Appendix 4D
Interim Financial Report
IOOF HOLDINGS LTD

ABN 49 100 103 722

1. Reporting Period — 31 December 2018

Previous reporting period — 30 June 2018

2. Results for announcement to the market

	$'000	% change from prior comparative period*
Revenue from Shareholder activities [1]	548,954	up 22%
Profit from ordinary activities after tax attributable to owners of the Company	135,429	up 200%
Underlying Net Profit After Tax (UNPAT) [2]	99,942	up 5%

		Amount per share (cents)	Franked amount per share (cents)
Final dividend for the year ended 30 June 2018			
Paid:	4 September 2018	27.0	27.0
Interim dividend for the year ended 30 June 2019			
Record date:	27 February 2019	25.5	25.5
To be paid:	15 March 2019		

[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 certain non-operational financial items. An UNPAT reconciliation is provided on the following page.*

* 31 December 2017 has been restated. Refer Note 2-2 for details.

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	31 Dec 18 $'000	31 Dec 17* $'000
Profit attributable to Owners of the Company	**135,429**	**45,217**
Discontinued operations	(58,975)	(206)
Profit from continuing operations attributable to Owners of the Company	**76,454**	**45,011**
Underlying net profit after tax (UNPAT) adjustments:		
Reverse the impact of:		
Amortisation of intangible assets	19,731	19,581
Acquisition costs - Acquisition advisory	1,733	3,694
Acquisition costs - Integration preparation	6,515	1,209
Acquisition costs - Finance costs	416	456
Termination payments	316	1,221
Profit on divestment of subsidiaries	-	(143)
Profit on divestment of assets	(365)	(297)
Non-recurring professional fees paid/(recovered)	230	(902)
Impairment of goodwill	-	28,339
Onerous contracts	-	1,843
Unwind of deferred tax liability recorded on intangible assets	(5,140)	(5,074)
One off remediation costs	3,805	-
Other	61	1,290
Income tax attributable	(3,644)	(1,619)
UNPAT	**100,112**	**94,609**
UNPAT from discontinued operations	(170)	231
UNPAT from continuing operations	**99,942**	**94,840**

* 31 December 2017 has been restated. Refer Note 2-2 for details.

UNPAT Adjustments:

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

Acquisition costs - Acquisition advisory: One off payments to external advisers for corporate transactions, such as the acquisition of the ANZ Aligned Dealer Groups (ANZ ADGs) (prior comparative period (pcp): AET Services (AETS)) and planned acquisition of the ANZ OnePath Pensions and Investments (ANZ P&I) business, which were not reflective of conventional recurring operations.

Acquisition costs - Integration preparation: Staff and specialist contractor costs related to integration preparation for the acquisition of the ANZ ADGs and planned acquisition of the ANZ P&I business.

Acquisition costs - Finance costs: Costs of securing finance for the acquisition of the ANZ ADGs and substantial economic completion of the ANZ P&I business.

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

Profit on divestment of subsidiaries: The IOOF Group partially divested a subsidiary in pcp.

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

Non-recurring professional fees paid: Payment of certain legal costs that are not reflective of conventional recurring operations.

Impairment of goodwill: A non-cash impairment recognised in relation to goodwill allocated to Perennial Investment Partners Limited.

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UNPAT Adjustments (continued)

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

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

One off remediation costs: Remediation costs that arose outside the ordinary course of business.

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

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

Review of Strategy

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

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

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 $2.8 trillion as at 30 September 2018. Over the 12 months to September 2018 there was a. 8.8% increase in total superannuation assets and retail providers had a market share of approximately 22.8%. The IOOF Group's market share of that sub-set was 6.4% when measured by portfolio and estate administration segment Funds Under Administration (FUAdmin). There is a high degree of competition between the five fund types and fragmentation and competition among the participants within each fund type.

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Review of Strategy (continued)

The IOOF Group operates in the Wealth Management sector. The sector has a substantial and growing pool of funds underpinned by government compulsion. The attraction of the sector is further enhanced by high regulatory and technological barriers to entry from new competitors. As an incumbent participant, we seek to grow our Funds Under Management, Administration, Advice and Supervision (FUMA) 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 FUMA. 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 FUMA.

The IOOF Group's future FUMA growth will be underpinned by asset revaluation, flows of funds from new and existing clients and acquisition initiatives. Funds flow will be advanced through:

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

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) Final Report was tabled in Parliament on 4 February 2019. The IOOF Group's initial response to the Royal Commissions Final Report was released to the ASX on 5 February 2019. The IOOF Group will work constructively with regulators to resolve any matters raised in the report. The IOOF Group will also continue to advocate strongly for a regulatory framework which makes appropriate financial advice, provided by well capitalised, reputable, compliant license holders, available to as many Australians as possible.

