OnePath Custodians Pty Limited

ABN 12 008 508 496

Financial Report

For the year ended 30 September 2018

Contents

	Page
Directors' report	1
Lead auditor's independence declaration	3
Income statement	4
Statement of comprehensive income	5
Balance sheet	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to financial statements	9
Directors' declaration	23
Independent auditor's report	24

Directors' report

The directors present their report together with the financial statements of OnePath Custodians Pty Limited ("the Company") for the year ended 30 September 2018 and the independent auditor's report thereon.

Corporate information

OnePath Custodians Pty Limited is a company limited by shares that is incorporated and domiciled in Australia. The controlling entity, ANZ Wealth Australia Limited ("AWA"), has been wholly owned by Australia and New Zealand Banking Group Limited ("ANZ") since 30 November 2009.

Principal activity

The principal activities of the Company during the year were to act as the trustee of two superannuation funds being the OnePath MasterFund (OPMF) and the Retirement Portfolio Service (RPS). The Company is also the operator of an Investor Directed Portfolio Service (IDPS).

Results and review of operations

The loss after income tax of the Company was $102,000 (2017: $999,000 profit after income tax).

Net management fee income of $7,740,000 (2017: $7,459,000) increased by 4% as a result of increases in funds under management within RPS and the IDPS.

Operating management fees were $8,724,000 (2017: $6,876,000), an increase of 27%, due to higher management fee costs.

State of affairs

On 17 October 2017, ANZ the ultimate parent company, announced the sale of the OnePath Pensions and Investments and Aligned Dealer Group businesses to IOOF Holdings Limited for $975 million, which includes the Company.

Completion is expected at the end of the first half of the 2019 financial year subject to certain conditions including a successor funds transfer from OnePath MasterFund to Retirement Portfolio Service (ABN 61 808 189 263), which is subject to trustee and regulatory approval.

There have been no other significant changes in the state of affairs of the Company during the financial year.

Events since the end of the financial year

There have been no significant events from 30 September 2018 to the date of signing this report.

Dividends

No dividends have been paid during the year and directors have not recommended the payment of a dividend for the year ended 30 September 2018 (2017: Nil).

Future developments

Information about likely developments in the operations of the Company and the expected results of those operations in future financial years have not been included in this report because disclosures of the information would be likely to result in unreasonable prejudice to the Company.

Environmental regulation

The Company's operations are not subject to significant environmental regulations under a law of the Commonwealth, State or Territory in relation to its operations.

Directors' report (continued)

Directors

The directors of the Company at any time during or since the end of the financial year are:

Stephen John Chapman	Non-executive Director	Appointed 1 August 2011
Charles George Clark	Non-executive Director	Appointed 1 March 2013
Alan Harold Chonowitz	Non-executive Director	Appointed 1 March 2015
Victoria Sophia Mary Weekes	Non-executive Director	Appointed 1 August 2011
Carolyn Judith Colley	Non-executive Director	Appointed 1 January 2018
Peter George Mullin	Executive Director	Appointed 1 March 2015
Carolyn Michelle Tatley	Executive Director	Appointed 26 October 2016

Company secretaries

The Secretaries of the Company at any time during or since the end of the financial year are:

Joong Main Harrison	Appointed 28 April 2008
Yvonne Chong	Appointed 10 September 2015, resigned 17 August 2018
Suzannah Jane Fletcher	Appointed 16 December 2016, resigned 23 October 2018

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 3 and forms part of the directors' report for the financial year ended 30 September 2018.

Indemnification and insurance of officers

The Company's Constitution permits the Company to indemnify the directors and officers of the Company to the extent permitted by law. It is also the policy of ANZ, as the ultimate holding company, that its employees should not incur any liability for acting in the course of their employment legally, within ANZ's policies and provided they act in good faith.

ANZ has entered into an indemnity deed with current and former directors of the Company. A director who has entered into an indemnity deed with ANZ is indemnified, subject to the terms and conditions of the deed, for all liabilities including costs, damages and expenses incurred in his or her capacity as a director of the Company, to the extent permitted by law.

Other than the indemnity deed between ANZ and current and former directors of the Company, the Company, and any related body corporate, has not made any agreement to indemnify any current or former officer or auditor of the Company from 1 October 2017 to the date of this report.

The Company maintains insurance through its ultimate holding company ANZ. ANZ's Directors' and Officers' Liability Insurance policy provides cover for directors and other officers of the Company against certain personal liabilities which they may incur in the performance of their duties as directors and officers, where those directors and officers acted in good faith.

In accordance with common commercial practice, the insurance policy prohibits disclosure of the nature of the liability insured against and the amount of the premium.

Directors' interests and share options

No options over unissued shares or interests in the Company were granted during or since the end of the financial year and there were no options outstanding at the date of this report.

Rounding of amounts

The Company is a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. As a result, amounts in the financial statements have been rounded to the nearest thousand dollars and certain amounts in the Directors' report to the nearest dollar, unless otherwise stated.

