 30.0% | 42,179 |
| **Tax effect of:** | | | | |
| Share of tax credits with statutory funds | 0.9% | 1,711 | 1.2% | 1,671 |
| (Non assessable income)/Non-deductible expenses | (3.0%) | (5,730) | (2.4%) | (3,326) |
| Share of net profits of associates | (1.0%) | (1,943) | (1.6%) | (2,234) |
| Assessable associate dividends | 3.4% | 6,519 | 3.2% | 4,487 |
| Taxable loss not recognised | 0.4% | 785 | 0.9% | 1,213 |
| Imputation credits | (3.6%) | (6,746) | (3.4%) | (4,831) |
| Other | (1.0%) | (1,813) | (0.8%) | (1,144) |
| Under/(over) provided in prior periods | (0.3%) | (629) | (0.6%) | (797) |
| | **25.9%** | **49,017** | **26.5%** | **37,218** |

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Deferred tax assets and liabilities** | | |
| **Deferred tax asset balance comprises temporary differences attributable to:** | | |
| Salaries and related employee expenses | 18,263 | 13,120 |
| Provisions, accruals and creditors | 6,217 | 4,916 |
| Carry forward capital and revenue losses | 103 | 599 |
| Capital gains on disposal of subsidiaries | 15,935 | - |
| Other | 3,463 | 4,008 |
| Deferred tax asset balance as at 30 June | 43,981 | 22,643 |
| Set-off of deferred tax liabilities pursuant to set-off provisions | (43,981) | (22,643) |
| **Net deferred tax asset balance as at 30 June** | - | - |

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Deferred tax liability balance comprises temporary differences attributable to:** | | |
| Customer relationships | 128,531 | 69,011 |
| Unrealised gains | 2,838 | 1,397 |
| Fixed assets and computer software | 2,275 | 2,057 |
| Other | 2,864 | 3,891 |
| | 136,508 | 76,356 |
| Set-off of deferred tax liabilities pursuant to set-off provisions | (43,981) | (22,643) |
| **Net deferred tax liability balance as at 30 June** | 92,527 | 53,713 |
| **Reconciliation of movements** | | |
| Net carrying amounts at the beginning of the year | (53,713) | (58,308) |
| Acquisitions and disposals | (62,637) | (144) |
| Credited/(charged) to profit or loss | 25,302 | 5,592 |
| Temporary differences directly attributable to equity | (1,479) | (853) |
| Carrying amount at the end of the year | (92,527) | (53,713) |
| **Unrecognised deferred tax assets** | | |
| Tax losses | - | 5,388 |
| Potential tax benefit at the Australian tax rate of 30% | - | 1,616 |

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 Group can utilise the benefits there from.

# Section 2 - Results for the period

## 2-6 Income taxes (continued)

### 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.

***Uncertain Tax Position***

On 27 June 2012, Tax Laws Amendment (2012 Measures No. 2) Act 2012 (“The 2012 Act”) was substantially enacted. It sought to limit the availability of deductions previously made available by the passing of Tax Laws Amendment (2010 Measures No. 1) Act 2010 (“The 2010 Act”). Both Acts contain a number of amendments to the tax consolidation regime that deal with rights to future income assets acquired upon an entity joining a tax consolidated group. The 2012 Act limits deductions that were available under the 2010 Act in respect to the tax cost setting amount of those assets, and under the business related expenditure provisions.

## 2-7 Dividends

After 30 June 2015 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 2015 dividend | 28.0 | 84,037 | 15 October 2015 | Franked |

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Dividend franking account | | |
| 30 per cent franking credits available to shareholders of IOOF Holdings Ltd for subsequent financial years | 95,505 | 47,417 |

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 entity 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 $36,016,000 (2014: $24,870,000).

# Section 2 - Results for the period

## 2-7 Dividends (continued)

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

| | Cents per share | Total amount $'000 | Date of payment | Franked / unfranked |
|---|---|---|---|---|
| **2015** | | | | |
| Interim 2015 dividend | 25.0 | 75,033 | 10 April 2015 | Franked |
| Final 2014 dividend | 25.0 | 75,033 | 15 October 2014 | Franked |
| | 50.0 | 150,066 | | |

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

| | | | | |
|---|---|---|---|---|
| **2014** | | | | |
| Interim 2014 dividend | 22.5 | 52,227 | 09 April 2014 | Franked |
| Final 2013 dividend | 22.5 | 52,227 | 16 October 2013 | Franked |
| | 45.0 | 104,454 | | |

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

## 2-8 Earnings per share

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Basic earnings per share | 47.7 | 43.7 |
| Diluted earnings per share | 47.4 | 43.1 |

**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:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Profit for the period attributable to owners of the Company | 138,371 | 101,285 |
| Earnings used in the calculation of basic EPS | 138,371 | 101,285 |

| **Weighted average number of ordinary shares** | No. '000 | No. '000 |
|---|---|---|
| Weighted average number of ordinary shares (basic) | 289,896 | 231,637 |
| Effect of unvested performance rights | 2,077 | 2,756 |
| Effect of share options on issue | 131 | 381 |
| Weighted average number of ordinary shares (diluted) | 292,104 | 234,774 |

**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 2015, nil options were excluded from the diluted weighted average number of ordinary shares calculation as all are dilutive.

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 total period.

# 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.

During the period, the IOOF Group refinanced its borrowings to facilitate the acquisition of Shadforth. The IOOF Group entered into a Syndicated Facility Agreement and repaid all previous borrowings, including those held by Shadforth prior to joining the IOOF Group. The total facility drawn is $206.6m repayable in 2 - 4 years.

## 3-1 Capital management

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.

In order to maintain or adjust the capital structure, the 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 Group's capital that is not required for regulatory and working capital requirements of the business. The investment capital is invested in:

- bank bills and deposits;
- subsidiaries;
- available-for-sale assets;
- unit trusts, as investments; and
- 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. 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.

