IOOF Holdings Ltd

ABN 49 100 103 722

31 December 2018

Condensed consolidated interim 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 six months ended 31 December 2018 and the auditor's report thereon.

Directors

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

Name

Mr George Venardos, Chairman - Leave of absence commenced 10 December 2018
Mr Christopher Kelaher - Leave of absence commenced 10 December 2018
Mr Allan Griffiths, Acting Chairman - Effective 10 December 2018
Ms Jane Harvey
Ms Elizabeth Flynn
Mr John Selak

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

Operating and financial review

In accordance with current Australian Accounting Standards, the financial results of the benefit funds of IOOF Ltd are included in the consolidated results of the IOOF Group. The inclusion of the benefit funds has no impact on the profit after tax for the six months ended 31 December 2018 (2017: $nil), but results in offsetting pre-tax profit and income tax amounts not available to shareholders.

The following table, which has not been audited, provides a reconciliation between the reported results of the IOOF Group and underlying net profit after tax pre-amortisation (UNPAT), with the results of the benefit funds excluded. In calculating its UNPAT, the IOOF Group reverses the impact on profit of certain, predominantly non cash, items to enable a better understanding of its operational result. It is the UNPAT result which will be analysed in detail in this section of the Directors' Report. The 6 months to 31 December 2017 is denoted as prior comparative period or pcp. The items reversed, and the rationale for that reversal, is also addressed in detail.

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

	Note	Six months ended 31 Dec 18 $'000	Six months ended 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 pre-amortisation (UNPAT) adjustments:			
Reverse the impact of:			
Amortisation of intangible assets		19,731	19,581
Acquisition costs - Acquisition advisory	2-4	1,733	3,694
Acquisition costs - Integration preparation	2-4	6,515	1,209
Acquisition costs - Finance costs	2-4	416	456
Termination payments	2-4	316	1,221
Profit on divestment of subsidiaries	2-2	-	(143)
Profit on divestment of assets	2-3	(365)	(297)
Non-recurring professional fees paid/(recovered)	2-4	230	(902)
Impairment of goodwill	2-4	-	28,339
Onerous contracts	2-4	-	1,843
Unwind of deferred tax liability recorded on intangible assets		(5,140)	(5,074)
One off remediation costs	2-4	3,805	-
Other	2-4	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.

Operating and financial review (continued)

UNPAT Adjustments:

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

Acquisition costs - Acquisition advisory: One off payments to external advisers for corporate transactions, such as the acquisition of 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 pcp non-cash impairment recognised in relation to goodwill allocated to Perennial Investment Partners Limited.

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.

Operating and financial review (continued)

Review of Strategy (continued)

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 an 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.

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 and Advice (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.

Operating and financial review (continued)

Review of Strategy (continued)

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 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 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). ANZ anticipates that the successor fund transfer will occur by 1 July 2019, subject to ANZ approval.

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 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.

Operating and financial review (continued)

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.

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.

Operating and financial review (continued)

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

Financial advice	31 Dec 18 $'000	31 Dec 17 $'000	Movement $'000	Movement %
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

Portfolio & estate administration	31 Dec 18 $'000	31 Dec 17 $'000	Movement $'000	Movement %
Net operating revenue	120,351	118,994	1,357	1.1%
Other revenue (incl share of net profits of associates)	-	75	(75)	(100.0%)
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.

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.

Operating and financial review (continued)

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.

(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.

Operating and financial review (continued)

Risks (continued)

(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.

(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.

Operating and financial review (continued)

Risks (continued)

(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.

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

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

Operating and financial review (continued)

Risks (continued)

(xvii) Acquisitions
Acquisition transactions involve inherent risks, including:
• accurately assessing the value, strengths, weaknesses, contingent and other liabilities and potential profitability of acquired businesses;
• integration risks including the risk that integration could take longer or cost more than expected or that the anticipated benefits and synergies of the integration may be less than estimated;
• diversion of management attention from existing business;
• potential loss of key personnel and key clients;
• 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.

(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.

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 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.

Dividends

In respect of the six months ended 31 December 2018, the Directors declared the payment of an interim dividend of 25.5 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 March 2019. This dividend will be paid to all shareholders recorded on the Register of Members on 27 February 2019.

In respect of the financial year ended 30 June 2018, a final dividend of 27.0 cents per share franked to 100% at 30% corporate income tax rate was paid to the holders of fully paid ordinary shares on 4 September 2018.

Events occurring after balance date

The Directors have declared the payment of an interim dividend of 25.5 cents per ordinary share franked to 100% based on tax paid at 30%, to be paid on 15 March 2019.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry's 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 Directors are not aware of any other matter or circumstance not otherwise dealt with in this report, or the accompanying financial statements and notes thereto, that has arisen since 31 December 2018 that has significantly affected, or may significantly affect:

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

Lead auditor's independence declaration

The lead auditor's independence declaration is included on page 14 of the interim financial report and forms part of the Directors' Report for the six months ended 31 December 2018.

Rounding off of amounts

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

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

Allan Griffiths

Acting Chairman
19 February 2019

Directors' declaration

In the opinion of the Directors of the Company:

(a) the condensed consolidated financial statements and notes set out on pages 17 to 39, are in accordance with the Corporations Act 2001 including:

  (i) giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the six months ended on that date; and

  (ii) complying with Australian Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001; and

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

Signed in accordance with a resolution of the Directors:

Allan Griffiths
Acting Chairman
Melbourne
19 February 2019

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

To the Directors of IOOF Holdings Ltd

I declare that, to the best of my knowledge and belief, in relation to the review of IOOF Holdings Ltd for the half-year ended 31 December 2018 there have been:

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

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

KPMG

KPMG

Chris Wooden
Partner

Melbourne

19 February 2019

KPMG

Independent Auditor's Review Report

To the members of IOOF Holdings Ltd

Conclusion

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

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

- Giving a true and fair view of the ***Group's*** financial position as at 31 December 2018 and of its performance for the ***Interim Period*** ended on that date; and
- Complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*.

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

- Condensed consolidated statement of financial position as at 31 December 2018
- Condensed consolidated statement of comprehensive income, Condensed consolidated statement of changes in equity and Condensed consolidated statement of cash flows for the Interim Period ended on that date
- Notes 1-1 to 6-6 comprising a summary of significant accounting policies and other explanatory information
- The Directors' Declaration.