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

Acquisitions and divestments

On 2 October 2018, IOOF and Australia and New Zealand Banking Group Limited (ANZ) finalised legally binding arrangements to give effect to the following:

- Full legal ownership of the ANZ ADGs transferred to IOOF effective 1 October 2018.
- Substantial ‘economic’ completion of the ANZ P&I business effective 2 October 2018 through:
    - an initial payment by IOOF of $800m to ANZ to subscribe for a debt note;
    - payment by ANZ to IOOF of a coupon rate of 14.4%, which is broadly equivalent to 82% of the economic interests in the ANZ P&I business, from 2 October 2018 until the debt note is redeemed (expected to be at completion of the acquisition of the ANZ P&I business).

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

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Acquisitions and divestments (continued)

Assuming stable economic conditions more generally, the accelerated completion date for the ADGs and the substantial 'economic' completion is expected to deliver Earnings Per Share accretion as per the forecasts previously disclosed in the initial announcement of the transaction.

The accelerated completion date for the ADGs and the substantial 'economic' completion of the ANZ P&I business have contributed an additional $11.6m UNPAT net of related financing costs.

On 2 July 2018, IOOF completed the acquisition of 100% of the shares of Ability One (WA/SA) Pty Ltd, a specialist financial and life planning advisory business, based in Western Australia and South Australia.

On 1 November 2018, IOOF completed the divestment of the AET Corporate Trust business to Sargon Capital Pty Ltd (Sargon) for a total purchase consideration of $51.6m.

AET Corporate Trust's post-tax contribution to IOOF's underlying net profit after tax for the year to 30 June 2018 was $1.1m. 80% of the purchase price ($41.3m) was received upon completion. The balance is payable in two equal instalments as certain contract revenue is novated to the business entities being acquired by Sargon. The results of the AET Corporate Trust business have been disclosed as discontinued operations in the financial statements.

IOOF will retain its AET Private Trust business; a core part of IOOF's diversified business model which focuses on private client trustee services, estate planning and compensation trusts.

Analysis of financial results - IOOF Group

The IOOF Group's UNPAT increased $5.1m or 5.0% to $99.9m for the 6 months ended 31 December 2018, compared to $94.8m UNPAT in the 6 months ended 31 December 2017. The analysis compares the 6 months to 31 December 2018 with the 6 months to 31 December 2017 and are denoted as pcp. The $11.6m impacts from ANZ related acquisition and debt note issuance, in addition to the impact of the divested Corporate Trust business, have been excluded from the review and the impact on particular items of revenue or expense.

Gross margin increased by $2.1m

At 31 December 2018, Funds Under Management, Administration and Advice (FUMA), ex ANZ acquisition related Funds Under Advice (FUAdvice), were $121.2b, a decrease of 3.8% for the 6 months ended 31 December 2018. This decrease was derived largely from equity market performance over that period. Financial advice net outflows of $176m were a response to significant price competition from a third party administrator. A suitable matched offer has been developed in concert with this administrator and outflows have largely been stemmed. Portfolio flows of $688m were up 11.5% on pcp. This segment benefited from enhanced capture of funds from other IOOF Group segments, principally trustee, and better penetration of the IOOF Group's existing client base.

The level of average FUMA, ex ANZ acquisition related FUAdvice, compared to pcp rose by $8.7b. This in turn increased gross margin by $17.9m. This was partly offset by a $15.7m impact from lower earning rates on certain services, principally advice and portfolio and estate administration. In the case of advice, significant price competition had an adverse impact whereas portfolio and estate administration earning rates reflected the continuing trend for a higher proportion of funds to be directed towards more contemporary platforms with lower fee scales. Investment management margins were relatively stable which is reflective of the steady state maturity and complementary nature of that segment.

Other revenue decreased by $1.4m

Contributions from the IOOF Group's broking businesses, Ord Minnett and Bridges, were down in comparison to pcp due to equity market devaluations across the half year.

Operating expenditure increased by $2.1m

The modest increase in operating expenditure excludes the impact of expenditure items reversed when calculating UNPAT. There were no significant variances in costs compared to pcp in any individual cost category. Labour costs reduced moderately and IT costs increased to approximately the same degree as continued development of enhanced systems was reoriented slightly towards outsourced partners. Occupancy related expenses have returned to normal levels after one-off property consolidation and reconfiguration costs were incurred pcp. Claims and remediation costs, after removing one-off remediations, increased by $1.7m.

