2018 Financial Report

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Consolidated Statement of Comprehensive Income

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 $'000	2017 $'000
Revenue from continuing operations			
Investment management fees		503,701	448,857
Performance fees		54,483	37,886
Transaction fees		267	4,181
Total revenue from continuing operations	**B2**	**558,451**	**490,924**
Other income	**B2**	**15,446**	**7,456**
Total revenue	**B2**	**573,897**	**498,380**
Expenses			
Employee expenses			
Salaries and related expenses		170,039	169,258
Amortisation of employee equity grants	D2	43,303	53,672
Amortisation of employee deferred share of performance fees		10,305	-
Information and technology		22,497	15,169
Fund administration		16,533	14,618
Business development and promotion		13,593	11,816
Depreciation, amortisation and impairment		10,812	9,473
Professional services		10,316	9,117
Occupancy		10,280	5,690
General office and administration		7,843	9,882
Investment management		6,717	4,395
Distribution		2,404	1,477
Finance costs		149	185
Total expenses		**324,792**	**304,752**
Profit before income tax		**249,105**	**193,628**
Income tax expense	B4	58,147	46,173
Profit attributable to owners of Pendal Group Limited		**190,958**	**147,455**
Other comprehensive income for the financial year *Items that may be reclassified to profit or loss*			
Exchange differences on translation of foreign operations	C3	24,686	1,755
Net unrealised gain on available-for-sale assets	C3	22,582	14,482
Net realised gain on available-for-sale assets reclassified to the profit or loss	C3	(8,046)	(3,752)
Loss on hedging activities	C3	(2,294)	(3,068)
Income tax relating to components of other comprehensive income	C3	(3,525)	(2,174)
Other comprehensive income, net of tax		**33,403**	**7,243**
Total comprehensive income for the financial year attributable to owners of Pendal Group Limited		**224,361**	**154,698**
Earnings per share for profit attributable to ordinary equity holders of Pendal Group Limited		**Cents**	**Cents**
Basic earnings per share	B3	68.3	54.8

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying Notes.

Consolidated Statement of Financial Position

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 $'000	2017 $'000
Current assets			
Cash and cash equivalents	B5	168,134	194,199
Trade and other receivables		69,902	65,963
Derivatives		314	–
Prepayments		5,281	4,813
Total current assets		**243,631**	**264,975**
Non-current assets			
Property, plant and equipment		5,392	3,566
Available-for-sale financial assets	C5	255,687	133,136
Deferred tax assets	B4	42,465	45,671
Intangible assets	F1	545,013	535,278
Total non-current assets		**848,557**	**717,651**
Total assets		**1,092,188**	**982,627**
Current liabilities			
Trade and other payables		44,889	37,880
Employee benefits	D1	100,745	105,865
Derivatives		–	2,577
Borrowings	C6	–	–
Lease obligations		1,343	83
Current tax liabilities		19,669	16,200
Total current liabilities		**166,646**	**162,607**
Non-current liabilities			
Employee benefits	D1	6,961	5,630
Lease obligations		4,369	1,006
Deferred tax liabilities	B4	20,654	17,652
Total non-current liabilities		**31,984**	**24,288**
Total liabilities		**198,630**	**186,895**
Net assets		**893,558**	**795,732**
Equity			
Contributed equity	C2	427,137	426,577
Reserves	C3	271,541	221,377
Retained earnings		194,880	147,778
Total equity		**893,558**	**795,732**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying Notes.