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 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 Group has complied with all externally imposed capital requirements to which it is subject.

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

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

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

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

During 2015, the Group's capital risk management strategy was unchanged from 2014.

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

# Section 3 - Capital management and financing

## 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.

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Syndicated facility agreement | 206,562 | 110,000 |
| Finance lease liabilities - refer (c) | 1,284 | 1,059 |
| | 207,846 | 111,059 |

**(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:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Total facilities | 225,000 | 135,000 |
| Used at 30 June | 206,562 | 110,000 |
| Unused at 30 June | 18,438 | 25,000 |

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

### Accounting policies

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

**(b) Other bank facilities**

In addition to the cash advance and working capital facilities, the IOOF Group has a number of facilities under a Syndicated Facility Agreement. These include equipment finance and contingent liability facilities. The aggregate of these facilities is $40 million.

**(c) Finance lease liabilities**

Finance leases relate to computer hardware.

| | 2015 | | 2014 | |
|---|---|---|---|---|
| Finance lease liabilities of the Group are payable as follows: | Future minimum lease payments $'000 | Present value of minimum lease payments $'000 | Future minimum lease payments $'000 | Present value of minimum lease payments $'000 |
| Less than one year | 1,087 | 1,038 | 598 | 550 |
| Between one and five years | 254 | 246 | 523 | 509 |
| | 1,341 | 1,284 | 1,121 | 1,059 |
| Less future finance charges | (57) | | (62) | |
| | 1,284 | | 1,059 | |

# Section 3 - Capital management and financing

## 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.

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| 300,133,752 fully paid ordinary shares (30 June 2014: 232,118,034) | 1,444,903 | 868,084 |
| 732,002 treasury shares (2014: 960,841) | (7,146) | (8,119) |
| | 1,437,757 | 859,965 |

| | 2015 | | 2014 | |
|---|---|---|---|---|
| | No. '000 | $'000 | No. '000 | $'000 |
| **Ordinary shares** | | | | |
| On issue at 1 July | 232,118 | 868,084 | 232,118 | 869,269 |
| Fair value of shares issued in business combination | 68,016 | 581,535 | - | - |
| Transaction costs of issuing new shares | - | (293) | - | - |
| Issue of shares on exercise of options under executive and employee share option plan | - | 4,880 | - | 9,600 |
| Transfer from employee equity-settled benefits reserve on exercise of options | - | 7,938 | - | 3,585 |
| Treasury shares transferred to employees during the year | - | (16,999) | - | (14,050) |
| On-market purchase of shares transferred to option and performance rights holders during the year | - | (242) | - | (320) |
| On issue at 30 June | 300,134 | 1,444,903 | 232,118 | 868,084 |
| **Treasury shares** | | | | |
| On issue at 1 July | (961) | (8,119) | (836) | (6,948) |
| Purchase of treasury shares | (1,750) | (16,026) | (1,763) | (15,221) |
| Treasury shares transferred to employees during the year | 1,979 | 16,999 | 1,638 | 14,050 |
| On issue at 30 June | (732) | (7,146) | (961) | (8,119) |
| | 299,402 | 1,437,757 | 231,157 | 859,965 |

### 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:

| 2015 | Less than one year $'000 | 1 to 5 years $'000 | Later than five years $'000 | Total $'000 |
|---|---|---|---|---|
| Premises | 19,767 | 46,025 | 8,999 | 74,791 |
| Office equipment | 405 | 160 | - | 565 |
| | 20,172 | 46,185 | 8,999 | 75,356 |

| 2014 | Less than one year $'000 | 1 to 5 years $'000 | Later than five years $'000 | Total $'000 |
|---|---|---|---|---|
| Premises | 14,232 | 41,102 | 3,808 | 59,142 |
| Office equipment | 1,421 | 34 | - | 1,455 |
| | 15,653 | 41,136 | 3,808 | 60,597 |

| Guarantees and underwriting commitments | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Rental bond guarantees | 12,185 | 4,370 |
| ASX settlement bond guarantee | 500 | 500 |
| ASIC bond guarantees | 120 | 40 |
| Other guarantees | 3,000 | 3,000 |
| | 15,805 | 7,910 |

**Contingent liabilities**

The IOOF Group is currently defending complaints and claims brought against it in its capacity as a wealth management provider. In aggregate these total approximately $7,741,000 (2014: $6,513,000). As professional indemnity insurance cover is held to meet any professional liabilities that may arise for individual claims above the applicable excess, the IOOF Group would be potentially liable for less than $2,171,000 (2014: $1,915,000) of these claims. The Directors are of the opinion that provisions are not required in respect of these matters, as it is not probable that a future sacrifice of economic benefits will be required.

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

# Section 3 - Capital management and financing

## 3-5 Reserves

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Available-for-sale investment revaluation reserve | 7,897 | 4,411 |
| Business combinations reserve | (326) | (326) |
| Share buy-back revaluation reserve | (19,010) | (16,192) |
| Foreign currency translation reserve | (9) | 3 |
| Share-based payments reserve | 2,530 | 7,648 |
| | (8,918) | (4,456) |

# Section 4 - Operating assets and liabilities

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

## 4-1 Acquisitions

On 6 August 2014, Shadforth joined the IOOF Group via a scheme of arrangement. Shadforth is a leading non-aligned client focused financial advice and end-to-end wealth management firm. Shadforth provides high net worth and affluent clients including strategic financial advice, portfolio administration solutions, portfolio construction and management services, insurance (both general and risk) solutions, finance broking, stockbroking, corporate superannuation, accounting and tax services.

The IOOF Group acquired all of the ordinary shares in Shadforth for a total cash consideration of $76.7 million and the issue of 68,015,718 shares in the Company to former Shadforth shareholders. The IOOF Group entered into a Debt Facility for $100 million to fund the cash consideration component of the scheme of arrangement and transition costs.