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

The ***Interim Period*** is the 6 months ended on 31 December 2018.

Responsibilities of the Directors for the Condensed Consolidated Interim Financial Report

The Directors of the Company are responsible for:

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

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

Our responsibility is to express a conclusion on the Condensed Consolidated Interim Financial Report based on our review. We conducted our review in accordance with *Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the Condensed Consolidated Interim Financial Report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the Interim Period ended on that date; and complying with *Australian Accounting Standard AASB 134 Interim Financial Reporting* and the *Corporations Regulations 2001*. As auditor of IOOF Holdings Ltd, *ASRE 2410* requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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

KPMG

KPMG

Chris Wooden
Partner

Melbourne

19 February 2019

KPMG

KPMG

Rachel Milum
Partner

Melbourne

19 February 2019

IOOF Interim Financial Report 2018
Condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended		31 Dec 18	31 Dec 17*
Continuing operations	**Note**	**$'000**	**$'000**
Revenue	2-3	548,954	451,345
Expenses	2-4	(432,558)	(375,736)
Share of profits of associates accounted for using the equity method		431	1,334
Finance costs		(4,816)	(2,048)
Profit before tax		112,011	74,895
Income tax expense	2-5	(33,214)	(27,162)
Statutory fund			
Statutory fund revenue**	5-3	20,510	36,618
Statutory fund expenses**	5-3	(33,529)	(24,670)
Income tax (expense)/benefit - statutory**	5-3	13,019	(11,948)
Statutory fund contribution to profit, net of tax		-	-
Profit for the period from continuing operations		**78,797**	**47,733**
Discontinued operation			
Profit for the period from discontinued operation	2-2	58,975	206
Profit for the period		137,772	47,939
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Net change in fair value of available-for-sale financial assets		5,133	9,018
Exchange differences on translating foreign operations		29	(106)
Income tax on other comprehensive income		(1,540)	(2,687)
Total items that may be reclassified subsequently to profit or loss		3,622	6,225
Other comprehensive income/(expense) for the period, net of income tax		3,622	6,225
Total comprehensive income for the period		141,394	54,164
Profit attributable to:			
Owners of the Company		**135,429**	**45,217**
Non-controlling interest		2,343	2,722
Profit for the period		137,772	47,939
Total comprehensive income attributable to:			
Owners of the Company		139,051	51,442
Non-controlling interest		2,343	2,722
Total comprehensive income for the period		141,394	54,164
Earnings per share:			
Basic earnings per share (cents per share)	2-7	38.6	14.2
Diluted earnings per share (cents per share)	2-7	38.5	14.2
Earnings per share - continuing operations:			
Basic earnings per share (cents per share)		21.8	14.2
Diluted earnings per share (cents per share)		21.7	14.1

Notes to the consolidated financial statements are included on pages 22 to 39.

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

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

Condensed consolidated statement of financial position

	Note	31 Dec 18 $'000	30 Jun 18 $'000
Assets			
Cash	1-1	112,846	121,441
Certificates of deposit	1-1	-	407,443
Receivables	1-1	291,373	99,659
Debt note	1-1	800,000	-
Other financial assets	1-1	54,915	55,087
Prepayments		15,612	17,307
Deferred acquisition costs		1,422	1,552
Associates		24,537	24,002
Property and equipment		39,286	19,339
Intangible assets	4-3	392,288	408,310
Goodwill	4-4	946,323	940,226
Assets relating to statutory funds*	5-1	984,564	1,036,491
Total assets		**3,663,166**	**3,130,857**
Liabilities			
Payables	1-1	73,199	65,139
Borrowings	1-1, 3-1	416,700	-
Current tax liabilities		11,360	25,615
Contingent consideration	1-1	3,026	392
Provisions	4-2	231,694	116,335
Deferred tax liabilities		80,543	69,255
Deferred revenue liability		1,309	1,413
Lease incentives		5,893	3,530
Liabilities relating to statutory funds*	5-2	984,564	1,036,491
Total liabilities		**1,808,288**	**1,318,170**
Net assets		**1,854,878**	**1,812,687**
Equity			
Share capital	3-2	1,966,925	1,967,023
Reserves	3-4	23,306	19,413
Accumulated losses		(142,932)	(184,169)
Total equity attributable to equity holders of the Company		**1,847,299**	**1,802,267**
Non-controlling interest		7,579	10,420
Total equity		**1,854,878**	**1,812,687**

Notes to the consolidated financial statements are included on pages 22 to 39.

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

Condensed consolidated statement of changes in equity

For the six months ended 31 December 2018

	Note	Ordinary shares $'000	Treasury shares $'000	Reserves $'000	Accumulated losses $'000	Total $'000	Non-controlling interest $'000	Total equity $'000
Balance at 1 July 2018		1,971,648	(4,625)	19,413	(184,169)	**1,802,267**	10,420	**1,812,687**
Total comprehensive income for the period								
Profit for the period attributable to owners of the Company		-	-	-	135,429	**135,429**	2,343	**137,772**
Other comprehensive income for the period, net of income tax		-	-	3,622	-	**3,622**	-	**3,622**
Total comprehensive income for the period		-	-	3,622	135,429	**139,051**	2,343	**141,394**
Contributions by and (distributions to) owners								
Dividends paid		-	-	-	(94,716)	**(94,716)**	(4,520)	**(99,236)**
Return of capital to non-controlling interest		-	-	-	-	**-**	(1,201)	**(1,201)**
Share-based payment expense	2-4	-	-	4,477	-	**4,477**	-	**4,477**
Transfer from employee equity-settled benefits reserve on exercise of performance rights	3-2	3,682	-	(3,682)	-	**-**	-	**-**
Treasury shares transferred to recipients during the period	3-2	(4,265)	4,265	-	-	**-**	-	**-**
Transfer of lapsed performance rights to retained earnings		-	-	(524)	524	**-**	-	**-**
Purchase of treasury shares	3-2	-	(3,780)	-	-	**(3,780)**	-	**(3,780)**
Additional non-controlling interests arising upon acquisition		-	-	-	-	**-**	537	**537**
Total transactions with owners		(583)	485	271	(94,192)	**(94,019)**	(5,184)	**(99,203)**
Balance at 31 December 2018		1,971,065	(4,140)	23,306	(142,932)	**1,847,299**	7,579	**1,854,878**

Notes to the consolidated financial statements are included on pages 22 to 39.