This report is made in accordance with a resolution of the directors on 29 November 2018.

Director
29 November 2018

KPMG

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

To the Directors of OnePath Custodians Pty Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of OnePath Custodians Pty Limited for the financial year ended 30 September 2018 there have been:

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

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

KPMG
KPMG

Michael O Connell
Partner
Sydney
29 November 2018

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Income statement
For the year ended 30 September 2018

	Note	2018 $'000	2017 $'000
Management fee income	3(a)	10,368	10,348
Management fee expense	3(b)	(2,628)	(2,889)
Net management fee income		7,740	7,459
Interest income		826	812
Other income		-	43
Operating management fee paid to related parties		(8,724)	(6,876)
Profit/ (Loss) before income tax		**(158)**	**1,438**
Income tax benefit/ (expense)	5	56	(439)
Profit/ (Loss) for the year		**(102)**	**999**

The notes on pages 9 to 22 are an integral part of these financial statements.

Statement of comprehensive income
For the year ended 30 September 2018

	Note	2018 $'000	2017 $'000
Profit/ (Loss) for the year		**(102)**	**999**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Fair value changes in available-for-sale financial assets, net of tax		1	-
Realised gains transferred to the Income Statement, net of tax		(1)	(27)
Other comprehensive income net of income tax		-	(27)
Total comprehensive income for the year		**(102)**	**972**

The notes on pages 9 to 22 are an integral part of these financial statements.

Balance sheet
As at 30 September 2018

	Note	2018 $'000	2017 $'000
Assets			
Cash and cash equivalents - cash at bank		54,916	41,417
Trade and other receivables		1,112	997
Receivables from related parties		364	259
Available-for-sale assets (unit trusts)	13	24	23
Other financial assets - term deposits		2,500	4,000
Deferred commissions	6	533	1,066
Total assets		**59,449**	**47,762**
Liabilities			
Fees and commission payables		484	475
Payables to related parties		5	453
Deferred entry fees	7	533	1,066
Deferred tax liabilities	8	1	1
Unearned income		461	-
Total liabilities		**1,484**	**1,995**
Net assets		**57,965**	**45,767**
Equity			
Share capital	9	52,400	40,100
Reserves		3	3
Retained earnings		5,562	5,664
Total equity		**57,965**	**45,767**

The notes on pages 9 to 22 are an integral part of these financial statements.

Statement of changes in equity
For the year ended 30 September 2018

	Note	Issued Capital	Retained Earnings	Asset Revaluation Reserve	Total Equity
		$'000	**$'000**	**$'000**	**$'000**
Balance at 1 October 2016		40,100	4,665	30	44,795
Profit for the year		-	999	-	999
Other comprehensive income		-	-	(27)	(27)
Total comprehensive income		**-**	**999**	**(27)**	**972**
Balance at 30 September 2017		**40,100**	**5,664**	**3**	**45,767**
Balance at 1 October 2017		40,100	5,664	3	45,767
Loss for the year		-	(102)	-	(102)
Other comprehensive income		-	-	-	-
Total comprehensive income		**-**	**(102)**	**-**	**(102)**
Capital Issued	9	12,300	-	-	12,300
Balance at 30 September 2018		**52,400**	**5,562**	**3**	**57,965**

The notes on pages 9 to 22 are an integral part of these financial statements.

Statement of cash flows
For the year ended 30 September 2018

	Note	2018 $'000	2017 $'000
Cash flows from operating activities			
Receipts from customers and related parties		22,119	18,730
Payments to suppliers and related parties		(22,839)	(18,280)
Interest income received		850	817
Income tax paid		(430)	(2,335)
Net cash (used in)/provided by operating activities	14	**(300)**	**(1,068)**
Cash flows from investing activities			
Proceeds from sale of investments and other financial assets		3,999	4,047
Purchase of other financial assets		(2,500)	(4,000)
Net cash provided by investing activities		**1,499**	**47**
Cash flows from financing activities			
Share capital issued		12,300	-
Net cash provided by financing activities		**12,300**	**-**
Net (decrease)/increase in cash and cash equivalents		13,499	(1,021)
Cash and cash equivalents at the beginning of the year		41,417	42,438
Cash and cash equivalents at the end of the year		**54,916**	**41,417**

The notes on pages 9 to 22 are an integral part of these financial statements.

Notes to the financial statements

1. Significant accounting policies

OnePath Custodians Pty Limited ("the Company") is a company limited by shares, incorporated and domiciled in Australia. The address of the Company's registered office and principal place of business is Level 23, 242 Pitt Street, Sydney, New South Wales, 2000, Australia.

The financial statements of the Company for the year ended 30 September 2018 were authorised for issue in accordance with the resolution of the directors on November 2018.

The Company is a for-profit entity.

(a) Basis of preparation

(i) Statement of compliance
The financial statements of the company are a general purpose financial statements which have been prepared in accordance with Australian Accounting Standards ("AABSs") (including Australian Interpretations) adopted by the Australian Accounting Standards Board ("AASB") and the *Corporations Act 2001*.

