

Empty nesters

IOOF offers a great range of products for those approaching or in retirement, including Super and tax-effective investment products.

Corporate governance

Corporate governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed, and how performance is optimised.

We are committed to good corporate governance practices to create value and provide accountability and control systems commensurate with the risk involved. We support the ASX's Corporate Governance Principles and Recommendations (ASX Principles) and have implemented these in our business. We monitor our adherence to these and strive for continuous improvement in these practices.

Role of the Board

The Board of IOOF Holdings Ltd is constituted and empowered under its Constitution and the requirements of the *Corporations Act 2001*. The Board has delegated certain functions to Board

Committees, but remains ultimately responsible for:

- overseeing the development of strategies and financial objectives of the Group
- appointment of the CEO
- monitoring the progress of management in implementing the strategies of the company
- review and approval of major acquisitions and corporate initiatives
- approval of high level company policies and terms of reference for Board committees
- allotment of securities in the company, including executive and employee share plans
- corporate governance arrangements for the Group
- monitoring and ongoing assessment of risk management policies and procedures
- approving financial statements and reports to regulators and shareholders
- ensuring appropriate continuous disclosure to the market, shareholders and other interested parties
- approving capital expenditure in excess of limits delegated to management.

In addition, the Board considers capital management and issues of equity across the subsidiaries that form the IOOF Group.

Role of the Chairman

The Chairman of IOOF Holdings Ltd is an independent Director. The same person does not undertake the roles of Chairman and CEO. We are committed to a clear division of responsibility at the head of the company.

The Chairman provides leadership to the Board and is responsible for the efficient management of the business of the Board and is charged with overseeing the proper operation of Board committees.

The Chairman of the Board is responsible for recommending to the Board persons for appointment as committee members.

Role of independent Directors

The Board considers each of the Non-Executive Directors to be independent Directors. In determining this, we consider the independence criteria set out in ASX Principle 2 and obtain verification from each of these Directors annually.

IOOF's independent Directors are required to devote the necessary time to ensure that their responsibilities are effectively discharged. We require all Directors to consider the number and nature of their directorships and other commitments, and disclose these to the Board.

The independent Directors' input is primarily at a strategic level. Our policy is to provide Directors with ongoing education in industry issues and regulatory developments to keep them informed and abreast of industry best practice.

Our independent Directors are rotated through IOOF's Board committees and subsidiary boards so that they have a better knowledge of the operations of the Group and are better able to contribute at the Group Board level.

Board committees

The Board has a number of committees to which it has delegated various functions. These committees, comprised of either all, or a majority of, independent Directors or other external parties where applicable, comply with the ASX Principles. Each committee has its own terms of reference and measurable objectives are reviewed and assessed annually.

Corporate governance

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Audit and Risk Committee

The Audit and Risk Committee plays a key role in assisting the Board of Directors with its responsibilities relating to accounting, internal control systems, reporting practices and risk management, and monitoring the independence of the company auditor. The Terms of Reference for this Committee incorporates policies and procedures to ensure an effective focus from an independent perspective.

The Audit and Risk Committee oversees and appraises the quality of the audits conducted by the IOOF Group's internal and external auditors and emphasises areas where the Committee believes special attention is required.

The current internal auditor was appointed as a result of an external tender process conducted in 1999 and a review of the arrangements was conducted in 2005.

An extensive review of the company's external audit arrangements was conducted during the year. As a result of that review, the Board of Directors is recommending to shareholders at its 2008 annual general meeting that KPMG be appointed as the IOOF Group's external auditors. The notice of the Annual General Meeting contains further information on this recommendation.

The Audit and Risk Committee also reviews the effectiveness of administrative, operating and accounting controls. This committee is currently composed of all independent Directors and is chaired by a qualified accountant. The members are Jane Harvey (Chairman), James Pfeiffer and Rick Harper.

Governance Committee

IOOF is committed to good corporate governance. To meet this responsibility, in 2004 the Board of IOOF established a Governance Committee which assists the Board in ensuring that a fitting governance

framework is in place across the IOOF Group. This committee also reviews the statutory and regulatory obligations and industry standards that affect IOOF in its operations, to ensure that the systems of control and oversight implemented by management are robust and effective. The committee is comprised of a majority of independent Directors, being James Pfeiffer (Chairman) and Kate Spargo. The CEO, Tony Robinson is also a member of the Committee.

Remuneration and Nominations Committee

The Remuneration and Nominations Committee is responsible to the Board for nominating and recommending the appointment of independent Directors and the CEO, and the establishment of the remuneration framework for Directors, the CEO and direct reports to the CEO.

Directorship is generally reviewed annually, with the policy that there should be sufficient rotation of Directors to meet good corporate governance standards. The current policy of the company is to retire one third of Directors each year. The Remuneration and Nominations Committee operates under agreed Terms of Reference which are subject to periodic review. This Committee currently comprises three independent Directors, Kate Spargo (Chairman), Roger Sexton and Jane Harvey.

The process for selection of new Directors is overseen by the Remuneration and Nominations Committee and includes confirmation of the specific criteria for Board membership, taking into account the necessary and desired competencies. Confirmation of independence, the capacity to act and the usual police check are included. A search is generally undertaken to identify specific individuals who satisfy the criteria for nomination and consideration by the committee. Proposals are then taken to the Board for review and approval.