In the period from acquisition to 30 June 2015, Shadforth contributed revenue of $171,409,000 and a profit of $32,701,000 to the IOOF Group's results. This excludes integration and transaction costs of $6,381,000.

If the acquisition had occurred on 1 July 2014, management estimates that the consolidated revenue would have been $958,392,000 and consolidated profit for the period would have been $141,087,000. In determining these amounts, management have assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2014.

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date:

| Consideration transferred | $'000 |
|---|---|
| Cash | 76,661 |
| Equity instruments (i) | 581,535 |
| Total consideration | 658,196 |
| Cash balances acquired | (40,882) |
| Consideration, net of cash acquired | 617,314 |

***(i) Equity instruments issued***

68,015,718 shares in the Company were issued to Shadforth shareholders. The fair value of the ordinary shares issued was based on the volume weighted average share price of the Company calculated in accordance with the Scheme Implementation Agreement of $8.55 per share.

**Acquisition-related costs**

The IOOF Group incurred acquisition-related costs of $6.4 million on legal fees and due diligence costs. These costs have been included in Other Expenses in note 2-4.

# Section 4 - Operating assets and liabilities

## 4-1 Acquisitions (continued)

### Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

| | $'000 |
|---|---|
| Cash | 40,882 |
| Receivables | 22,477 |
| Other financial assets | 603 |
| Associates | 2,368 |
| Property and equipment | 3,497 |
| Intangible assets | 279,800 |
| Prepayments | 1,680 |
| Deferred acquisition costs | 161 |
| Deferred tax assets | 5,961 |
| Payables | (26,665) |
| Borrowings | (21,283) |
| Current tax liabilities | (740) |
| Contingent consideration | (6,360) |
| Provisions | (10,400) |
| Deferred tax liabilities | (68,597) |
| **Total identifiable net assets acquired** | **223,384** |

Intangible assets acquired comprise customer relationships of $227.1 million, brand names of $51.0 million and software of $1.7 million.

### Measurement of fair values

Intangible assets, including customer contracts and relationships, internally developed software and other technology and brand names, were valued using the income approach. The income approach focuses on the income-producing capability of the identified asset. The underlying premise of this approach is that the value of an asset can be measured by the present worth of the net economic benefit (cash receipts less cash outlays) to be received over the life of the asset. The steps followed in applying this approach include estimating the expected after-tax cash flows attributable to the asset over its life and converting these after-tax cash flows to present value through discounting. The discounting process uses a rate of return that accounts for both the time value of money and investment risk factors. Finally, the present value of the after-tax cash flows over the life of the asset is totalled to arrive at an indication of fair value.

### Goodwill

Goodwill arising from the acquisition has been recognised as follows.

| | $'000 |
|---|---|
| Total consideration | 658,196 |
| Fair value of assets acquired | (223,384) |
| Goodwill acquired | **434,812** |

The goodwill is attributable mainly to the skills and technical talent of Shadforth's work force and the synergies expected to be achieved from integrating Shadforth into the IOOF Group's existing business. None of the goodwill recognised is expected to be deductible for tax purposes.

# Section 4 - Operating assets and liabilities

## 4-2 Associates

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

Investments in its associates are accounted for using the equity method and are initially recognised at cost. The cost of the investment includes 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 equity-accounted investees, until the date on which significant influence or joint control ceases.

The IOOF Group has interests in a number of associates. For one of these associates, Perennial Value Management Ltd, the IOOF Group owns 52.4% (2014: 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 associates individually with a carrying value in excess of $2m:

| Associate | Country of incorporation | Ownership interest | | Carrying value | Group's share of profit/ (loss) |
|---|---|---|---|---|---|
| | | 2015 % | 2014 % | $'000 | $'000 |
| Perennial Value Management Ltd | Australia | 52.4 | 52.4 | 8,463 | 5,070 |
| Thornton Group (SA) Pty Ltd | Australia | 43.1 | 43.1 | 5,731 | 366 |
| Other associates | | | | 7,704 | 1,041 |
| | | | | 21,898 | 6,477 |

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

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Beneficial ownership interest** | **42.4%** | **42.4%** |
| Current assets | 13,496 | 19,223 |
| Non-current assets | 1,780 | 697 |
| Current liabilities | (3,090) | (4,001) |
| Non-current liabilities | (216) | (230) |
| **Net assets (100%)** | **11,970** | **15,689** |
| Group's share of net assets (42.4%) | 5,069 | 6,644 |
| Group's share of movements in equity and other reserves (42.4%) | (1,057) | (933) |
| Goodwill | 4,451 | 4,451 |
| **Carrying value of interest in associate** | **8,463** | **10,162** |
| Revenue (100%) | 29,600 | 31,267 |
| Profit and total comprehensive income (100%) | 11,974 | 14,510 |
| Profit and total comprehensive income (42.4%) | 5,070 | 6,150 |
| Dividends received by the Group | 6,769 | 5,077 |

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 $8,141,000 (2014: $5,890,000) 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 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

## 4-3 Intangible assets (other than goodwill)

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Cost | 671,810 | 396,841 |
| Accumulated amortisation and impairment losses | (148,353) | (108,200) |
| | 523,457 | 288,641 |

| | IT Development $'000 | Computer software $'000 | Customer relationships $'000 | Brand names $'000 | Other Intangibles $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| Carrying value at 1 July 2014 | 11,053 | 8,364 | 238,800 | 20,549 | 9,875 | 288,641 |
| Acquisition through business combination | - | 1,700 | 227,100 | 51,000 | - | 279,800 |
| Additions | 837 | - | 299 | - | 2,716 | 3,852 |
| Disposals | - | (188) | (508) | - | (353) | (1,049) |
| Impairment | - | - | - | (1,400) | - | (1,400) |
| Transfer hardware projects to property and equipment | (6,113) | - | - | - | - | (6,113) |
| Amortisation expense | (1,662) | (2,165) | (33,920) | (801) | (1,726) | (40,274) |
| **Carrying value at 30 June 2015** | 4,115 | 7,711 | 431,771 | 69,348 | 10,512 | 523,457 |

### Accounting policies

Intangible assets are non-physical assets used by the IOOF Group to generate revenues and profits. These assets include brands, 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, 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. Where there has been a technological change or decline in business performance the Directors review the value of assets to ensure they have not fallen below their amortised value. Should an asset's value fall below its amortised value an additional one-off impairment charge is made against profit.