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Analysis of financial results - IOOF Group (continued)

Net financing income increased by $2.7m

Net financing income increased, in the absence of ANZ acquisition and debt note related draw downs, as pcp borrowings were repaid with equity capital raised in October 2017.

Other profit impacts decreased by $4.5m

Non-controlling interest was $0.3m lower in line with Ord Minnett's decreased profitability for the period. Share of associates' profits decreased $0.9m relative to pcp as a result of the impact of mandate outflows and equity market revaluations on Perennial Value Management Group (PVM). Share-based payments expense was $3.1m higher due to general employee take up of bonus payments as shares and executive STIs being part deferred by way of performance rights grants which were wholly costed to the current half under AASB 2. Depreciation and amortisation expense increased $0.9m, reflecting an increased asset base on pcp.

Income tax increased by $0.2m

The increase in income tax expense relative to pcp, despite lower profitability when adjusted for ANZ impacts, principally reflected the lower contribution of research and development (R&D) tax offsets.

Analysis of financial results - Segments (excl Ex-ANZ wealth management and discontinued operations)

	31 Dec 18	31 Dec 17	Movement	
Financial advice	$'000	$'000	$'000	%
Net operating revenue	131,710	134,660	(2,950)	(2.2%)
Other revenue (incl share of net profits of associates)	2,692	2,619	73	2.8%
Operating expenditure	(74,860)	(76,462)	1,602	2.1%
Net financing	321	303	18	5.9%
Net non-cash items	(2,781)	(1,967)	(814)	(41.4%)
Income tax expense and non-controlling interest	(19,934)	(20,503)	569	2.8%
Underlying Profit after Tax	**37,148**	**38,650**	**(1,502)**	**(3.9%)**

● Average funds' growth compared to pcp has been particularly strong through the addition of advisers. This has brought new revenue streams into the IOOF Group, albeit at a dilutive margin as a percentage of average funds.

● Net operating revenue has been adversely impacted by competitive pricing from a third party administrator which has since been matched in an equivalent offer.

● Operating expenditure has reduced slightly in line with scaling back contract staff and lower incentives payments to permanent staff given reduced revenue and flows for the half-year

	31 Dec 18	31 Dec 17	Movement	
Portfolio & estate administration	$'000	$'000	$'000	%
Net operating revenue	120,351	118,994	1,357	1.1%
Other revenue (incl share of net profits of associates)	-	75	(75)	(100%)
Operating expenditure	(56,565)	(52,710)	(3,855)	(7.3%)
Net financing	2	-	2	n/a
Net non-cash items	(4,317)	(2,467)	(1,850)	(75.0%)
Income tax expense and non-controlling interest	(18,286)	(19,329)	1,043	5.4%
Underlying Profit after Tax	**41,185**	**44,563**	**(3,378)**	**(7.6%)**

● Net operating revenue reflected growth in average FUA tempered by the impact of basis points margin reduction. Basis point margin outcomes are largely the result of client preference for contemporary lower priced services.

● Increased operating expenditure resulted primarily from increased staff incentives following successful flows outcomes. Staff numbers, technology support and licence costs have grown in support of more wide spread adoption of client first service levels. This is designed to support sustainable long term organic growth.

● Non cash items adversely impacted profitability due to general employee take up of bonus payments as shares and executive STIs being part deferred by way of performance rights grants which were wholly costed to the current half under AASB 2.

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Analysis of financial results - Segments (excl Ex-ANZ wealth management and discontinued operations) (continued)

Investment management	31 Dec 18 $'000	31 Dec 17 $'000	Movement $'000	Movement %
Net operating revenue	32,730	30,438	2,292	7.5%
Other revenue (incl share of net profits of associates)	416	982	(566)	(57.6%)
Operating expenditure	(5,153)	(5,876)	723	12.3%
Net financing	-	-	-	n/a
Net non-cash items	(1,351)	(308)	(1,043)	(338.6%)
Income tax expense and non-controlling interest	(8,159)	(7,295)	(864)	(11.8%)
Underlying Profit after Tax	**18,483**	**17,941**	**542**	**3.0%**

● Net operating revenue improved in line with market based growth in average funds flowing largely from improved platform FUAdmin. Other revenue was affected by PVM performance.

● Decreased operating expenditure resulted from reconfiguration of the staff complement following the retirement of the former Chief Investment Officer.

Financial Position

The IOOF Group held cash and cash equivalents of $112.8m at 31 December 2018 (30 June 2018: $121.4m). 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.