Condensed consolidated statement of changes in equity

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

Notes to the consolidated financial statements are included on pages 22 to 39.

Condensed consolidated statement of cash flows

For the six months ended	Note	31 Dec 18 $'000	31 Dec 17 $'000
Cash flows from operating activities			
Receipts from customers		561,728	477,395
Payments to suppliers and employees		(442,082)	(343,624)
Dividends from associates		206	1,403
Net stockbroking purchases		188	(163)
Non-recurring professional fees paid		-	(98)
Net legal settlements		(8,480)	-
Termination payments		(316)	(1,118)
One off remediation costs		(3,805)	-
Coupon interest received on debt note		18,937	-
Income taxes paid		(54,255)	(41,452)
Net cash provided by operating activities		72,121	92,343
Cash flows from investing activities			
Dividends and distributions received		658	606
Interest received		5,236	2,193
Acquisition costs - Acquisition advisory		(1,733)	(3,694)
Acquisition costs - Integration preparation		(6,515)	(1,209)
Acquisition costs - Finance costs		(416)	(5,100)
Interest and other costs of finance paid		(8,706)	(2,016)
Redemption/(purchase) of certificates of deposit		407,443	(349,831)
Purchase of debt note		(800,000)	-
Proceeds on divestment of subsidiaries, net of cash disposed		39,710	163
Purchase of shares in associate		(1,750)	-
Acquisition of subsidiary, net of cash acquired		(5,718)	(18,329)
Proceeds on divestment of other assets		1,268	724
Receipt of deferred purchase consideration		72	889
Payment of deferred purchase consideration		(200)	-
Purchase of financial assets		-	(197)
Payments for property and equipment		(22,709)	(6,488)
Amounts borrowed from other entities		20	8
Payments for intangible assets		(3,163)	(167)
Net cash provided by/(used in) investing activities		(396,503)	(382,448)
Cash flows from financing activities			
Net borrowings drawn/(repaid)		419,977	(207,424)
Purchase of treasury shares		(3,780)	(1,005)
Proceeds from issue of shares		-	539,264
Return of capital to non-controlling interest		(1,201)	-
Transaction costs of issuing new shares		-	(8,452)
Dividends paid:			
- members of the Company		(94,716)	(80,957)
- non-controlling members of subsidiary entities		(4,520)	(1,886)
Net cash provided by/(used in) financing activities		315,760	239,540
Net increase/(decrease) in cash and cash equivalents		(8,622)	(50,565)
Cash and cash equivalents at the beginning of period		121,441	208,218
Effects of exchange rate changes on cash and cash equivalents		27	(30)
Cash and cash equivalents at the end of period		112,846	157,623

Notes to the consolidated financial statements are included on pages 22 to 39.

Section 1 - Risk management

The IOOF Group's activities expose it to a variety of financial and non-financial risks. Financial risks include: market risks (including price risk, currency risk and interest rate risk), credit risk, statutory fund and liquidity risk. The nature of the financial risk exposures arising from financial instruments, the objectives, policies and processes for managing these risks, and the methods used to measure them are unchanged from the year ended 30 June 2018.

1-1 Financial Instruments

Fair value hierarchy

The fair values of financial assets and liabilities are equal to the carrying amounts shown in the statement of financial position.

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

	Carrying amount			Fair value			
	Current	Non-Current	Total	Level 1	Level 2	Level 3	Total
31 December 2018	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash	112,846	-	112,846				
Debt note	800,000	-	800,000	-	-	800,000	800,000
Other financial assets							
Financial assets measured at fair value							
Available-for-sale investments	-	37,914	37,914	37,914	-	-	37,914
Shares in listed companies	18	-	18	18	-	-	18
Unlisted unit trusts	-	1,566	1,566	-	1,566	-	1,566
Fair value through profit or loss	18	1,566	1,584	18	1,566	-	1,584
Financial assets not measured at fair value							
Loans to directors and executives of associated entities	-	8,264	8,264				
Seed capital receivable	-	7,153	7,153				
Loans and other receivables	-	15,417	15,417				
Total other financial assets	18	54,897	54,915				
Receivables							
Financial assets not measured at fair value							
Trade receivables	47,524	-	47,524				
Other receivables	59,321	11,033	70,354				
Customer remediation indemnity	168,100	-	168,100				
Security bonds	-	5,395	5,395				
Total receivables	274,945	16,428	291,373				
Total financial assets	**387,809**	**71,325**	**459,134**				
Financial liabilities							
Contingent consideration	3,026	-	3,026	-	-	3,026	3,026
Payables	69,810	-	69,810				
Payables to statutory benefit funds	3,389	-	3,389				
	73,199	-	73,199				
Borrowing facilities	-	416,700	416,700				
Total financial liabilities	**76,225**	**416,700**	**492,925**				

Section 1 - Risk management

1-1 Financial Instruments (continued)

	Carrying amount			Fair value			
	Current	Non-Current	Total	Level 1	Level 2	Level 3	Total
30 June 2018	$'000	$'000	$'000	$'000	$'000	$'000	$'000
Cash	121,441	-	121,441				
Certificates of deposit	407,443	-	407,443				
Other financial assets							
Financial assets measured at fair value							
Available-for-sale investments	-	32,760	32,760	32,760	-	-	32,760
Shares in listed companies	18	-	18	18	-	-	18
Unlisted unit trusts	-	1,747	1,747	-	1,747	-	1,747
Fair value through profit or loss	18	1,747	1,765	18	1,747	-	1,765
Loans to directors and executives of associated entities	-	8,404	8,404				
Receivables from statutory benefit funds	5,005	-	5,005				
Seed capital receivable	-	7,153	7,153				
Loans and other receivables	5,005	15,557	20,562				
Total other financial assets	5,023	50,064	55,087				
Receivables							
Financial assets not measured at fair value							
Trade receivables	48,049	-	48,049				
Other receivables	45,461	757	46,218				
Security bonds	-	5,392	5,392				
Total receivables	93,510	6,149	99,659				
Total financial assets	**627,417**	**56,213**	**683,630**				
Financial liabilities							
Contingent consideration	392	-	392	-	-	392	392
Payables	65,136	3	65,139				
Borrowing facilities	-	-	-				
Finance lease liabilities	-	-	-				
Borrowings	-	-	-				
Total financial liabilities	**65,528**	**3**	**65,531**				

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

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

The IOOF Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the six months ended 31 December 2018. (2017: nil).