***Subsequent expenditure***

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and 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, such as goodwill, are not amortised but are tested for impairment at each reporting date. The estimated useful lives for the current and comparative years are as follows:

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

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

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

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

# Section 4 - Operating assets and liabilities

## 4-3 Intangible assets (other than goodwill) (continued)

***Indefinite life intangible assets***

The indefinite life intangible assets relate to brand names. The below table excludes $11m of intangibles which have a finite life. The aggregate carrying amounts of indefinite-life intangible assets allocated to each CGU are as follows:

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Shadforth | 51,000 | - |
| Ord Minnett group | 6,773 | 6,773 |
| Lonsdale | 500 | 500 |
| Plan B group | - | 1,400 |
| | 58,273 | 8,673 |

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 period 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 12.0% (2014: 13.8%) used reflects the 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.

The IOOF Group remains committed to generating efficiencies from rationalisation. During the year, Plan B was integrated into the Shadforth business. The Plan B brand name will no longer be utilised by the IOOF Group with the brand name therefore being impaired for the year ended 30 June 2015.

## 4-4 Goodwill

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Cost | 1,030,114 | 595,099 |
| Accumulated impairment | (17,009) | (17,009) |
| **Net carrying value of goodwill** | 1,013,105 | 578,090 |
| Carrying value at 1 July | 578,090 | 578,090 |
| Acquisition of Shadforth | 434,812 | - |
| Acquisition of CUA FP | 203 | - |
| **Carrying value at 30 June** | 1,013,105 | 578,090 |

**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 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.

# Section 4 - Operating assets and liabilities

## 4-4 Goodwill (continued)

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

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Shadforth | 434,812 | - |
| Platform management and administration | 347,509 | 347,509 |
| Perennial group | 97,814 | 97,814 |
| DKN | 80,339 | 80,339 |
| Multi manager | 39,735 | 39,735 |
| IOOF Ltd | 11,970 | 11,970 |
| Consultum | 723 | 723 |
| CUA FP | 203 | - |
| | 1,013,105 | 578,090 |

| CGU | Platform management and administration | Perennial group | DKN | Multi manager | IOOF Ltd | Consultum |
|---|---|---|---|---|---|---|
| **Value in Use element** | | | | | | |
| Cash inflows yrs 2 - 5 | B | C | B | B | D | A |
| Cash inflows yrs 2 - 5 | E | E | E | E | D | E |
| Cash flows - perpetuity | 2.75% growth from yr 5 | 2.75% growth from yr 5 | 2.75% growth from yr 5 | 2.75% growth from yr 5 | D | 2.25% growth from yr 5 |

**A** Reserve Bank of Australia forecast GDP growth rate [2]

**B** Observed Australian managed funds annual compounding growth for March 2010 to March 2015 [1]

**C** Observed Australian equities and units in managed funds annual compounding growth for March 2010 to March 2015 [1]

**D** Observed Australian friendly societies annual compounding growth for March 2010 to March 2015 [1]

**E** Blended rate of the underlying Australian forecast inflation levels and the applicable Reserve Bank of Australia GDP growth rate[2]

The goodwill for the Shadforth and CUA FP CGUs arose from recently concluded, arms-length market based transactions which provide a reasonable estimate of fair value as at balance sheet date.

The recoverable amounts for goodwill allocated to all other CGUs have been determined based on value-in-use calculations using first year cash flow projections from 2015 financial budgets approved by management and the Board. 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 12.0% (2014: 13.8%) used reflects the IOOF Group's pre-tax nominal weighted average cost of capital (WACC) and has increased from prior year due to applying a different external source to the applicable risk free rate component. Management's assessment of goodwill's value-in-use exceeds the value of goodwill allocated to these CGUs, therefore 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 1% for Perennial Group 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.

In respect of the Perennial Group, goodwill has arisen from the acquisition of equity in Perennial Investment Partners Ltd and Perennial Fixed Interest Partners Pty Ltd while further goodwill has been recorded upon the recognition of an obligation the IOOF Group may have under various shareholder agreements to acquire shares in certain Perennial subsidiaries.

[1] *source - ABS 5655.0 Managed Funds Australia*
[2] *source - RBA Statement of Monetary Policy*

# Section 4 - Operating assets and liabilities

## 4-5 Provisions

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| Directors' retirement obligations | 475 | 418 |
| Onerous contracts | 3,617 | 1,898 |
| Employee entitlements | 59,864 | 44,783 |
| Other provisions | 3,720 | 1,552 |
| | 67,676 | 48,651 |

| | Directors' retirement $'000 | Onerous contracts $'000 | Employee entitle-ments $'000 | Other $'000 | Total $'000 |
|---|---|---|---|---|---|
| Balance at 1 July 2014 | 418 | 1,898 | 44,783 | 1,552 | 48,651 |
| Assumed in a business combination | - | - | 9,396 | 1,004 | 10,400 |
| Provisions made during the period | 57 | 2,170 | 39,493 | 3,868 | 45,588 |
| Provisions utilised during the period | - | (451) | (32,155) | (2,704) | (35,310) |
| Reclassified to liabilities held for sale | - | - | (1,653) | - | (1,653) |
| Balance at 30 June 2015 | 475 | 3,617 | 59,864 | 3,720 | 67,676 |

**Accounting policies**

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

***Directors' retirement obligations***

Retirement benefits are paid to Non-Executive Directors appointed prior to 13 April 2003 to fulfil the terms of historical agreements. This benefit provides for a cash based payment to Non-Executive Directors at the time of their retirement. The retirement benefit obligation is measured on an undiscounted basis, is capped at $475,000 and is expensed as the related service is provided.