On 27 September 2018 (SFA effective date), IOOF Group executed a syndicated facility agreement (SFA) with lenders, with an initial drawdown completed on 2 October 2018. The SFA consists of the following facilities:

● $300m revolving cash advance facility with a 3 year repayment term from the SFA effective date.
● $450m revolving cash advance facility with a 5 year repayment term from the SFA effective date.
● $60m multi-option facility with a 3 year repayment term from the SFA effective date.

Proceeds from SFA borrowings were applied towards the subscription of a debt note with face value $800m from ANZ, which reflects substantial economic completion of the ANZ P&I business.

The overall debt to equity ratio stood at 18% at 31 December 2018 (30 June 2018: 0%) reflecting a net $417m in borrowings, principally $420m under the SFA, as at period end.

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

Risks

The IOOF Group manages a number of risks in conducting its operations and implementing its strategy. Material risks faced by the IOOF Group include, but may not be limited to, the following:

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

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

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Risks (continued)

(iii) Information technology

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

(iv) Cyber security

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

(v) Brands and reputation

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

(vi) Provision of investment advice

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

(vii) Operational risks

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

(viii) Conduct risk

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

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Risks (continued)

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

(x) Cash flow and interest rate risk
Interest rate risk is the risk to the IOOF Group’s earnings and capital arising from changes in market interest rates. The financial instruments held that will be impacted by interest rate risk consist of cash and cash equivalents, certificates of deposit, loans, and borrowings. Short and long-term investment mixes and loans to related entities are influenced by liquidity policy requirements. Interest rates (both charged and received) are based on market rates, and are closely monitored by management. They are primarily at variable rates of interest, and will expose the IOOF Group to cash flow interest rate risk. The IOOF Group intends to apply partial hedge cover to manage its interest rate risk exposure arising from its borrowings to fund the ANZ Wealth Management acquisition.

(xi) Liquidity risk
Liquidity risk relates to the IOOF Group having insufficient liquid assets to cover current liabilities and unforeseen expenses. The IOOF Group manages liquidity risk exposure by maintaining sufficient liquid assets and an ability to access a committed line of credit via a syndicated facility agreement with lenders. The liquidity requirements for licensed entities in the IOOF Group are also regularly reviewed and carefully monitored in accordance with those licence requirements. Liquidity requirements for the ANZ P&I business, which is scheduled to be purchased on or before 1 July 2019, have been reviewed and will be carefully monitored upon joining the IOOF Group.

(xii) Reliance on Australian Financial Services Licence, Registrable Superannuation Entity and other licences
In order to provide the majority of its services in Australia, a number of the IOOF Group's controlled entities are required to hold a number of licences, most notably Australian Financial Services (AFS) or Registrable Superannuation Entity (RSE) licences. If any of those entities fails to comply with the general obligations and conditions of its licence, this could result in the suspension or cancellation of the licence. A breach or loss of licences could have a material adverse effect on business and financial performance. AFS and RSE licences also require the licence holder to maintain certain levels of capital. These capital requirements may change from time to time. Earnings dilution may occur where a higher capital base is required to be held. Ongoing compliance with the general obligations and conditions of licences is carefully monitored by dedicated and experienced risk and compliance professionals.

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

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

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

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Risks (continued)

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

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

(xvii) Acquisitions
Acquisition transactions involve inherent risks, including:
• accurately assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquired businesses;
• integration risks including the risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated;
• diversion of management attention from existing business;
• potential loss of key personnel and key clients;
• potential for litigation risk in acquired businesses not being adequately indemnified;
• unanticipated changes in the industry or general economic conditions that affect the assumptions underlying the acquisition; and
• decline in the value of, and unanticipated costs, problems or liabilities associated with, the acquired business.
Any of these risks could result in a failure to realise the benefits anticipated to result from any acquisition of new business and could have a material adverse impact on the IOOF Group's financial position. The IOOF Group maintains a significant complement of experienced staff and holds relationships with specialist merger and acquisition advisers to assess acquisition opportunities. This is designed to ensure the Board is fully informed of the risks and opportunities associated with any potential individual acquisition.

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

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

(xx) Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry
The Royal Commission was established on 14 December 2017 by the Governor-General of the Commonwealth of Australia. The conduct and activities of the IOOF Group were included in its terms of reference. The Commissioner submitted an interim report on 28 September 2018 and the final report was tabled in Parliament on 4 February 2019. The IOOF Group will be required to respond to potential changes in the financial services environment as a result of the Royal Commission's recommendations. The IOOF Group has engaged external counsel and retains a complement of qualified staff to ensure it is able to appropriately respond to the recommendations raised in the final report and any referrals that may be acted upon by the regulators.