Consolidated Statement of Changes in Equity

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2018

	Notes	Contributed equity $'000	Reserves $'000	Retained earnings $'000	Total equity $'000
Balance at 1 October 2017		**426,577**	**221,377**	**147,778**	**795,732**
Profit for the financial year		–	–	190,958	190,958
Other comprehensive income for the financial year		–	33,403	–	33,403
Total comprehensive income for the financial year		**–**	**33,403**	**190,958**	**224,361**
Transactions with owners in their capacity as owners:					
Treasury shares acquired	C2	(32,296)	–	–	(32,296)
Treasury shares released	C2	25,801	(25,801)	–	–
Share-based payments	C3	–	42,562	–	42,562
Dividend reinvestment plan	C2	7,055	–	–	7,055
Dividends paid	C4	–	–	(143,856)	(143,856)
Balance at 30 September 2018		**427,137**	**271,541**	**194,880**	**893,558**
Balance at 1 October 2016		**441,059**	**176,439**	**126,341**	**743,839**
Profit for the financial year		–	–	147,455	147,455
Other comprehensive income for the financial year		–	7,243	–	7,243
Total comprehensive income for the financial year		**–**	**7,243**	**147,455**	**154,698**
Transactions with owners in their capacity as owners:					
Converting notes converted into ordinary shares	C2	121	–	–	121
Treasury shares acquired	C2	(42,607)	–	–	(42,607)
Treasury shares released	C2	22,104	(22,104)	–	–
Share-based payments	C3	–	59,799	–	59,799
Dividend reinvestment plan	C2	5,900	–	–	5,900
Dividends paid	C4	–	–	(126,018)	(126,018)
Balance at 30 September 2017		**426,577**	**221,377**	**147,778**	**795,732**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying Notes.

Consolidated Statement of Cash Flows

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2018

	Notes	2018 $'000	2017 $'000
Cash flows from operating activities			
Fees and other income received		574,806	502,459
Interest received		422	178
Distributions from unit trusts		1,447	1,892
Expenses paid		(283,441)	(240,940)
Income tax paid		(51,984)	(51,698)
Net cash inflows from operating activities	B5	**241,250**	**211,891**
Cash flows from investing activities			
Payments for property, plant and equipment		(4,192)	(1,170)
Payments for available-for-sale financial assets		(115,101)	(43,223)
Proceeds from sales of available-for-sale financial assets		26,258	15,438
Payments for IT development		(845)	(755)
Payments for derivative hedging instruments		(5,206)	(491)
Net cash outflows from investing activities		**(99,086)**	**(30,201)**
Cash flows from financing activities			
Payments for purchase of treasury shares		(32,297)	(42,607)
Interest and other financing costs		(149)	(185)
Dividends paid		(136,799)	(120,119)
Net cash outflows from financing activities		**(169,245)**	**(162,911)**
Net increase/(decrease) in cash and cash equivalents		**(27,081)**	**18,779**
Cash and cash equivalents at the beginning of the financial year		194,199	174,231
Effects of exchange rate changes on cash and cash equivalents		1,016	1,189
Cash and cash equivalents at the end of the financial year		**168,134**	**194,199**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying Notes.

A. About this report

This is the financial report of Pendal Group Limited (the "Company") and its subsidiaries (together referred to as the "Pendal Group"). The Company is domiciled in Australia and the Pendal Group is a for-profit entity for the purpose of preparing financial statements. On 4 May 2018 BT Investment Management Limited changed its name to Pendal Group Limited.

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A1. Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The consolidated financial statements comply with International Financial Reporting Standards (IFRSs) adopted by the International Accounting Standards Board (IASB).

A2. Basis of preparation

The Financial Report is presented in Australian dollars, which is the Company's functional and presentation currency, with all values rounded to the nearest thousand ('$000), in accordance with *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*, unless otherwise stated. The Financial Report has been prepared on a historical cost basis, except for the revaluation of available-for-sale financial assets, and financial assets and liabilities at fair value through profit or loss.

Significant accounting policies

The principal accounting policies adopted in the preparation of the Financial Report are contained within the notes to which they relate. These policies have been consistently applied to all the years presented, unless otherwise stated.

Critical accounting assumptions and estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Pendal Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are outlined below.

Accounting assumptions and estimates	Note
Share-based payments	D2
Deferred tax on share-based payments	D2
Intangibles	F1

A3. New and amended accounting standards

New and amended accounting standards adopted by the Pendal Group

The Pendal Group has adopted all of the mandatory new and amended standards and interpretations issued by the AASB that are relevant to its operations and effective for the current reporting period. The mandatory new and amended standards adopted by the Pendal Group for the year ended 30 September 2018 have not had a significant impact on the current period or any prior period and are not likely to have a significant impact in future periods.