Section 1 - Risk management

1-1 Financial Instruments (continued)

Reconciliation of movements in level 3 financial instruments

	Debt Note		Contingent consideration	
	31 Dec 18 $'000	30 Jun 18 $'000	31 Dec 18 $'000	30 Jun 18 $'000
Opening balance	-	-	392	1,839
Purchase	800,000	-	-	-
Fair value gain from derecognition of contingent consideration	-	-	-	(805)
Assumed in a business combination	-	-	2,070	-
Unwinding of discount	-	-	5	22
Acquisition of intangibles	-	-	759	-
Contingent consideration paid	-	-	(200)	(664)
Closing balance	800,000	-	3,026	392

Level 3 financial assets consist of a debt note carried at fair value. The debt note is valued via a discounted cash flow, which incorporates unobservable inputs such as discount rates and probability-adjusted revenues expected to be received under the arrangement. An increase in the discount rate used in isolation would result in a decrease to the fair value of the debt note. An increase in the probability adjusted revenues in isolation would result in an increase in the fair value of the debt note.

Level 3 financial liabilities consist of deferred purchase consideration in respect of client lists purchased by the IOOF Group, which is valued at the maximum deferred consideration amount payable under the relevant contracts. The amount of deferred consideration payable is linked to the retention of clients, which is an unobservable output and may decrease the value of the liability.

Section 2 - Results for the period

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

2-1 Operating segments

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

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

Portfolio and estate 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.

Ex-ANZ wealth management
ADGs acquired from ANZ during the period, which provide financial planning advice services. Also inclusive of debt note revenue representing economic completion of the P&I business.

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

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

Section 2 - Results for the period

2-1 Operating segments (continued)

	Financial advice and distribution		Portfolio and estate administration		Investment management		Ex-ANZ wealth management		Corporate and other		Total	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018[ii] $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Management and service fees revenue	148,343	142,214	205,240	205,626	49,443	35,060	47,704	-	-	-	450,730	382,900
External other fee revenue	8,023	7,655	4,566	4,471	513	1,285	2,184	-	179	217	15,465	13,628
Service fees and other direct costs	(83,145)	(71,460)	(51,192)	(56,518)	(15,765)	(4,399)	(45,748)	-	198	240	(195,652)	(132,137)
Deferred acquisition costs	(18)	(112)	(59)	(82)	-	-	-	-	-	-	(77)	(194)
Gross Margin	**73,203**	**78,297**	**158,555**	**153,497**	**34,191**	**31,946**	**4,140**	**-**	**377**	**457**	**270,466**	**264,197**
Stockbroking revenue	44,580	47,788	-	-	-	-	15	-	-	-	44,595	47,788
Stockbroking service fees expense	(25,669)	(27,367)	-	-	-	-	-	-	-	-	(25,669)	(27,367)
Stockbroking net contribution	**18,911**	**20,421**	**-**	**-**	**-**	**-**	**15**	**-**	**-**	**-**	**18,926**	**20,421**
Inter-segment revenue[i]	39,667	38,220	1,354	1,509	-	-	-	-	69	69	41,090	39,798
Inter-segment expenses[i]	(71)	(2,278)	(39,558)	(36,012)	(1,461)	(1,508)	-	-	-	-	(41,090)	(39,798)
Net Operating Revenue	**131,710**	**134,660**	**120,351**	**118,994**	**32,730**	**30,438**	**4,155**	**-**	**446**	**526**	**289,392**	**284,618**
Other revenue	2,677	2,267	-	75	-	-	1,520	-	166	353	4,363	2,695
Finance income	330	319	2	-	-	-	28,851	-	4,253	3,575	33,436	3,894
Share of net profits of associates	15	352	-	-	416	982	-	-	-	-	431	1,334
Operating expenditure	(74,860)	(76,462)	(56,565)	(52,710)	(5,153)	(5,876)	(13,132)	-	(19,476)	(18,925)	(169,186)	(153,973)
Share-based payments expense	(1,200)	(506)	(1,498)	(186)	(1,034)	(64)	-	-	(714)	(593)	(4,446)	(1,349)
Finance costs	(9)	(16)	-	-	-	-	-	-	(4,807)	(2,032)	(4,816)	(2,048)
Depreciation of property & equipment	(1,581)	(1,461)	(2,468)	(1,929)	(317)	(244)	(5)	-	-	-	(4,371)	(3,634)
Amortisation of intangible assets - IT Development	-	-	(351)	(352)	-	-	-	-	-	-	(351)	(352)
Non-controlling interest	(2,455)	(2,722)	-	-	-	-	112	-	-	-	(2,343)	(2,722)
Income tax expense	(17,479)	(17,781)	(18,286)	(19,329)	(8,159)	(7,295)	(6,545)	-	8,472	10,551	(41,997)	(33,854)
UNPAT from continuing operations	**37,148**	**38,650**	**41,185**	**44,563**	**18,483**	**17,941**	**14,956**	**-**	**(11,660)**	**(6,545)**	**100,112**	**94,609**
Discontinued operations											(170)	231
UNPAT											**99,942**	**94,840**

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

(ii) For the period 1 October 2018 to 31 December 2018.

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

Section 2 - Results for the period

2-1 Operating segments (continued)

Reconciliation of reportable segment revenues and expenses

	Note	31 Dec 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 pre-amortisation (UNPAT) adjustments:			
Amortisation of intangible assets	2-4	19,731	19,581
Acquisition costs - Acquisition advisory	2-4	1,733	3,694
Acquisition costs - Integration preparation	2-4	6,515	1,209
Acquisition costs - Finance costs	2-4	416	456
Termination payments	2-4	316	1,221
Profit on divestment of subsidiaries	2-3	-	(143)
Profit on divestment of assets	2-3	(365)	(297)
Non-recurring professional fees paid/(recovered)	2-4	230	(902)
Impairment of goodwill	2-4	-	28,339
Onerous contracts	2-4	-	1,843
Unwind of deferred tax liability recorded on intangible assets		(5,140)	(5,074)
One off remediation costs	2-4	3,805	-
Other	2-4	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**

The significant accounting policies are consistent with those adopted for the last annual consolidated financial statements as at and for the year ended 30 June 2018.