**Accounting policies**

***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 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 6 years.

***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 periods plus related on-costs.

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

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

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

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

***Other provisions***

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

# Section 5 - Statutory funds

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

## 5-1 Assets relating to statutory funds

| | Statutory 2015 $'000 | Statutory 2014 $'000 |
|---|---|---|
| Cash at bank | 2,677 | 3,202 |
| Receivables | 15,899 | 10,581 |
| Shares in listed companies | 16,243 | 17,491 |
| Unlisted unit trusts | 853,348 | 826,861 |
| Derivatives | - | 45 |
| Loans to policyholders | 13,020 | 11,485 |
| Margin accounts | - | 606 |
| **Investments backing policyholder liabilities designated at fair value through profit or loss** | 901,187 | 870,271 |

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

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

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

## 5-2 Liabilities relating to statutory funds

| | Statutory 2015 $'000 | Statutory 2014 $'000 |
|---|---|---|
| Payables | 9,347 | 1,657 |
| Seed capital | 7,153 | 7,153 |
| Deferred tax liabilities | 9,972 | 14,404 |
| Investment contracts liabilities with DPF | 338,709 | 366,838 |
| Investment contract liabilities | 533,281 | 476,471 |
| Non-controlling interests in controlled trusts | 2,725 | 3,748 |
| | 901,187 | 870,271 |

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

### Accounting policies

***Contract classification***

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

***(i) Insurance contracts***

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

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

# Section 5 - Statutory funds

## 5-2 Liabilities relating to statutory funds (continued)

***(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 period, 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 | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| **Investment contracts liabilities with DPF** | | |
| Investment contracts liabilities with DPF at beginning of the year | 366,838 | 390,902 |
| Net increase in investment contracts liabilities with DPF | 3,457 | 6,062 |
| Investment contracts liabilities with DPF contributions | 11,281 | 13,013 |
| Investment contracts liabilities with DPF withdrawals | (42,867) | (43,139) |
| Investment contracts liabilities with DPF at end of the year | 338,709 | 366,838 |
| **Other investment contract liabilities** | | |
| Investment contract liabilities at beginning of the year | 476,471 | 396,243 |
| Net increase in investment contract policy liabilities | 24,649 | 44,329 |
| Investment contract contributions | 78,124 | 93,176 |
| Investment contract withdrawals | (45,963) | (57,277) |
| Investment contract liabilities at end of the year | 533,281 | 476,471 |

# Section 5 - Statutory funds

## 5-4 Contribution to profit or loss of statutory funds

| | Statutory | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| **Statutory fund revenue** | | |
| Interest income | 551 | 530 |
| Dividends and distributions received | 33,839 | 28,552 |
| Net fair value gains/(losses) on other financial assets designated as fair value through profit or loss | 12,299 | 57,873 |
| Net gains(losses) on foreign exchange | - | 87 |
| Investment contracts with DPF: | | |
| Contributions received - investment contracts with DPF | 11,281 | 13,013 |
| DPF policyholder liability decrease | 28,130 | 24,064 |
| Non - DPF policyholder liability (decrease)/increase | (24,190) | (51,242) |
| Other fee revenue | 4,514 | 4,224 |
| | **66,424** | **77,101** |
| **Statutory fund expenses** | | |
| Service and marketing fees expense | 13,180 | 12,774 |
| Direct operating expenses | 63 | 97 |
| Investment contracts with DPF: | | |
| Benefits and withdrawals paid | 42,681 | 42,928 |
| Termination bonuses | 186 | 211 |
| Distribution to policyholders | 251 | 1,882 |
| Interest | 123 | 182 |
| | **56,484** | **58,074** |
| **Income tax** | **9,940** | **19,027** |
| **Net contribution to profit or loss of statutory funds** | - | - |

### 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.

# Section 5 - Statutory funds

## 5-5 Actuarial assumptions and methods

The effective date of the actuarial report on the policy liabilities and capital adequacy reserves is 30 June 2015. The actuarial report for IOOF Ltd was prepared by Mr Andrew Mead, FIAA, and was dated 26 August 2015. The actuarial report indicates that Mr Mead is satisfied as to the accuracy of the data upon which the policy liabilities have been determined.

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

**Processes used to select assumptions**

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

*Other Assumptions*

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

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

**Capital adequacy requirements**
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.

# Section 5 - Statutory funds

## 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 Holdings Ltd 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 Holdings Ltd 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 | |
|---|---|---|
| | 2015 $'000 | 2014 $'000 |
| (a) Capital Base | 25,994 | 24,800 |
| (b) Prescribed capital amount (1) | 13,373 | 14,676 |
| Capital in excess of prescribed capital amount = (a) - (b) | 12,621 | 10,124 |
| Capital adequacy multiple (%) (a) / (b) | 194% | 169% |
| **Capital Base comprises:** | | |
| Net Assets | 25,994 | 24,800 |
| Regulatory adjustment applied in calculation of Tier 1 capital | - | - |
| (A) Common Equity Tier 1 Capital | **25,994** | **24,800** |
| Additional Tier 1 Capital | - | - |
| Regulatory adjustment applied in calculation of Additional Tier 1 capital | - | - |
| (B) Total Additional Tier 1 Capital | - | - |
| Tier 2 Capital | - | - |
| Regulatory adjustment applied in calculation of Tier 2 capital | - | - |
| (C) Total Tier 2 Capital | - | - |
| **Total capital base** | **25,994** | **24,800** |