New and amended accounting standards not yet adopted by the Pendal Group

Certain new and revised accounting standards have been published that are not subject to mandatory adoption until future reporting periods. They are available for early adoption but have not been applied in preparing this Financial Report. The Pendal Group's assessment of the impact of these new standards is set out below:

- AASB 9 Financial Instruments (effective for the Pendal Group from 1 October 2018) addresses the classification, measurement and derecognition of financial assets and financial liabilities. It also introduces revised rules around hedge accounting and impairment. The standard is available for early adoption, however the Pendal Group has decided not to adopt the standard before its mandatory effective date. The Pendal Group has reviewed its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1 October 2018:

  Pendal Group anticipate that certain financial instruments currently classified as available-for-sale financial assets held at fair value through other comprehensive income will be classified as financial assets held at fair value through profit or loss. This includes the Pendal Group's seed investments held which total $237.5 million as at 30 September 2018 and includes unrealised gains of $34.2 million as at 30 September 2018. The unrealised gains will be transferred from the available-for sale assets reserve to retained earnings for the start of the 2019 Financial Year.

The other financial instruments held by the Pendal Group include derivative financial instruments measured at fair value through profit or loss which will continue to be measured on the same basis under AASB 9. Accordingly, the Pendal Group does not expect the new guidance to affect the classification and measurement of these financial instruments.

The Pendal Group's current hedge relationships will qualify as continuing hedges upon the adoption of AASB 9.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Pendal Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

- AASB 15 Revenue from Contracts with Customers (effective for the Pendal Group from 1 October 2018). The AASB has issued a new standard for recognition of revenue. This will replace AASB 118 Revenue which covers contracts for goods and services and AASB 111 Construction Contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer replacing the existing notion of risks and rewards. The Pendal Group has performed an assessment on existing revenue contracts and does not expect any material impact on the financial statements. The majority of investment management fee revenue is accrued when earned, and the impact assessment indicates no change to the current revenue recognition methodology.

  The Pendal Group has decided not to adopt the standard before its mandatory effective date.

- AASB 16 Leases (effective for the Pendal Group from 1 October 2019). AASB 16 eliminates the classification of leases as either operating leases or finance leases for a lessee and requires lease assets and lease liabilities to be recognised in the Statement of Financial Position, initially measured at present value of future lease payments. In addition, depreciation of the lease assets and interest on lease liabilities will be recognised in the Statement of Comprehensive Income. Cash payments will be separated into principal and interest in the Statement of Cash flows. The result will be an increase in the value of Pendal Group's gross assets and gross liabilities, however will not have a material impact on the net assets or results. Pendal Group anticipates that the adoption of the standard will result in increased disclosure.

  The Pendal Group has decided not to adopt the standard before its mandatory effective date.

B. Results for the year

This section provides information that is most relevant to understanding the financial performance of the Pendal Group.

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B1. Segment information

Description of segments

Operating segments have been reported in a manner consistent with internal management reporting provided to the chief operating decision-maker (CODM) for assessing performance and in determining the allocation of resources. CODM consists of the Group Chief Executive Officer and other members of the Global Executive Committee. As a result, the Pendal Group has determined it has two operating segments, being the Pendal Group's investment management business in Australia (Pendal Australia), and the Pendal Group's investment management business outside of Australia (Pendal International). Pendal International comprises Pendal (UK) Limited and its subsidiaries including JOHCM.

The CODM assesses the performance of the operating segments based on a combined measure of cash net profit after tax (Cash NPAT) and operating profit before tax which excludes non-operating items such as gains and losses on seed investments, interest income and expense, foreign exchange gains and losses and tax.

Cash NPAT excludes the amortisation of equity-settled share-based payments and employee deferred share of performance fees, and includes the after-tax cash costs of equity grants and employee deferred share of performance fees made in respect of the current period. Cash NPAT also excludes the after-tax amortisation and impairment of intangibles relating to fund and investment management contracts.