2-2 Discontinued operation

On 1 November 2018, the IOOF Group completed the divestment of the AET Corporate Trust business to Sargon Capital Pty Ltd (Sargon) for an upfront consideration of $41.3m and a deferred component of $10.3m dependent on the novation of certain contract revenue to Sargon. An additional $1.6m consideration relating to a net asset adjustment was received in January 2019. $11.9m has been recognised as deferred consideration receivable at 31 December 2018.
Revenue, expenses and associated income tax in the financial statements and notes have been restated to a continuing basis, where applicable, and therefore exclude the below results of the discontinued operation.
The recovery of legal claims relates to recoveries as a result of agreed settlements with PwC, HLB Mann Judd, IOOF's insurers and insurance broker, in respect of the cross-claims brought by Australian Executor Trustees Limited against those parties as part of the proceedings related to Provident Capital Limited. Settlement of legal claims expenditure of $44.3m was recognised in June 2018 in relation to the Provident proceedings.

	4 months ended 1 Nov 18 $'000	6 months ended 31 Dec 17 $'000
Results of the discontinued operation		
Revenue	4,357	4,822
Expenses	(4,557)	(4,523)
Recovery of legal claims	36,000	-
Results from operating activities	35,800	299
Income tax	(10,791)	(93)
Results from operating activities, net of tax	25,009	206
Gain on sale of discontinued operation	48,959	-
Income tax on gain on sale of discontinued operation	(14,993)	-
Gain on disposal of discontinued operation, net of tax	33,966	-
Profit for the period	58,975	206
Basic earnings per share (cents per share)	16.8	0.1
Diluted earnings per share (cents per share)	16.8	0.1
Cash flows from the discontinued operation		
Net cash (used in)/provided by operating activities	(21,604)	206
Net cash provided by investing activities	24,712	-
Net cash flow for the period	3,108	206

Section 2 - Results for the period

2-2 Discontinued operation (continued)

Assets and liabilities of disposal group

The net assets of the disposal group at the date of disposal are shown below.

	1 Nov 18 $'000
Assets	
Cash	1,605
Receivables	3,127
Prepayments	53
Plant & equipment	5
Intangible assets	279
Deferred tax assets	188
Total assets	5,257
Liabilities	
Payables	453
Provisions	456
Deferred tax liabilities	4
Total liabilities	913
Net assets and liabilities	4,344
Consideration received in cash	41,316
Income tax paid	(14,993)
Cash and cash equivalents disposed of	(1,605)
Net cash inflow	24,718

2-3 Revenue

	31 Dec 18 $'000	31 Dec 17* $'000
Management and service fees revenue	450,730	382,900
Stockbroking revenue	44,595	47,788
External other fee revenue	15,465	13,628
Finance income		
Interest income on loans to Directors of controlled and associated entities	134	126
Interest income from non-related entities	32,629	3,078
Dividends and distributions received	676	611
Net fair value gains/(losses) on other financial assets at fair value through profit or loss	(3)	79
	33,436	3,894
Other revenue		
Profit on divestment of subsidiaries	-	143
Profit on divestment of assets	365	297
Other	4,363	2,695
	4,728	3,135
Total revenue	548,954	451,345

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

Section 2 - Results for the period

2-4 Expenses

	Note	31 Dec 18 $'000	31 Dec 17* $'000
Service Fees and other direct costs			
Service and marketing fees expense		186,190	122,129
Stockbroking service fees expense		25,669	27,367
Other direct costs		9,462	10,008
		221,321	159,504
Operating expenditure			
Salaries and related employee expenses		113,065	106,353
Information technology costs		20,581	16,556
Professional fees		5,045	4,355
Marketing		6,077	4,994
Office support and administration		9,033	6,478
Occupancy related expenses		11,552	12,353
Travel and entertainment		3,692	2,848
Other		141	36
		169,186	153,973
Other expenses			
Share-based payments expense		4,446	1,349
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
Depreciation of property and equipment		4,371	3,634
Amortisation of intangible assets	4-3	19,730	19,580
Amortisation of intangible assets - IT development	4-3	351	352
Impairment of goodwill	4-3	-	28,339
Onerous contracts		-	1,843
One off remediation costs		3,805	-
Deferred acquisition costs		77	194
Non-recurring professional fees paid/(recovered)		230	(902)
Other		61	1,290
		42,051	62,259
Total expenses		432,558	375,736

2-5 Income taxes

	31 Dec 18		31 Dec 17*	
Reconciliation of effective tax rate	%	$'000	%	$'000
Profit before tax from continuing operations		112,011		74,895
Tax using the IOOF Group's domestic tax rate	30.0%	33,603	30.0%	22,468
Tax effect of:				
Share of tax credits with statutory funds	0.5%	534	0.7%	519
(Non assessable income)/Non-deductible expenses	(0.3%)	(366)	0.5%	384
Impairment of goodwill	- %	-	11.4%	8,502
Share of net profits of associates	(0.1%)	(129)	(0.5%)	(400)
Assessable associate dividends	2.9%	3,245	2.4%	1,764
Imputation credits	(3.0%)	(3,400)	(2.6%)	(1,942)
Other	(0.1%)	(152)	(0.6%)	(446)
Under/(over) provided in prior periods	(0.1%)	(121)	(4.9%)	(3,687)
Income tax expense from continuing operations	**29.7%**	33,214	**36.3%**	27,162

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

Section 2 - Results for the period

2-5 Income taxes (continued)

For statutory reporting purposes, the Group had an effective tax rate (ETR) of 29.7% on its continuing operations for the period ended 31 December 2018 (2017: 36.3%) compared to a statutory corporate tax rate of 30%. This rate difference is primarily due to tax offsets for fully franked dividend income and research and development expenditure. For the period ended 31 December 2017, the ETR difference was impacted by similar factors, together with impairment of goodwill, prior period amendments and non-deductible subsidiary acquisition costs. Excluding these items IOOF's effective tax rate would be 30% across both periods.

Tax contribution analysis

The IOOF Group contributes taxes directly and indirectly to Australia through both taxes paid and collected. For the year ended 30 June 2018 the IOOF Group contributed a total of $143.6m in taxes to Australian, New Zealand and Hong Kong governments with 99.6% of this amount attributable to the Australian Government. Further taxes collected and remitted by the IOOF Group on behalf of employees and members totalled a further $123m for the same period.