International Financial Reporting Standards ("IFRS") are Standards and Interpretations adopted by the International Accounting Standards Board ("IASB"). IFRS forms the basis of AASBs and Interpretations issued by the AASB. The Company's application of AASBs and Interpretations ensures that the financial statements of the Company comply with IFRS.

(ii) Use of estimates, judgements and assumptions
The preparation of these financial statements requires the use of management judgements, estimates and assumptions that affect reported amounts in the application of policies. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable. Discussions of these critical accounting treatments, which include complex or subjective decisions or assessments are covered in Note 2. Such estimates may require review in future periods.

(iii) Basis of measurement
The financial information has been prepared in accordance with the historical cost convention except for certain assets and liabilities as described in the accounting policies below.

(iv) Changes in accounting policy and early adoptions
The accounting policies adopted in the preparation and presentation of these financial statements are consistent with those adopted and disclosed in the OnePath Custodians Pty Limited's Financial Report for the year ended 30 September 2017. The Company has applied, where relevant, all new or revised Australian Accounting Standards and AASB Interpretations applicable to the year ended 30 September 2018, however these do not have a material impact on the Company.

(v) Accounting Standards not yet effective
The following accounting standards are available for early adoption but have not been applied by the Company in these financial statements:

- *AASB 9 Financial Instruments ("AASB 9")*

The AASB issued AASB 9 in 2014 and is not mandatorily effective for the Company until 1 October 2018. When operative, this standard will replace AASB 139 Financial Instruments: Recognition and Measurement. AASB 9 addresses:
- recognition and measurement requirements for financial assets and financial liabilities;
- impairment requirements that introduce an expected credit loss impairment model; and
- general hedge accounting requirements which more closely align with risk management activities undertaken when hedging financial and non-financial risks.

The standard is not expected to have a material impact on the Company's financial statements.

- *AASB 15 Revenue from Contracts with Customers ("AASB 15")*

The AASB issued AASB 15 in December 2014 and it is not mandatorily effective for the Company until 1 October 2018. AASB 15 contains new requirements for the recognition of revenue and additional disclosures about revenue.

The standard is not expected to have a material impact on the Company's financial statements.

1. Significant accounting policies (continued)

(a) Basis of preparation (continued)

(vi) Rounding
The Company is an entity of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. As a result, amounts in the financial statements have been rounded to the nearest thousand dollars, except where otherwise indicated.

(vii) Functional and presentation currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates (the functional currency).

The Company's financial statements are presented in Australian dollars ("AUD"), which is the Company's functional and presentation currency.

(b) Income recognition

(i) Management fee income
Management fee income is recognised in the Statement of comprehensive income over the period in which the service is provided, net of any fees rebated.

(ii) Deferred entry fees
Deferred entry fees includes prior years upfront income received, which was deferred and recognised on a straight line basis over 7 years.

(iii) Interest income
Interest income is recognised as it accrues using the effective interest method.

(c) Expense recognition

(i) Operating management fee
Operating management fees are expensed as they are incurred.

(ii) Commission expense
Commission expense is expensed as it is incurred.

(iii) Deferred commission
Deferred commission includes prior year upfront commission paid, which was deferred and recognised on a straight line basis over 7 years

(d) Income tax

(i) Income tax expense
Income tax on earnings for the year comprises current and deferred tax and is based on the applicable Australian tax law. It is recognised in the income statement as tax expense, except when it relates to items credited directly to equity, in which case it is recorded in equity.

(ii) Current tax
Current tax is the expected tax payable on taxable income for the year, based on tax rates (and tax laws) which are enacted at the reporting date, including any adjustment for tax payable in previous periods.

Current tax for current and prior periods is recognised as an intercompany liability (or asset) with Australia and New Zealand Banking Group Limited ("ANZ") to the extent that it is unpaid (or refundable). Refer to Note 5 for further details regarding the impact of tax consolidation.

(iii) Deferred tax
Deferred tax is accounted for using the comprehensive tax balance sheet method. It is generated by temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base.

Deferred tax assets, including those related to the tax effects of income tax losses and credits available to be carried forward, are recognised only to the extent that it is probable that future taxable profits will be available against which the deductible temporary differences or unused tax losses and credits can be utilised. Deferred tax liabilities are recognised for all taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement reflects the tax consequences that would follow from the manner in which the Company, at the reporting date, recovers or settles the carrying amount of its assets and liabilities.

1. Significant accounting policies (continued)

(d) Income tax (continued)

(iv) Offsetting
Current and deferred tax assets and liabilities are offset only to the extent that they relate to income taxes imposed by the same taxation authority, there is a legal right and intention to settle on a net basis and it is allowed under the tax law of Australia.

(e) Assets

(i) Other financial assets - term deposits
Other financial assets are made up of term deposits with a maturity of between 91 and 365 days. Other financial assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method. Due to the short-term nature of these term deposits, carrying value approximates fair value.