For detailed capital adequacy information on a statutory fund basis, users of this annual 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 2015, the parent entity of the IOOF Group was IOOF Holdings Ltd.

| | 2015 $'000 | 2014 $'000 |
|---|---|---|
| **Result of the parent entity** | | |
| Profit for the period | 144,587 | 93,176 |
| Total comprehensive income for the period | 144,587 | 93,176 |
| **Financial position of parent entity at year end** | | |
| Current assets | 115,144 | 106,178 |
| Total assets | 1,720,866 | 1,051,167 |
| Current liabilities | 29,750 | 113,515 |
| Total liabilities | 236,314 | 133,517 |
| **Total equity of the parent entity comprising of:** | | |
| Share capital | 1,444,903 | 868,083 |
| Share-based payments reserve | 6,496 | 11,098 |
| Retained earnings | 33,153 | 38,469 |
| **Total equity** | 1,484,552 | 917,650 |

**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").

**IOOF Executive and Employee Share Option Plan**

The IOOF Group has an ownership-based compensation scheme for executives and senior employees. The establishment of the employee share option plans was approved by the Board of Directors.

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 and Nominations 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.

**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. The establishment of the employee share option plans was approved by the Board of Directors.

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 and Nominations 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.

# Section 6 - Other disclosures

## 6-2 Share-based payments (continued)

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

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

| Options Series - Recipient | Exercise price | | Earliest vesting date | Exercise period | | Performance related vesting conditions |
|---|---|---|---|---|---|---|
| | | | | Commence | Expires | |
| 2012-02 Managing Director | $ | 6.81 | 01-Jul-14 | 1-Jul-14 | 1-Jul-17 | EPS & RoE |
| 2012-05 DKN Replacement | $ | 7.50 | 30-Sep-13 | 30-Sep-13 | 30-Sep-14 | Nil |
| 2010-04 Executives | $ | 6.14 | 01-Jul-13 | 1-Jul-13 | 30-Jun-15 | Nil |
| 2010-03 Executives | $ | 7.01 | 04-May-13 | 4-May-13 | 4-May-16 | Nil |
| 2010-02 Senior Management | $ | 7.40 | 31-Jul-10 | 1-Aug-13 | 2-Aug-14 | FUM target & EPS (1) |
| 2009-20 Senior Management | $ | 5.68 | 31-Jul-09 | 1-Aug-12 | 2-Aug-13 | FUM target & EPS (1) |
| 2009-16 Managing Director | $ | 5.20 | 27-Nov-12 | 27-Nov-12 | 27-Nov-15 | EPS & RoE |

(1) 25% of the options vest subject to achievement of the Perennial Group's three year Funds Under Management forecast and 25% based on the achievement of a compounding IOOF Group cash earnings per share in excess of 10% each year over the performance period. The remaining options and performance rights are subject to continuing employment with the Group.

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

| | Options | | | Performance Rights | Deferred Shares | Total |
|---|---|---|---|---|---|---|
| | Weighted average exercise price $ | | Number of options No. | Number of rights No. | Number of shares No. | Number of options, rights & shares No. |
| Opening balance at 1 July 2014 | $ | 6.70 | 944,879 | 2,695,269 | 64,091 | 3,704,239 |
| Forfeited or lapsed during the period | $ | 7.50 | (153,831) | (86,115) | - | (239,946) |
| Exercised during the period | $ | 6.34 | (770,127) | (1,199,231) | (27,874) | (1,997,232) |
| Granted during the period | $ | 7.50 | 9,079 | 304,167 | 26,984 | 340,230 |
| Outstanding at 30 June 2015 | $ | 7.01 | 30,000 | 1,714,090 | 63,201 | 1,807,291 |
| Exercisable at 30 June 2015 | $ | - | 30,000 | - | - | 30,000 |

**Disclosure of share-based payment plans**

# Section 6 - Other disclosures

## 6-2 Share-based payments (continued)

| Series - Recipient | Exercise price | Opening balance as at 1 July 2014 | Granted | Forfeited or Lapsed | Exercised | Closing balance as at 30 June 2015 |
|---|---|---|---|---|---|---|
| **Options** | | | | | | |
| 2009-16 Managing Director | $ 5.20 | 79,156 | - | - | (79,156) | - |
| 2010-03 Executives | $ 7.01 | 100,000 | - | - | (70,000) | 30,000 |
| 2010-04 Executives | $ 6.14 | 500,000 | - | - | (500,000) | - |
| 2012-05 DKN Replacement | $ 7.50 | 265,723 | 9,079 | (153,831) | (120,971) | - |
| | | 944,879 | 9,079 | (153,831) | (770,127) | 30,000 |
| **Performance rights** | | | | | | |
| 2009-14 Managing Director | $nil | 37,500 | - | - | (37,500) | - |
| 2010-06 Managing Director | $nil | 68,850 | - | - | (34,425) | 34,425 |
| 2012-01 Managing Director | $nil | 128,700 | - | - | (64,350) | 64,350 |
| 2012-04 Executives | $nil | 344,891 | - | - | (344,891) | - |
| 2013-01 Executives | $nil | 197,500 | - | - | - | 197,500 |
| 2013-02 Managing Director | $nil | 250,000 | - | - | - | 250,000 |
| 2013-03 Other Key Stakeholders | $nil | 497,000 | - | (20,000) | - | 477,000 |
| 2013-04 Other Key Stakeholders | $nil | 170,943 | - | (5,128) | - | 165,815 |
| 2013-05 Other Key Stakeholders | $nil | 749,885 | 29,167 | (60,987) | (718,065) | - |
| 2014-01 Executives | $nil | 150,000 | - | - | - | 150,000 |
| 2014-02 Managing Director | $nil | 100,000 | - | - | - | 100,000 |
| 2015-01 Executives | $nil | - | 200,000 | - | - | 200,000 |
| 2015-02 Managing Director | $nil | - | 75,000 | - | - | 75,000 |
| | | 2,695,269 | 304,167 | (86,115) | (1,199,231) | 1,714,090 |
| **Deferred shares** | | | | | | |
| 2013-06 Managing Director | $nil | 27,874 | - | - | (27,874) | - |
| 2014-03 Managing Director | $nil | 36,217 | - | - | - | 36,217 |
| 2015-03 Managing Director | $nil | - | 26,984 | - | - | 26,984 |
| | | 64,091 | 26,984 | - | (27,874) | 63,201 |
| | | **3,704,239** | **340,230** | **(239,946)** | **(1,997,232)** | **1,807,291** |