Tax transparency

The ATO publish tax information in respect of large public taxpayers in its annual tax transparency report. For the IOOF tax group, the latest ATO published report disclosed payments of $76.1m in income tax relating to the financial year ended 30 June 2017. IOOF is committed to tax transparency and is a signatory to the Board of Taxation's Voluntary Tax Transparency Code (the Code). The Code is a set of principles and 'minimum standards' to guide disclosure of tax information by businesses, encourage those businesses to avoid aggressive tax planning, and to help educate the public about their compliance with Australia's tax laws.

Approach to tax strategy and governance

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

2-6 Dividends

The following dividends were declared by the IOOF Group:

	Six months ended 31 December 2018		Six months ended 31 December 2017	
	Cents per share	Total '000	Cents per share	Total '000
Fully paid ordinary shares				
Interim dividend	25.5	89,524	27.0	94,791

In respect of the six months ended 31 December 2018, the Directors declared the payment of an interim dividend of 25.5 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 March 2019. This dividend will be paid to all shareholders recorded on the Register of Members on 27 February 2019.

2-7 Earnings per share

	31 Dec 18 Cents per share	31 Dec 17 Cents per share
Basic earnings per share	38.6	14.2
Diluted earnings per share	38.5	14.2

Basic earnings per share

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

	31 Dec 18 $'000	31 Dec 17 $'000
Profit for the period attributable to owners of the Company	135,429	45,217
Earnings used in the calculation of basic EPS	135,429	45,217
Weighted average number of ordinary shares	**No. '000**	**No. '000**
Weighted average number of ordinary shares (basic)	350,687	317,738
Effect of unvested performance rights	880	691
Weighted average number of ordinary shares (diluted)	351,567	318,429

Section 3 - Capital management and financing

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

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

3-1 Borrowings

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

During the period, IOOF Group executed a syndicated facility agreement (SFA) with lenders (effective 27 September 2018 (SFA effective date)), with an initial drawdown made 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. This facility is presently split between a $20m revolving cash advance facility (interest-bearing borrowing) and the balance allocated for a guarantee facility.

The current interest-bearing borrowings have a debt duration profile of approximately 3.9 years (calculated on a facility limit basis).

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

(a) Revolving Cash Advance Facility
The unsecured revolving cash advance facilities provided under the SFA are as follows:

	31 Dec 18 $'000	30 Jun 18 $'000
Total revolving cash advance facility limit under the SFA	770,000	-
Less drawn	420,000	-
Available revolving cash advance facility limit under the SFA	350,000	-

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

(b) Other bank facilities
In addition to the revolving cash advance facilities, the IOOF Group has contingent liability facilities and a commercial loan held by one of its subsidiaries. The aggregate of the contingent liability facilities is $52.7m (2017: $40m) of which $42.6m was used at 31 December 2018 (30 June 2018: $38.9m). The commercial loan facility is $0.6m at 31 December 2018 and is fully drawn.

	Borrowings $'000
Revolving Cash Advance Facility	
Opening balance 1 July 2018	-
Net borrowings drawn	420,000
Amortised capitalised establishment fees	(3,897)
Closing balance 31 December 2018	416,103
Other bank facilities	
Commercial loan facility	597
Total	**416,700**

3-2 Share capital

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

	31 Dec 18 $'000	30 Jun 18 $'000
351,076,027 fully paid ordinary shares (30 June 2018: 351,076,027)	1,971,065	1,971,648
589,164 treasury shares (30 June 2018: 484,964)	(4,140)	(4,625)
	1,966,925	1,967,023

	Six months ended 31 Dec 18		Year ended 30 Jun 18	
	No. '000	$'000	No. '000	$'000
Ordinary shares				
On issue at 1 July	351,076	1,971,648	300,134	1,438,601
Issue of shares	-	-	50,942	539,264
Transaction costs of issuing new shares	-	-	-	(5,917)
Transfer from employee equity-settled benefits reserve on exercise of performance rights	-	3,682	-	2,093
Treasury shares transferred to recipients during the period	-	(4,265)	-	(2,393)
On issue at the end of the period	351,076	1,971,065	351,076	1,971,648

Section 3 - Capital management and financing

3-2 Share capital (continued)

	Six months ended 31 Dec 18		Year ended 30 Jun 18	
Treasury shares	No. '000	$'000	No. '000	$'000
On issue at 1 July	(485)	(4,625)	(476)	(4,142)
Purchase of treasury shares	(550)	(3,780)	(287)	(2,876)
Treasury shares transferred to recipients during the period	446	4,265	278	2,393
On issue at the end of the period	(589)	(4,140)	(485)	(4,625)
Total share capital	350,487	1,966,925	350,591	1,967,023

Issue of performance rights

During the six months to 31 December 2018, the Company issued the following performance rights to employees and executives:

Recipients	No. of Rights Issued	Fair Value $
Managing Director	140,785	2.04
Senior Management	122,000	6.64
Acting CEO	25,000	6.64
Senior Management	122,000	3.22
Acting CEO	25,000	3.22
Other Employees	42,020	7.58
Other Employees	46,961	3.54
Other Employees	224,229	8.04
	747,995	

3-3 Commitments and Contingent liabilities

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 Aligned Dealer Groups (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;
  - ANZ will pay a coupon rate of 14.4% to IOOF, which is broadly equivalent to 82% of the economic interests in the ANZ OnePath Pensions and Investments (P&I) business, from 2 October 2018 until the debt note is redeemed (upon completion of the sucessor fund transfer).

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 Trustee approval.

The IOOF Group is assessing areas of focus raised by the Royal Commission. Based on the facts currently known, it is not practicable at this time for the IOOF Group to predict the resolution of these matters, including timing or any possible impact on the IOOF Group, which could be significant.

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

3-4 Reserves

	31 Dec 18 $'000	30 Jun 18 $'000
Available-for-sale investment revaluation reserve	22,397	18,804
Business combinations reserve	(326)	(326)
Foreign currency translation reserve	73	44
Operating Risk Financial Reserve*	2,655	2,655
Share-based payments reserve	(1,493)	(1,764)
	23,306	19,413

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

Section 4 - Operating assets and liabilities

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

4-1 Acquisitions

On 1 October 2018, the ADGs formerly owned by ANZ joined the IOOF Group following the completion of a share sale agreement between IOOF and ANZ. The ADGs provide services to clients including strategic financial advice and risk insurance solutions.