(ii) Available-for-sale financial assets
Available-for-sale financial assets comprise non-derivative financial assets which the Company designates as available-for-sale but which are not deemed to be held principally for trading purposes, and includes investments in unit trusts. They are initially recognised at fair value plus transaction costs. Subsequent gains or losses arising from changes in fair value are included as a separate component of equity in the asset revaluation reserve. When the asset is sold, the cumulative gain or loss relating to the asset is transferred to the income statement.

Where there is objective evidence of impairment on available-for-sale assets, the cumulative loss related to assets is removed from equity and recognised in the income statement.

Purchases and sales of available-for-sale financial assets are recognised on trade date as with all regular way assets, being the date on which the Company commits to purchase or sell the asset.

(iii) Receivables
Trade and other receivables and receivables from related parties are measured at amortised cost less impairment losses.

(iv) Deferred commissions
Deferred commission is an asset and represents the direct costs of acquiring investment contract business that are deferred and amortised on straight-line basis over the expected contract life. The deferred costs are primarily related to securing new investment contract business, consisting principally of commissions. The expected contract life in the current and comparative periods for deferred commissions is 7 years.

An impairment loss is recognised whenever the carrying amount of a deferred commission exceeds its recoverable amount. Impairment losses are recognised in the Statement of comprehensive income.

(v) De-recognition
In transactions where the Company transfers financial assets recognised on its balance sheet yet retains all, or substantially all of the risks and rewards, the transferred assets are not derecognised from the balance sheet.

In transactions where substantially all the risks and rewards of ownership of a financial asset are neither retained nor transferred, the Company derecognises the asset if control over the asset is lost. In transfers where control over the asset is retained, the Company continues to recognise the asset to the extent of its continuing involvement which is determined by the extent it is exposed to changes in the value of the transferred asset. The rights and obligations retained or created in the transfer are recognised separately as assets and liabilities as appropriate.

(f) Liabilities

(i) Payables
Payables to related parties and fee and commission payables are measured at amortised cost.

(ii) Deferred entry fees
Deferred entry fees from investment contracts represent upfront fee income which are deferred and recognised over the expected life of the contract on a straight-line basis over the expected life of the underlying contracts. The expected contract life in the current and comparative periods for deferred entry fees is 7 years.

1. Significant accounting policies (continued)

(g) Equity

(i) Ordinary shares

Ordinary shares in the Company are recognised at the amount paid per ordinary share net of directly attributable issue costs.

(ii) Reserves

The asset revaluation reserve includes the cumulative net change in the fair value of investments classified as available-for-sale and related deferred taxes.

(h) Presentation

(i) Offsetting of income and expenses
Income and expenses are not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:
- where gains and losses arise from a group of similar transactions, such as management fee income; or
- where amounts are collected on behalf of third parties, where the Company is, in substance, acting as an agent only; or
- where costs are incurred on behalf of customers from whom the Company is reimbursed.

Where the Company has received Advisor Service Fees (ASF) from the funds and paid ASF to dealers groups, the Company offsets these receipts and payments in the Statement of Comprehensive Income as they are collected in an agent capacity. The ASF receipts and payments are not offset in the Statement of cash flows as they are separate cash transactions.

(ii) Offsetting assets and liabilities
Assets and liabilities are offset and the net amount reported in the Balance sheet only where there is:
- a current enforceable legal right to offset the asset and liability; and
- an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) Cash and cash equivalents
Cash and cash equivalents include cash on hand, deposits held at call with other financial institutions, other short-term, highly liquid investments with original terms to maturity of 3 months or less that are readily convertible to cash and which are subject to an insignificant risk of changes in value.

(iii) Goods and services tax
Income, expenses and assets are recognised net of the amount of goods and services tax ("GST"), except where the amount of GST incurred is not recoverable from the Australian Taxation Office ("ATO"). In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from or payable to the ATO is included as another asset or liability in the Balance sheet.

Cash flows are included in the Statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from or payable to the ATO are classified as operating cash flows.

2. Critical estimates, judgements and assumptions used in applying accounting policies

The Company prepares its financial statements in accordance with policies which are based on Australian Accounting Standards, other authoritative accounting pronouncements of the Australian Accounting Standards Board, Australian Accounting Interpretations and the *Corporations Act 2001*. This involves the Company making estimates and assumptions that affect the reported amounts within the financial statements. Estimates and judgements are continually evaluated and are based on historical factors, including expectations of future events that are believed to be reasonable under the circumstances.

A brief explanation of critical estimates and judgements, and their impact on the Company follows:

(i) Deferred commissions
The assessment of impairment of deferred commissions is an inherently uncertain process, involving assumptions about factors such as lapse rates, reinvestment rates and investment returns. This is largely due to uncertainty surrounding continuance of existing business and generation of new business.

The costs of acquiring investment contract business are capitalised and separately disclosed as deferred commissions in the Balance sheet and amortised over the period to which the costs provide income. The balance of deferred commissions is set out in Note 6.