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Risks (continued)

(xxi) Sustainability risk

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

(xxii) Financing risk

Financing risk refers to the IOOF Group's inability to refinance debt facilities or to secure new financing on satisfactory terms which could adversely affect the IOOF Group's financial performance and prospects. To the extent that additional equity or debt funding is not available from time to time on acceptable terms, or at all, the IOOF Group may not be able to take advantage of acquisition and other growth opportunities, develop new ideas or respond to competitive pressures. If at any time the IOOF Group requires an extension to a facility but is unable to obtain it and is unable to repay the relevant facility, this will constitute a default under the other existing facilities and enable the financiers to demand immediate repayment and cancel the facilities. Cancellation of the debt financing arrangements would have an adverse impact on the IOOF Group's financial position and performance. This risk is minimised via a dedicated Treasury function with established policies and procedures which are subject to continuous monitoring and oversight.

Shareholder returns

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

Total Shareholder Return (TSR) measures the change in share value over a specified period together with the return by way of dividends received. The IOOF Group's TSR in the 5 year period from 1 January 2014 was 6.2% in total and 1.2% on a compounding annualised basis. The TSR for the 12 months to 31 December 2018 was -46.9% with a dividend yield of 4.9% offset by share price decline of 51.8%. The market valuation of the IOOF Group was reflective of uncertainty over the long term effects of the Royal Commission on the wealth management industry and the APRA action taken in December 2018.

	Six months ended 31 December		
	2018	2017*	% change
Profit attributable to owners of the Company ($'000s)[1]	135,429	45,217	199.5%
Basic EPS (cents per share)	38.6	14.2	171.4%
Diluted EPS (cents per share)	38.5	14.2	171.3%
UNPAT ($'000s)	99,942	94,840	5.4%
UNPAT EPS (cents per share)	28.5	29.8	(4.4%)
Dividends declared ($'000s)	89,524	94,791	(5.6%)
Dividends per share (cents per share)	25.5	27.0	(5.6%)
Opening share price	$ 8.99	$ 9.80	(8.3%)
Closing share price at 31 December	$ 5.17	$ 10.72	(51.8%)
Return on equity [2]	10.9%	12.0%	(8.7%)

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

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

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

3. Net tangible assets

	31 Dec 2018 (cents)	30 Jun 2018 (cents)
Net tangible assets/(liabilities) per share *	173.5	160.0

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

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4. Entities over which control has been gained or lost

On 1 October 2018, control over the ANZ ADGs was gained following the transfer of full legal ownership from ANZ to IOOF. The Group held 100% of the shares on issue in the parent entity of the ANZ ADGs, Financial Investment Network Group Pty Limited, as at 31 December 2018, which was nil as at 30 June 2018.

Control over Ability One (WA/SA) Pty Ltd was gained during the period following the purchase of this entity. The Group held 100% of the shares on issue as at 31 December 2018, which was nil as at 30 June 2018.

Control over the entities that comprised the AET Corporate Trust business, AET Corporate Trust Pty Ltd, Australian Executor Trustees (SA) Pty Ltd, Australian Executor Trustees (NSW) Pty Ltd and AET SPV Management Pty Ltd was lost during the period. The Group held 100% of the shares on issue as at 30 June 2018 which is nil as at 31 December 2018.

5. Dividends

	Amount $'000	Cents per share	% Franked
Final dividend for the year ended 30 June 2018	94,791	27.0	100%
Interim dividend for the year ended 30 June 2019	89,524	25.5	100%
Record date for determining entitlement to dividend	27 February 2019		
Date for payment of interim dividend	15 March 2019		

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 %	Prior comparative period %	Current period $'000	Prior comparative period $'000
Equity accounted associates				
Perennial Value Management Ltd *	52.4	52.4	416	982
Other associates			15	352
			431	1,334

* 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.*

8. Earnings per share

	31 Dec 2018 (cents)	31 Dec 2017 (cents)
Basic earnings per share	38.6	14.2
Diluted earnings per share	38.5	14.2
UNPAT earnings per share	28.5	29.8

Weighted average number of ordinary shares	31 Dec 2018 No. '000	31 Dec 2017 No. '000
Basic and UNPAT earnings per share	350,687	317,738
Diluted earnings per share	351,567	318,429

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9. Other

The information contained in this Appendix 4D is based on the 31 December 2018 condensed consolidated interim financial report of IOOF Holdings Ltd and its subsidiaries, which has been subject to review by KPMG. The financial report is not subject to modification. 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