The IOOF Group acquired all of the ordinary shares in the parent entity of the ADGs for a total cash consideration of $25.1m.

In the period from acquisition to 31 December 2018, the ADGs contributed revenue of $51.6m and a loss of $5.1m to the IOOF Group's UNPAT results. This excludes integration preparation costs of $6.5m in relation to the acquisiiton of the ADGs and scheduled acquisition of the ANZ P&I business by June 2019.

If the acquisition had occurred on 1 July 2018, management estimates that the consolidated revenue from continuing operations would have been $600.5m and consolidated profit from continuing operations for the period would have been $73.6m. In determining these amounts, management has 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 2018.

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	23,000
Deferred consideration payable	2,070
Total consideration	25,070
Cash balances acquired	(24,240)
Consideration, net of cash acquired	830

The impact on cash flows for the Group for the half year was an inflow of $1.2m.

Acquisition-related costs

The IOOF Group has incurred acquisition-related costs of $8.7m in the half year, on acquisition advisory, integration preparation and finance costs in relation to the acquisition of the ADGs and scheduled acquisition of the ANZ P&I business by June 2019. These costs have been included in the Other Expenses in note 2-4.

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	24,240
Receivables	3,744
Prepayments	579
Investments accounted for using the equity method	368
Property and equipment	1,600
Deferred tax assets	1,033
Payables	(2,103)
Borrowings	(618)
Current tax liabilities	242
Provisions	(3,493) *
Non-controlling interest	(544)
Total identifiable net assets acquired	25,048

*$168.1m customer remediation provision acquired is wholly offset by the indemnity receivable under the sale agreement.

Provisional goodwill and intangibles

At the date of the interim financial report, the acquisition accounting balances are provisional due to ongoing work finalising valuations of identifiable intangibles which may impact acquisition accounting entries.
Provisional goodwill and intangibles have been recognised as a result of the acquisition as follows:

	$'000
Total consideration	25,070
Fair value of assets assumed	(25,048)
Provisional goodwill and intangibles acquired	22

The goodwill is attributable mainly to the skills and technical talent of the ADGs' work force and the synergies expected to be achieved from integrating the ADGs into the IOOF Group's existing business. None of the goodwill recognised is expected to be deductible for tax purposes. The provisional goodwill also includes the value of customer relationships and brand names.

Section 4 - Operating assets and liabilities

4-2 Provisions

	31 Dec 18 $'000	30 Jun 18 $'000
Onerous contracts	491	985
Employee entitlements	59,272	67,487
Customer remediation provision	168,100	-
Other provisions	3,831	47,863
	231,694	116,335

Provisions totalling $168.1m have been recognised in respect of the ANZ ADGs acquired on 1 October 2018. These provisions relate to customer remediation during the period that the relevant entities were owned by ANZ. The sale agreement indemnified the acquired entities in relation to customer remediation and accordingly, a corresponding receivable has been recognised.

4-3 Intangible assets (other than goodwill)

	31 Dec 18 $'000	30 Jun 18 $'000
Cost	680,791	677,147
Accumulated amortisation	(288,503)	(268,837)
	392,288	408,310

	IT Developm-ent $'000	Computer software $'000	Customer relationsh-ips $'000	Brand names $'000	Other Intangibles $'000	Total $'000
Carrying value at 1 July 2018	1,284	4,267	331,936	66,945	3,878	408,310
Acquisition through business combination	-	-	1,371	-	-	1,371
Additions	1,225	-	33	-	1,709	2,967
Disposals	-	(9)	(270)	-	-	(279)
Amortisation expense	(351)	(483)	(18,115)	(400)	(732)	(20,081)
Carrying value at 31 December 2018	2,158	3,775	314,955	66,545	4,855	392,288

4-4 Goodwill

	31 Dec 18 $'000	30 Jun 18 $'000
Cost	1,030,263	1,024,166
Accumulated impairment	(83,940)	(83,940)
Net carrying value of goodwill	946,323	940,226
Carrying value at 1 July 2018	940,226	954,867
Acquisition through business combination	6,097	13,698
Impairment of goodwill	-	(28,339)
Carrying value at 31 December 2018	946,323	940,226

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. The recoverable amounts for goodwill allocated to all CGUs have been determined based on value-in-use calculations using 2018 actual balances to forecast 2019 and beyond cash flows. No impairment was identified.

Section 5 - Statutory funds

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

5-1 Assets relating to statutory funds

	Statutory	
	31 Dec 18 $'000	30 Jun 18 $'000
Cash at bank	3,380	4,178
Receivables	12,734	49,691
Unlisted unit trusts	924,114	951,855
Current tax asset	3,400	-
Loans to policyholders	30,319	30,767
Deferred tax assets	10,617	-
Investments backing policyholder liabilities designated at fair value through profit or loss	984,564	1,036,491

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

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

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

5-2 Liabilities relating to statutory funds

	Statutory	
	31 Dec 18 $'000	30 Jun 18 $'000
Payables	2,607	9,955
Seed capital	7,153	7,153
Deferred tax liabilities	-	4,501
Investment contract liabilities with DPF	213,949	240,379
Investment contract liabilities	760,855	774,503
Policyholder liabilities	984,564	1,036,491

Policyholder liabilities have been determined in accordance with applicable accounting standards. Policyholder liabilities for life insurance contracts are valued in accordance with AASB 1038, whereas life investment contracts are valued in accordance with AASB 9 and AASB 15. There are differences between the valuation requirements of the accounting standards and those of the Life Insurance Act 1995.

Section 5 - Statutory funds

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

	Statutory	
	31 Dec 18 $'000	31 Dec 17 $'000
Statutory fund revenue		
Interest income	504	367
Dividends and distributions received	13,269	12,233
Net fair value gains/(losses) on other financial assets designated as fair value through profit or loss	(51,161)	32,243
Investment contracts with DPF:		
Contributions received - investment contracts with DPF	1,213	1,479
DPF policyholder liability decrease	26,409	17,085
Non - DPF policyholder liability (increase)	29,185	(27,796)
Other fee revenue	1,091	1,007
	20,510	**36,618**
Statutory fund expenses		
Service and marketing fees expense	5,382	5,191
Direct operating expenses	2	2
Investment contracts with DPF:		
Benefits and withdrawals paid	28,096	19,417
Termination bonuses	13	18
Interest expense	36	42
	33,529	**24,670**
Income tax (benefit)/expense	**(13,019)**	**11,948**
Statutory fund contribution to profit or loss, net of tax	-	-

Section 6 - Basis of preparation

This section sets out the IOOF Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to a single note, the policy is described in the note to which it relates. This section also shows new accounting standards, amendments and interpretations, and whether they are effective for the year ended 30 June 2019 or later years.