(ii) Deferred entry fees
The amortisation of deferred entry fees is an inherently uncertain process, involving assumptions about factors related to the period an investment contract will be in-force. This is largely due to uncertainty surrounding continuance of investment contracts. The deferred entry fees are recognised and separately disclosed as liabilities in the Balance sheet and amortised over the period to which the policy is expected to be in-force. The balance of deferred entry fees is set out in Note 7.

(iii) Impairment of financial assets
The accounting policy for impairment of financial assets requires the company to assess whether there is objective evidence of impairment and to assess the recoverability of the financial assets. This requires judgement when considering whether such evidence exists and if so, in reliably determining the impact of such events on the estimated cash flows of the asset.

(iv) Income taxes
The Company estimates its tax liabilities based on its understanding of tax law. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and net deferred tax balances in the period in which such determination is made. (refer to Note 5 and Note 8).

3. Management fee income and expense

	2018 $'000	2017 $'000
a) Management fee income		
Management fee	9,243	8,452
Amortisation of deferred entry fees	533	532
Other fee income	592	1,364
Total management fee income	**10,368**	**10,348**
b) Management fee expense		
Commission expenses	(2,095)	(2,357)
Amortisation of deferred commissions	(533)	(532)
Total management fee expense	**(2,628)**	**(2,889)**
Net management fee income	**7,740**	**7,459**

4. Compensation of auditors

	2018 $	2017 $
Audit services		
KPMG Australia:		
Statutory audit of the financial report	20,000	20,000
Other statutory audit related services	42,600	30,600
Total auditors' compensation	**62,600**	**50,600**

Audit Fees are paid by a related entity within the wholly owned group and subsequently recharged to the Company.

The policy of the ultimate parent entity, ANZ, allows KPMG Australia or any of its related practices to provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of auditor. KPMG Australia or any of its related practices may not provide services that are perceived to be materially in conflict with the role of auditor. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the auditor may ultimately be required to express an opinion on its own work. However, non-audit services that are not perceived to be materially in conflict with the role of auditor may be provided by KPMG Australia or any of its related practices subject to the approval of the ultimate parent entity's Audit Committee.

5. Income tax expense

	2018 $'000	2017 $'000
(a) Recognised in income statement		
Current tax		
Current year	48	(431)
Adjustment for prior year	8	(8)
Total current income tax benefit/ (expense)	**56**	**(439)**
Deferred tax		
Origination and reversal of temporary differences	-	-
Total income tax benefit/ (expense)	**56**	**(439)**

Numerical reconciliation between tax expense and pre tax net profit

	2018 $'000	2017 $'000
Profit/ (Loss) before income tax	**(158)**	**1,438**
Prima facie income tax expense at 30% (2017:30%)	48	(431)
Adjustment for prior year	8	(8)
Total income tax benefit/ (expense)	**56**	**(439)**

(b) Tax consolidation

ANZ and all of its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. ANZ is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group on a 'group allocation basis'. Current tax liabilities and assets of the tax-consolidated group are recognised by ANZ (as the head entity in the tax-consolidated group).

5. Income tax expense (continued)

(b) Tax consolidation (continued)

Due to the existence of the tax funding arrangement between entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the head entity and each member of the group in relation to the tax contribution amounts paid or payable between the head entity and other members of the tax-consolidated group in accordance with the arrangement. Settlements to the head entity are settled via OnePath Administration Pty Limited ("OPA") and are presented as a related party transaction with OPA in the financial statements.

Members of the tax-consolidated group have also entered into a tax sharing agreement that provides for the allocation of income tax liabilities between the entities should the head entity default on its income tax payment obligations.

6. Deferred commissions

	2018 $'000	2017 $'000
Current	533	532
Non-current	-	534
Total deferred commissions	**533**	**1,066**
Movement in deferred commissions		
Opening balance	1,066	1,598
Amortised during the year	(533)	(532)
Total deferred commissions	**533**	**1,066**

7. Deferred entry fees

	2018 $'000	2017 $'000
Current	533	532
Non-current	-	534
Total deferred entry fees	**533**	**1,066**
Movement in deferred entry fees		
Opening balance	1,066	1,598
Amortised during the year	(533)	(532)
Total deferred entry fees	**533**	**1,066**

8. Deferred tax assets and liabilities

	2018 $'000	2017 $'000
Deferred tax liabilities	1	1
Deferred tax liabilities comprise		
Available-for-sale assets - unrealised gains	1	1
Total deferred tax liability	**1**	**1**

8. Deferred tax assets and liabilities (continued)

Movement in temporary differences during year

	Balance 1 October 2017 $'000	Recognised in profit or (loss) $'000	Recognised in other comprehensive income $'000	Balance 30 September 2018 $'000
Deferred tax liabilities				
Available-for-sale assets	1	-	-	1
Total	**1**	**-**	**-**	**1**

Movement in temporary differences during prior year

	Balance 1 October 2016 $'000	Recognised in profit or (loss) $'000	Recognised in other comprehensive income $'000	Balance 30 September 2017 $'000
Deferred tax liabilities				
Available-for-sale assets	13	-	(12)	1
Total	**13**	**-**	**(12)**	**1**

