

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 Principles of Good Corporate Governance and Best Practice 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. 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; and
- 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 individual does not undertake the role of 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 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 are comprised of either all, or a majority of, Independent Directors or other external parties and, where applicable, comply with the ASX Principles. Each committee has its own Terms of Reference which include measurable objectives which can be assessed and are reviewed annually.

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 charter 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. A review of the arrangements was conducted in 2005, resulting in changed methodology and a change in audit partner.

The Audit and Risk Committee also reviews the effectiveness of administrative, operating and accounting controls. During this year, we have had a change in the membership of the Audit and Risk Committee. This committee is currently composed of all Independent Directors and is chaired by a qualified accountant. The members are Jane Harvey (Chair), James Pfeiffer and Rick Harper.

During 2006/07, a new external audit partner was appointed as a result of regulatory rotation requirements. A full review of the company's external audit requirements will be conducted during the first quarter of 2007/8. We intend to update shareholders with the result of this review at the November 2007 Annual General Meeting.

Governance Committee

IOOF is committed to good corporate governance and to provide particular focus to this responsibility, the Board of IOOF established a Governance Committee in 2004. This assists the Board in the effective discharge of its responsibilities 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 (Chair), Kate Spargo, and the CEO, Tony Robinson.

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 members of senior management.

Directorship is reviewed annually, with the policy that there should be sufficient rotation of Directors to meet good corporate governance standards. In-line with the Corporations Law requirements, IOOF retires one third of Directors each year. The Remuneration and Nominations Committee operates under agreed Terms of Reference which are subject to periodic review and currently comprises three Independent Directors, Kate Spargo (Chair), 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 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 management and staff. Underpinning this policy is the belief that performance planning and regular performance reviews constitute sound business practice.

During the year we have undertaken full Board evaluations. These were conducted by using an internally developed methodology measuring performance against a number of dimensions that we believe to be relevant to the organisation and the industry within which we operate. An external consultant was used to analyse data and provide feedback at each stage.

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 metrics has been by way of self-assessment, with reporting to the Board for consideration.

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 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 on the price or value of the company's securities. The Company Secretary is responsible for monitoring information which could be price sensitive, liaising with the CEO and Continuous Disclosure Committee 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 website.

Other shareholder communications

IOOF seeks to enhance the usual financial and regulatory reporting to shareholders by producing regular Shareholder Bulletins and an Investment Market Review, which is generated on a quarterly basis. The IOOF website also includes up-to-date 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, vision and values which are described in our Company Charter. We communicate and assess our staff on our core values, together with a number of other key attributes that have been identified as being imperative 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 website (www.ioof.com.au).

Risk management

A vital element of the IOOF Group's business is the management of risk. Effective risk management practices are core to the ability of the Group to meet its objectives. The Board of IOOF Holdings Ltd is committed to solid risk management and oversees risk management policies and procedures designed to identify and manage business risks.

IOOF's risk management framework is based on *Australian Standard 4360 Risk Management* and aims to ensure risks are understood, appropriately controlled and reported to management and the Board via the Audit and Risk Committee. IOOF categorises risk as follows:

- Financial or Strategic;
- Operational;
- Regulatory Compliance; and
- Reputation and Environment.

IOOF's approach is to consider risks that threaten the achievement of business objectives and identify exposures that are unacceptably high. The Group focuses resources to ensure adequate measures are in place to deal with them. A process of continuous monitoring is in place, based on a combination of management control, self-assessment and independent review.

The risk management system in place supports IOOF's ability to address recommendations in the *ASX Principles of Good Corporate Governance and Best Practice*. The CEO and CFO provide an annual, 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; and
- IOOF's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

In addition to a system of controls, IOOF maintains an insurance program designed to address insurable risk events. The program is tailored to the IOOF Group's requirements and is reviewed annually.

The Group maintains a framework to ensure regulatory compliance obligations are managed based on *Australian Standard 3806 Compliance Programs*. This framework covers each product line of the IOOF Group's business.