The options outstanding at 30 June 2015 have an exercise price in the range of $5.20 to $7.50 and a contractual life of 309 days.

The weighted average share price at the date of exercise for share options exercised during the year ended 30 June 2015 was $9.90 (2014: $8.59).

All options are vested and exercisable.

**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 |
|---|---|---|---|---|---|---|
| 2015-01 Executives | $ 5.53 | $ 8.38 | 30% | 3 | 5.2% | 2.5% |
| 2015-02 Managing Director | $ 5.30 | $ 8.97 | 30% | 3 | 5.2% | 2.5% |
| 2015-03 Managing Director | $ 9.10 | $ 9.10 | n/a | 1 | nil | n/a |

# Section 6 - Other disclosures

## 6-2 Share-based payments (continued)

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

| Performance Rights Series - Recipient | Exercise price | Earliest vesting date | Last tranche vesting date | Performance related vesting conditions |
|---|---|---|---|---|
| 2013-05 Other Key Stakeholders | nil | 30-Nov-14 | n/a | Nil |
| 2013-04 Other Key Stakeholders | nil | 30-Nov-15 | n/a | Compliance (1) |
| 2013-03 Other Key Stakeholders | nil | 30-Nov-15 | n/a | Compliance (1) |
| 2013-02 Managing Director | nil | 30-Jun-15 | n/a | TSR & RoE |
| 2013-01 Executives | nil | 30-Jun-15 | n/a | TSR |
| 2012-01 Managing Director | nil | 01-Jul-14 | 01-Jul-16 | TSR & RoE |
| 2012-04 Executives | nil | 30-Jun-14 | n/a | TSR |
| 2010-06 Managing Director | nil | 23-Nov-13 | 23-Nov-15 | TSR & RoE |
| 2009-14 Managing Director | nil | 27-Nov-12 | 27-Nov-14 | TSR & RoE |
| 2014-01 Executives | nil | 30-Jun-16 | n/a | TSR |
| 2014-02 Managing Director | nil | 30-Jun-16 | n/a | TSR & RoE |

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

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

| Recipient | 2015 $'000 | 2014 $'000 | |
|---|---|---|---|
| Managing Director | 764 | 796 | Includes deferred STI payments over the vesting period |
| Senior Management | 1,014 | 1,355 | |
| Other Key Stakeholders | 1,781 | 3,308 | |
| | 3,559 | 5,459 | |

### 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 period that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.
The fair value at grant date is independently determined where considered appropriate. The option pricing model used takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.
Shares held by the Trust will contribute to the employee allocation of shares on satisfaction of vesting performance hurdles. The IOOF Group has no right to recall placed shares. However, a subsidiary company acts as the Trustee of the Trust, and can direct the voting rights of shares held.
Shares in the Company held by the Trust are classified and disclosed as treasury shares, and deducted from share capital. Dividends received by the Trust are recorded as dividend income in the financial statements of the Trust and are eliminated on consolidation.

# Section 6 - Other disclosures

## 6-3 Group subsidiaries

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

| | Country of incorporation | Ownership interest 2015 % | Ownership interest 2014 % |
|---|---|---|---|
| **Parent entity** | | | |
| IOOF Holdings Ltd | Australia | | |
| **Material subsidiaries** | | | |
| AET SPV Management Pty Ltd | Australia | 100.0 | 100.0 |
| AET Structured Finance Services Pty Ltd | Australia | 100.0 | 100.0 |
| Australian Executor Trustees Ltd | Australia | 100.0 | 100.0 |
| Bridges Financial Services Pty Ltd | Australia | 100.0 | 100.0 |
| Consultum Financial Advisers Pty Ltd | Australia | 100.0 | 100.0 |
| Executive Wealth Management Financial Services Pty Ltd | 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 Ltd | Australia | 100.0 | 100.0 |
| Perennial Investment Partners Ltd | Australia | 100.0 | 100.0 |
| Plan B Wealth Management Ltd | Australia | 100.0 | 100.0 |
| Questor Financial Services Ltd | Australia | 100.0 | 100.0 |
| SFG Australia Ltd | Australia | 100.0 | - |
| Financial Acuity Ltd | Australia | 100.0 | - |
| Shadforth Financial Group Ltd | Australia | 100.0 | - |
| Shadforth Business Advisory Services Pty Ltd | Australia | 100.0 | - |
| Mosaic Portfolio Advisers Ltd | Australia | 100.0 | - |
| Actuate Alliance Services Pty Ltd | Australia | 100.0 | - |
| Wealth Managers Pty Ltd | Australia | 100.0 | 100.0 |
| Ord Minnett Ltd | Australia | 70.0 | 70.0 |
| Ord Minnett Financial Planning Pty Ltd | Australia | 70.0 | 70.0 |
| Ord Minnett Management Ltd | 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 does not have the ability to affect the level of returns and is not exposed to significant variability in returns from the funds. The IOOF Group earns management fees from the management of these investment funds which are commensurate with the services provided and are reported in external management and service fee revenue in note 2-3. Management fees are generally based on the value of the assets under management. Therefore, the fees earned are impacted by the composition of the assets under management and fluctuations in financial markets.