9. Share capital

	2018 $	2017 $
Ordinary share capital		
Balance at the start of the year	40,100,003	40,100,003
Shares issued	12,300,000	-
Balance at the end of the year	**52,400,003**	**40,100,003**

	2018	2017
Number of shares issued		
Balance at the start of the year	40,100,003	40,100,003
Shares issued	12,300,000	-
Balance at the end of the year	**52,400,003**	**40,100,003**

Ordinary shares

Ordinary shares have no par value and entitle holders to receive dividends payable to ordinary shareholders and to participate in the proceeds available to ordinary shareholders on winding up of the Company in proportion to the number of shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy is entitled to one vote and upon a poll one vote for each share held.

During the year, issued capital increased by $12,300,000 by the issue of 12,300,000 ordinary shares.

10. Capital management

The Company manages capital to ensure that the Company will be able to continue as a going concern.

The Company considers share capital and retained earnings to be capital for management purposes. The Company's policy is to maintain a strong capital base so as to maintain shareholder, creditor and market confidence and to sustain future development of the business. The Company recognises the need to maintain a balance between the high returns that might be possible with gearing and the advantage and security afforded by a sound capital position.

The Company is regulated by APRA and has been issued a Registrable Superannuation Entity ("RSE") Licence.

In complying with APRA's Prudential Standard SPS 114 "Operational Risk Financial Requirement", the Company has taken steps to meet the ORFR Target. As at 30 September 2018, the ORFR requirement of $52.1m (30 September 2017: $39.8m) is allocated between Company ORFR trustee capital of $49.1 million (30 September 2017: $36.8m) and RSE trustee reserve of $3.0 million within the Retirement Portfolio Service (RPS) (30 September 2017: $3.0m).

There were no changes in the Company's approach to capital management since the prior year. The Company has met the externally imposed capital requirements at all times during the current and prior financial year.

11. Risk management policies and procedures

The financial condition and operating results of the Company are affected by a number of key financial and non-financial risks. Financial risks include market risk, credit risk, interest rate risk and liquidity risk. The non-financial risks are primarily compliance risk, operational, reputational and strategic risks. The Company's objectives and policies in respect of managing its risks are set out below.

The Company's compliance and operational risks are monitored by the Board Audit Committee, Board Risk Committee and the Board.

The Company's objective is to satisfactorily manage these risks in line with the Board approved Risk Management Framework, policies, Risk Management Strategy and Risk Appetite Statement. Various procedures are put in place to control and mitigate the risks faced by the Company depending on the nature of the risk. The Company's overall risk is monitored by Management with regular reporting to the Company's Board Audit Committee, Board Risk Committee and the Board.

12. Financial risk management

Financial Risk Management as discussed below considers the significant financial risks borne by the Company.

(a) Market risk

General

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market variables such as interest rates, equity prices and foreign currency exchange rates.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising returns.

Measurement

The following provides an analysis of the exposures of the different types of market risks.

(i) Interest rate risk

Interest rate risk is the risk of loss arising from adverse changes in interest rates and the impact on future cash flows or the fair value of financial instruments.

12. Financial risk management (continued)

Interest rate risk (continued)

The Company's exposure to interest rate risk are as follows:

	2018 $'000	2017 $'000
Financial assets		
Cash and cash equivalents	54,916	41,417
Other financial assets-term deposits	2,500	4,000
Total financial assets	**57,416**	**45,417**

Interest rate sensitivity analysis

An increase or decrease in variable interest rates of 100 basis points (2017: 100 basis points) in interest rates would have the following direct impact, net of tax, on the profit and loss and equity position as shown below:

	Profit or Loss		Equity	
	Increase $'000	Decrease $'000	Increase $'000	Decrease $'000
30 September 2018 (100 bps)	402	(402)	402	(402)
30 September 2017 (100 bps)	318	(318)	318	(318)

(ii) Other market risk

The Company has no material exposure to foreign exchange risk or market price risk in the current year.

(b) Credit risk

General

Credit risk arises from the financial instrument assets of the Company, which includes cash and cash equivalents, receivables from related parties, trade and other receivables and other financial assets - term deposits. The Company's exposure to credit risk arises from the potential default of the counterparty, with a maximum exposure equal to the carrying amount of the financial assets.

The Company trades only with recognised, creditworthy third parties or related parties and accordingly collateral is not requested. Cash and term deposits are held with ANZ which is the only concentrations of credit risk within the company. ANZ has a AA- Credit rating. Please refer to Note 19 Related party disclosures for further information on Cash and term deposits held with ANZ. Financial instruments are spread amongst high quality counterparties (including related parties) to minimise the risk of default of counterparties.

No financial assets are considered past due and management does not expect any counterparty to fail to meet its obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting commitments associated with financial liabilities.