Performance evaluation

IOOF has a formal performance evaluation process which establishes objectives, key result areas and key performance indicators for all management and staff. Underpinning this approach is the belief that performance planning and regular performance reviews constitute sound business practice.

During the year an external consultant undertook a full independent Board Effectiveness Review. The review covered the Board's structure, role, composition and processes and benchmarked these against contemporary standards. The review established an action plan to adopt key initiatives.

IOOF undertakes Board evaluations annually, considering dimensions that we believe are relevant to the organisation and the industry within which we operate.

Each committee of the Board has its own Terms of Reference from which key result areas and key performance indicators have been developed. The process for evaluation against these objectives has been by way of self-assessment, with reporting to the Board for further review.

Continuous disclosure

The ASX defines continuous disclosure in its Listing Rules as 'the timely advising of information to keep the market informed of events and developments as they occur'. The Listing Rules and *Corporations Act 2001* require that a listed company disclose to the market matters which a reasonable person would expect to have a material effect on the price or value of the company's securities. IOOF's Continuous Disclosure Policy is designed to meet market best practice, ensuring that all interested parties have an equal opportunity to obtain information which is issued by IOOF.

The procedures, which have been developed to comply with these rules include immediate reporting of any matter which could potentially have

a material effect. The Company Secretary is responsible for monitoring information which could be price sensitive, liaising with the CEO, Directors and Key Management Personnel to make an initial assessment, and escalating such information to the Board for disclosure where practicable. It is noted there can be no delay in informing the ASX; if the Board is not immediately available, the Company Secretary is authorised to lodge such information.

Price-sensitive information will be disclosed, in the first instance, to the ASX and disclosures to the market will then be placed on IOOF's web site.

Other shareholder communications

The IOOF web site includes up-to-date shareholder information and news items about the company. Our aim is to keep our shareholders and the market informed about any developments that might be of interest.

In accordance with our regulatory obligations, certain periodic reporting will also be made to shareholders, including the Annual Report. Directors are available at IOOF's Annual General Meeting to answer shareholder questions and discuss issues of relevance. Our aim is for informed shareholder participation.

Independent legal and other advice

The Board has a formal procedure that enables Directors to seek independent advice to assist them to carry out their duties as Directors. The Chairman must give prior approval to the obtaining of advice and the IOOF Group will meet the reasonable costs of such advice. If the Chairman does not give such approval, the Board (or in the case of an Executive Director, a majority of the Non-Executive Directors) can give prior approval to obtaining the advice at IOOF's expense.

Code of Conduct

IOOF is committed to a Code of Conduct and to our mission and values which guide the professional behaviour of our staff. We communicate these values to staff and assess our staff against them, together with a number of other attributes that have been identified as important to the success of the company.

Our Code of Conduct requires all staff to exhibit honesty, loyalty, integrity and professionalism in their dealings both internally and externally. We strive for good corporate governance and industry best practice. In addition, IOOF has established a Securities and Insider Trading Policy to ensure that unpublished, price-sensitive information is not used in an unlawful manner. A copy of the Securities and Insider Trading Policy is available on IOOF's web site www.ioof.com.au

Risk management

The Board of IOOF Holdings Ltd is committed to thorough risk management practices. We recognise that these are constantly evolving throughout the industry and strive for continuous improvement in these practices.

The IOOF Group has risk management policies and procedures in place to identify and manage its business risks. A formal risk management framework is in place aimed at identifying and controlling risks and reporting them to the Board via the Audit and Risk Committee. The framework takes account of market, liquidity, credit, transaction and technology, strategic and operational risks. The Australian/New Zealand Standard for Risk Management (AS/NZS4360:2004) methodology has been the basis for our framework, however, the methodology was modified to suit IOOF requirements.

IOOF's approach to risk requires the consideration of all risks that threaten the achievement of business objectives.

The aim is to identify all unacceptably high risks and develop processes and structures to deal with them. Lower level risks are also considered, but priority is given to extreme and high risk areas and their treatment. This process is cyclical and ongoing and the methodology forms a 12-month rolling risk continuum. Monitoring and review at all stages of the process is critical, as is ensuring that a periodic review of risks and controls is in place.

In accordance with the ASX Principles of Good Corporate Governance and Best Practice Recommendations, the CEO and CFO provide a written attestation to the Board that:

- the integrity of the company's financial statements is founded on a sound system of risk management and internal compliance and control, which implements the policies adopted by the Board
- IOOF's risk management and internal compliance and control system is operating efficiently and effectively in all material respects in so far as they relate to financial reporting risks.

Substantive materials are provided to the CEO and CFO to assist them in making an informed assessment, which enables them to provide the necessary attestations to the Board prior to the Board signing the Annual Report.

IOOF's insurance program is designed to meet insurable risks. The program is specifically tailored to the IOOF Group's individual requirements and is reviewed at least annually. The Business Continuity Plan, aimed at preventing significant disruption to the business, is also tested on an annual basis.

IOOF also has a compliance framework which covers each product line of the IOOF Group's business. In addition to these plans, the IOOF Group has compliance reporting and monitoring tools as a matter of good practice.