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

# Section 6 - Other disclosures

## 6-4 Remuneration of auditors

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

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| **Audit services** | | |
| Auditors of the Company | | |
| *KPMG Australia* | | |
| Audit and review of financial reports | 2,978,727 | 2,555,962 |
| Other regulatory audit services | 1,357,108 | 1,318,447 |
| | 4,335,835 | 3,874,409 |
| **Other services** | | |
| Auditors of the Company | | |
| *KPMG Australia* | | |
| Taxation services | 126,485 | 263,138 |
| Due diligence services | 198,668 | 199,000 |
| Other services | 709,949 | 222,980 |
| | 1,035,102 | 685,118 |
| | 5,370,936 | 4,559,527 |

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

## 6-5 Key management personnel

The key management personnel compensation comprised:

| | 2015<br>$ | 2014<br>$ |
|---|---|---|
| Short-term employee benefits | 5,163,308 | 5,113,825 |
| Post-employment benefits | 240,724 | 249,681 |
| Share-based payments | 1,539,543 | 1,490,207 |
| | 6,943,575 | 6,853,713 |

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

| | 2015 | 2014 |
|---|---|---|
| Executive key management personnel | 6,020,166 | 5,948,255 |
| Non-executive Directors | 923,409 | 905,458 |
| | 6,943,575 | 6,853,713 |

**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 Group since the end of the previous financial year and there were no material contracts involving directors' interests existing at year-end.

# Section 6 - Other disclosures

## 6-6 Related party transactions

**(a) Ultimate parent entity**

IOOF Holdings Ltd is the ultimate parent entity in the 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 Ltd | **2015** | **2,286,717** | **2,286,717** | **-** | **2,286,717** |
| | 2014 | 2,286,717 | 2,286,717 | - | 2,286,717 |
| **Interest bearing loans** | | | | | |
| Perennial Value Management Ltd | **2015** | **6,218,900** | **6,183,013** | **271,281** | **6,340,343** |
| | 2014 | 6,202,447 | 6,218,900 | 286,014 | 6,315,089 |
| Perennial Growth Management Pty Ltd | **2015** | **1,900,984** | **1,962,811** | **86,589** | **1,962,936** |
| | 2014 | 1,890,083 | 1,900,984 | 91,315 | 1,915,407 |
| Perennial Fixed Interest Partners Pty Ltd | **2015** | **119,678** | **681,203** | **29,702** | **681,203** |
| | 2014 | 119,911 | 119,678 | 6,215 | 122,280 |

The amounts above were advanced by Perennial Investment Partners Ltd and IOOF Investment Management Ltd for the specific purpose of assisting executives to acquire an equity interest in subsidiaries and associates of the Company. Secured interest bearing loans totalling $8,827,027 were made on commercial terms and conditions and loans totalling $2,286,717 are unsecured interest free loans.

**(c) Transactions with key management personnel**

**i. Key management personnel compensation**

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

**ii. Loans to key management personnel**

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

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

There were no other transactions with key management personnel of the IOOF Group during the 2015 and 2014 financial years.

**(d) Transactions with other related parties**

Other related parties of the Group include associates listed in section 4-2 Associates.

| | 2015 $ | 2014 $ |
|---|---|---|
| Receipt of service charge revenue from associates | 1,904,707 | 1,936,563 |
| Payment of management fees to associates | 9,420,584 | 10,015,246 |

# 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 2015 or later years. We explain how these changes are expected to impact the financial position and performance of the IOOF Group.

## 7-1 Reporting entity

The Company is a public company listed on the Australian Stock Exchange (trading under the symbol 'IFL'), domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2015 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 28 August 2015.

### (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;
- available-for-sale financial assets are measured at fair value; and
- share-buy back liabilities 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. Amounts included in narratives are expressed as whole dollars but rounded to the nearest thousand unless otherwise stated.

### (d) 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 period in which the estimates are revised and in any future periods 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 1-1(e) - Share buy-back liabilities;
- section 2-4 - (vii) Deferred acquisition costs;
- section 4-3 - Intangible assets (other than goodwill);
- section 4-4 - 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:

- section 2-6 - utilisation of tax losses and uncertain tax position;
- note 4-3 & 4-4 - key assumptions used in discounted cash flow projections;
- note 3-4 & 4-5 - contingencies and provisions; and
- note 2-2 - disposal group held for sale.

# 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 periods 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 2015 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 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 Plans Trust (the "Trust")**
The IOOF Group has formed a trust to administer the IOOF Group’s employee share schemes. The Trust is consolidated, as the substance of the relationship is that the Trust is controlled by the IOOF Group. Shares held by the Trust are disclosed as treasury shares and are deducted from share capital.

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

# Section 7 - Basis of preparation

## 7-3 Other significant accounting policies (continued)

### (c) Foreign currency

***Foreign currency transactions***

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

***Foreign operations***

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

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

### (d) Property and equipment

**(i) Recognition and measurement**

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

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

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal 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 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 period, 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 periods 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 period 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 in the IOOF Group's statement of financial position.

## 7-4 New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2015 reporting periods. The IOOF Group's will apply the standards and amendments for the next reporting period commencing after the effective date. The adoption of these changes are not expected to have a material impact on the IOOF Group's financial statements or accounting policies.

| New standards or amendments | Effective date |
|---|---|
| IFRS 15 Revenue from Contracts with Customers | 1 January 2017 |
| IFRS 9 Financial Instruments | 1 January 2018 |

## 7-5 Subsequent events

Litigation is in process against a subsidiary of the company relating to its role as trustee to a debenture issuer. The information usually required by AASB 137 is not disclosed on the grounds that it can be expected to seriously prejudice the outcome of the litigation. The directors are of the opinion that the claim can be successfully defended.

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.