Demands for funds can usually be met through ongoing normal operations and the sale of assets or borrowing. Expected liquidity demands within the Company are managed through a combination of treasury, investment and asset-liability management guidelines, which are monitored on an ongoing basis. The Company regularly assesses and monitors the liquidity risk profile through analysis of liabilities that increase liquidity risk, reviews the investment portfolio to ensure adequate liquidity, and performs analysis of the expected asset and liability cash flows in regards to the ability of the business to meet cash demands.

All the financial assets and financial liabilities have maturity of less than one year.

13. Fair value of financial assets and financial liabilities

The following disclosures set out the Company's fair value measurements, the various levels within which the fair value measurements are categorised, and the valuation methodologies and techniques used.

(i) Classification of financial assets and financial liabilities

The following tables set out the classification of financial asset and financial liability categories according to measurement bases together with their carrying amounts as reported on the balance sheet.

	2018		2017	
	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Financial assets				
Available-for-sale assets (unit trusts)	24	24	23	23

(ii) Measurement of fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is at transaction price.

Subsequent to initial recognition, the fair value of financial instruments measured at fair value is based on quoted market prices (Level 1), where available. In cases where quoted market prices are not available, fair value is determined using market accepted valuation techniques that employ observable market data (Level 2). In limited cases where observable market data is not available, the input is estimated based on other observable market data, historical trends and other factors that may be relevant (Level 3).

Available for sale assets (unit trusts) are priced using the redemption value published by the responsible entity and are classified as level 2 in the AASB 13 fair value hierarchy.

Other financial assets consist of term deposits that have maturity between 3 and 12 months. The fair value of other financial assets approximates its carrying value and are classified as level 2 in the AASB 13 fair value hierarchy.

14. Notes to the cash flow statement

	2018 $'000	2017 $'000
Reconciliation of cash flows from operating activities		
Profit/ (Loss) for the year	**(102)**	**999**
Amortisation of deferred commissions	533	532
Amortisation of deferred entry fees	(533)	(532)
Changes in assets and liabilities		
- Change in trade and other receivables	(115)	(44)
- Change in receivables from related parties	(105)	12
- Change in deferred revenue	461	-
- Change in fees and commission payables	9	(95)
- Change in payables to related parties	(448)	(1,928)
- Change in deferred tax liabilities	-	(12)
Net cash (used in)/provided by operating activities	**(300)**	**(1,068)**

APRA's Prudential Standard SPS 114 requires that the ORFR be held within the trustee entity as capital or the RSE as reserves. The amount is quarantined for the sole purpose of meeting the ORFR with the $49.1 million (30 September 2017: $36.8m) supporting the ORFR being held in a separate bank account.

15. Commitments

There were no capital or lease expenditure commitments as at 30 September 2018 (2017: $Nil).

16. Structured entities

A structured entity ('SE') is an entity in which voting or similar rights are not the dominant factor in deciding who controls the entity, such as when voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Structured entities are generally created to achieve a narrow and well defined objective with restrictions around their ongoing activities and are often thinly capitalised with a reliance on debt financing for support.

SEs are consolidated when control exists in accordance with the accounting standard AASB12. In other cases, the Company may simply have an interest or may sponsor a SE but not consolidate it.

A disclosable 'interest' in an unconsolidated SE is not considered to exist where the Company's involvement does not establish more than a passive interest. On this basis, exposures to unconsolidated SEs that arise from the Company's investing activities are not considered disclosable interests.

Sponsored unconsolidated structured entities

For the purposes of this disclosure, the Company considers itself the 'sponsor' of a SE where it is the primary party involved in the design and establishment of that SE and; where the Company is the majority user of that SE, or Company's name appears in the name of that SE or on its products, or the Company provides implicit or explicit guarantees of that entity's performance.

The Company is the sponsor of two superannuation funds for which it acts as trustee. The Company did not have any interest in these SEs during the year ended 30 September 2018, other than the fee income it receives for its trustee services from RPS. These SEs are not consolidated by the Company.

During the year, the Company recognised management fee income of $7,035,763 (2017: $6,366,923) from sponsored unconsolidated SEs during the reporting period in the form of management fees.

17. Contingent liability

The Company may from time to time be exposed to contingent liabilities and potential claims in respect of the activities of the underlying funds for which it acts as Trustee. As at the date of this report, there are no contingent liabilities where the underlying funds are not expected to have sufficient assets to indemnify the Trustee as appropriate.

As part of the operations of the business, the Company has been subject to various legal actions and claims. The directors are of the view that the claims will not result in a significant loss to the Company, and as such no provision is required.

18. Liability as a trustee

The Company acts as a Trustee for the OnePath MasterFund which is administered by OnePath Life Limited, and the Retirement Portfolio Service which is administered by Macquarie Investment Management Limited.

The financial statements reflect the fiduciary nature of the Company's responsibility and as such do not show the assets and liabilities of the funds. The Company will only be liable if it commits a breach of its fiduciary duties.

At balance date, the assets of the funds are sufficient to meet their liabilities.

19. Related party disclosures

(a) Immediate and ultimate controlling entity

The immediate parent entity is ANZ Wealth Australia Limited ("AWA"), a company incorporated in Australia.