6-1 Reporting entity

The Company is a public company listed on the Australian Stock Exchange (trading under the symbol 'IFL'), domiciled in Australia. The consolidated financial statements of the Company as at and for the six months ended 31 December 2018 comprise the Company and its controlled entities and the IOOF Group's interests in associates.

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

The consolidated financial statements of the IOOF Group as at and for the year ended 30 June 2018 are available upon request from the Company's registered office or at www.ioof.com.au

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

6-2 Basis of preparation

(a) Statement of compliance

This condensed consolidated interim financial report has been prepared in accordance with AASB 134 Interim Financial Reporting, Corporations Act 2001 and with IAS 34 Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the IOOF Group since the last annual consolidated financial statements as at and for the year ended 30 June 2018. This condensed consolidated interim financial report does not include all of the information required for full annual financial statements.

This condensed consolidated interim financial report was approved by the Board of Directors on 19 February 2019.

(b) Use of estimates and judgements

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

In preparing this condensed consolidated interim financial report the significant judgements made by management in applying the IOOF Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as at and for the year ended 30 June 2018.

(c) Rounding of amounts

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

6-3 Other significant accounting policies

The accounting policies applied in these interim financial statements are the same as those applied in the IOOF Group’s consolidated financial statements as at and for the year ended 30 June 2018.

6-4 New standards and interpretations adopted

The IOOF Group has adopted the following new or amended standards in preparing these consolidated financial statements.

AASB 15 Revenue from Contracts with Customers

AASB 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including AASB 118 Revenue, AASB 11 Construction Contracts and AASB Interpretation 13 Customer Loyalty Programmes.

AASB 15 is effective for annual years beginning on or after 1 January 2018.

Section 6 - Basis of preparation

6-4 New standards and interpretations adopted (continued)

AASB 15 Revenue from Contracts with Customers (continued)

The IOOF Group has completed an assessment of the impact of the adoption of AASB 15 on its consolidated financial statements and has concluded that there will not be a significant impact.

The IOOF Group previously recognised investment manager fees as a reduction to management and service fees revenue. Upon adoption of AASB15 these fees are recognised in service and marketing fees expense. This change does not impact the IOOF Group's profit.

The IOOF Group previously recognised insurance revenue when it was received. Following adoption of AASB 15, revenue is recorded upfront at the commencement of the policy. As the advisers of the IOOF Group have an obligation to review the suitability of the product's offered on an annual basis unless otherwise specified, the impact of implementation is not material.

(i) Management and service fees revenue

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

The IOOF Group recognises management and service fees revenue at the time the service is provided. No significant changes were made to this treatment under AASB 15.

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

AASB 9 Financial Instruments

AASB 9 is effective for annual years beginning on or after 1 January 2018.
At 31 December 2018, the IOOF Group had equity investments classified as available-for-sale with a fair value of $37.9m that are held for long-term strategic purposes. Following implementation of AASB 9 the IOOF Group has classified these as Fair Value Through Other Comprehensive Income with all fair value gains and losses reported in other comprehensive income in line with current treatment.

AASB 9 replaces the "incurred loss" model in AASB 139 with a forward looking 'expected credit loss' (ECL) model when determining provision for impairment of receivables. This requires considerable judgement as to how changes in economic factors affect ECLs, which are determined on a probability-weighted basis. Given the IOOF Group's receivables are short term, loss allowances have not changed significantly following the adoption of AASB 9.

The IOOF Group have assessed the impact of AASB 9 on the consolidated financial statements. Given no financial instruments are held by the IOOF Group which could result in a reclassification, the adoption of AASB 9 has not had a significant impact on the recognition and measurement of the IOOF Group's financial instruments. The derecognition rules have not been changed from the previous requirements, and the IOOF Group has not applied hedge accounting prior to this period.

Other amendments

The following new or amended standards have not significantly impacted on the IOOF Group's consolidated financial statements.

- Classification and Measurement of Share-based payment Transactions (amendments to AASB 2); and
- Clarification of the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency (issuance of AASB Interpretation 22);

6-5 New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual years beginning after 1 January 2019 and earlier application is permitted; however the IOOF Group has not early adopted the following new or amended standards in preparing these consolidated financial statements.

AASB 16 Leases

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

Section 6 - Basis of preparation

6-5 New standards and interpretations not yet adopted (continued)

AASB 16 Leases (continued)

AASB 16 replaces existing leases guidance including AASB 117 Leases, AASB Interpretation 4 Determining whether an Arrangement contains a Lease, AASB Interpretation 115 Operating Leases-Incentives and AASB Interpretation 127 Evaluating the Substance of Transactions involving the Legal Form of a Lease.

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

The IOOF Group has started an initial assessment of the potential impact of its consolidated financial statements. So far, the most significant impact identified is that the IOOF Group expects to recognise new assets and liabilities for its property operating leases ($81.5m). The nature of expenses related to those leases will change as AASB 16 replaces the straight-line operating lease expense with a depreciation charge for right-of-use assets and interest expense on lease liabilities. No significant impact is expected for the IOOF Group's

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

Other amendments

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

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments to AASB 10 and AASB 28);
- Entity accounts for all income tax consequences of dividend payments according to where the entity originally recognised the past transactions or events that generated the distributable profits (amendment to AASB 112);
- Accounting for income tax treatments that have yet to be accepted by tax authorities (issuance of AASB Interpretation 23 and the consequential amendment to AASB 1); and
- Transfer of assets in transaction with associate or JV (amendment to AASB 3).

6-6 Subsequent events

The Directors have declared the payment of an interim dividend of 25.5 cents per ordinary share franked to 100% based on tax paid at 30%, to be paid on 15 March 2019.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry's 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 Directors are not aware of any other matter or circumstance not otherwise dealt with in this report, or the accompanying financial statements and notes thereto, that has arisen since 31 December 2018 that has significantly affected, or may significantly affect:

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