The ultimate parent entity is ANZ, a company incorporated in Australia. ANZ produces consolidated financial statements available for public use.

(b) The following related party transactions occurred during the year

(i) Transactions with related parties in the wholly owned group

Entities in the wholly owned group are made up of AWA and its subsidiaries ("the Group").

Entities within the Group charge/receive management fees for expenses incurred, including audit fees, and services rendered. Management expenses charged by the Group to the Company are at normal commercial terms and conditions. Management expenses incurred during the year amounted to $8,723,796 (2017: $6,876,363).

Commission expenses include $1,581,584 (2017:$ 1,802,558) paid to ANZ wholly owned dealer groups. In addition the Company paid the ANZ wholly owned dealer groups $801,281 (2017: $922,386) in advisor service fees for the financial year ended 30 September 2018.

The Company acts as Trustee for the OnePath MasterFund, a superannuation fund in which the individual accounts of each member are established directly with OnePath Life Limited. All contributions, premiums, fees, benefits, and taxes for these superannuation funds are paid or received directly by OnePath Life Limited in accordance with OnePath MasterFund's Trust Deed. These transactions and balances are not recognised by the Company.

Entities within the Group provide funds to other entities within the Group. These funds are non-interest bearing and have no fixed terms of maturity. The balances with related parties are:

	2018 $	2017 $
Receivables from entities within the Group	326,572	196,603
Payables to entities within the Group	-	439,749

Receivables from related parties includes a tax benefit of $47,612 (2017: $439,749 payable to related parties), receivable under of the tax-consolidated group agreement.

There have been no guarantees given or received. No outstanding amounts have been written down or recorded as allowances as they are considered fully collectible.

19. Related party disclosures (continued)

(ii) Transactions with the ultimate parent company ('ANZ')

During the course of the financial year the Company conducted transactions with the ultimate parent entity on normal commercial terms and conditions as shown below. There have been no guarantees given or received by the Company. No outstanding amounts have been written down or recorded as allowances, as they are considered fully collectible.

	2018	2017
	$	$
Revenue / (expenses)		
Interest income on money market and other deposits	826,414	811,729
Fees and commission	(54,695)	(91,684)
	771,719	**720,045**

Assets/ (liabilities)		
Cash and cash equivalents	54,915,515	41,416,658
Other financial assets - term deposits	2,500,000	4,000,000
Interest receivables	37,620	62,230
Fees and commission payable	(5,166)	(13,623)
	57,447,969	**45,465,265**

(iii) Transactions with key management personnel and related parties

Key management personnel compensation

The compensation of key management personnel ("KMP"), comprising of the directors and senior management of ANZ Wealth, is provided by the ultimate parent company, ANZ. The total of this compensation is as follows:

	2018	2017
	$	$
Short term employee benefits	13,649,135	11,379,600
Share based payments	2,096,130	3,105,066
Termination benefits	4,808	125,566
	15,750,073	**14,610,232**

The ultimate parent entity has determined the compensation of KMP in accordance with their roles within the entire ANZ Group. Employee service contracts do not include any compensation, including bonuses, specifically related to the role of KMP of the Company. As the roles of the KMPs within ANZ includes activities relating to the Company as well as other entities within the Group, KMP compensation amount has not been allocated to a particular entity and as such the entire compensation of the KMPs has been disclosed above.

20. Events since the end of the financial year

There have been no significant events from 30 September 2018 to the date of signing this report.

Directors' Declaration

The directors of OnePath Custodians Pty Limited (the "Company") declare that:

a) in the directors' opinion, the financial statements of the Company as set out on pages 4 to 8 and the notes to the financial statements as set out on pages 9 to 22, have been prepared in accordance with the *Corporations Act 2001*, including that:
   i. they comply with applicable Australian Accounting Standards and the *Corporations Regulations 2001*;
   ii. they give a true and fair view of the Company's financial position as at 30 September 2018 and of its performance as represented by the results of its operations and its cash flows, for the year ended on that date; and
   iii. the financial statements and notes to the financial statements of the Company comply with International Financial Reporting Standards as described in note 1(a)(i); and

b) in the directors' opinion, 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.

Director

Sydney

29 November 2018

KPMG

Independent Auditor's Report

To the members of OnePath Custodians Pty Limited

Opinion

We have audited the ***Financial Report*** of OnePath Custodians Pty Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

- giving a true and fair view of the Company's financial position as at 30 September 2018 and of its financial performance for the year ended on that date; and
- complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The ***Financial Report*** comprises:

- Balance Sheet as at 30 September 2018;
- Statement of comprehensive income, Statement of changes in equity and Statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies and other explanatory notes; and
- Directors' Declaration.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Company in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

Other Information is financial and non-financial information in OnePath Custodians Pty Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. This includes the Directors' Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be

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materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001;*
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing the Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar4.pdf. This description forms part of our Auditor's Report.

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Michael O Connell
Partner
Sydney
29 November 2018