Segment information provided to the chief operating decision-maker:

	Pendal Australia		Pendal International		Total Group	
	2018 $'000	2017 $'000	2018 $'000	2017 $'000	2018 $'000	2017 $'000
Revenue	154,040	158,665	404,425	332,272	558,465	490,937
Inter-segment revenue	6,831	7,084	3,973	2,890	10,804	9,974
Total segment revenue	**160,871**	**165,749**	**408,398**	**335,162**	**569,269**	**500,911**
Other operating expenses	(125,266)	(120,044)	(191,581)	(161,863)	(316,847)	(281,907)
Inter-segment expense	(3,973)	(2,890)	(6,831)	(7,083)	(10,804)	(9,973)
Total segment expenses	**(129,239)**	**(122,934)**	**(198,412)**	**(168,946)**	**(327,651)**	**(291,880)**
Operating profit before income tax	**31,632**	**42,815**	**209,986**	**166,216**	**241,618**	**209,031**
Non-operating items	3,235	4,931	10,886	2,335	14,121	7,266
Income tax expense	(10,026)	(14,586)	(44,092)	(28,661)	(54,118)	(43,247)
Cash NPAT	**24,841**	**33,160**	**176,780**	**139,890**	**201,621**	**173,050**
Deduct:						
amortisation of employee equity grants	(18,013)	(20,548)	(25,290)	(33,124)	(43,303)	(53,672)
amortisation of employee deferred share of performance fees	–	–	(10,305)	–	(10,305)	–
amortisation and impairment of intangibles	–	–	(7,701)	(7,838)	(7,701)	(7,838)
Add back:						
cash cost of ongoing equity grants	16,359	18,002	21,246	20,840	37,605	38,842
cash cost of employee deferred share of performance fees	–	–	17,070	–	17,070	–
Add back/(deduct): tax effect	321	393	(4,350)	(3,320)	(4,029)	(2,927)
Statutory NPAT	**23,508**	**31,007**	**167,450**	**116,448**	**190,958**	**147,455**
Segment assets	484,383	415,366	607,805	567,216	1,092,188	982,582
Segment liabilities	(46.728)	(39,062)	(151,902)	(147,788)	(198,630)	(186,850)
Net assets	**437,655**	**376,304**	**455,903**	**419,428**	**893,558**	**795,732**

B2. Revenue and other income

	2018 $'000	2017 $'000
Management, fund and trustee fees	500,638	446,485
Performance fees	54,483	37,886
Transaction fees	267	4,181
Other revenue	3,063	2,372
Total revenue from continuing operations	**558,451**	**490,924**
Net gain on sale of available-for-sale financial assets	8,046	3,894
Distributions from unit trusts	5,772	1,783
Net foreign exchange gain	1,206	1,600
Interest income	422	179
Total other income	**15,446**	**7,456**
Total revenue and other income	**573,897**	**498,380**

Accounting policy

Revenue from continuing operations

Revenue from continuing operations is measured at the fair value of the consideration received or receivable and is recognised if it meets the criteria below:

Management, fund and trustee fees	Management, fund and trustee fees are recognised based on the applicable service contracts, usually on a time proportionate basis. Management fees related to investment funds are recognised over the period the service is provided.
Performance fees	Performance fees are recognised in the accounting period in which the performance hurdles have been met.
Transaction fees	Transaction fees on products which are non-annuitised are recognised over the period in which the service is being provided.

Other income

Distribution from unit trusts	Distributions are recognised as revenue when the right to receive payment is established.
Net gain on sale of available-for-sale assets	Net gain on sale of available-for-sale assets is recognised as proceeds less costs on sale of seed investments.
Net foreign exchange gain	Net foreign exchange gains represent exchange differences in the translation or settlement of foreign denominated monetary and intercompany balances.

B3. Earnings per share

Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and the weighted-average number of ordinary shares outstanding during the financial period, that is, ordinary shares less treasury shares.

	2018	2017
Profit attributable to ordinary equity holders of the Company ($000)	**190,958**	**147,455**
Weighted average number of ordinary shares on issue (‘000)	316,735	312,736
Weighted average number of treasury shares (‘000)	(36,989)	(43,645)
Weighted average number of ordinary shares (‘000)	**279,746**	**269,091**
Basic earnings per share (cents per share)	**68.3**	**54.8**

Options totalling 13,191,568 and performance share rights totalling 1,694,025 issued to staff of the Pendal Group as at 30 September 2018 have not been included in the calculation of EPS for the financial year. This is because ordinary shares have been and are anticipated to be acquired on-market over time to settle the exercise of the options and the conversion of the performance share rights.

B4. Taxation

(a) Reconciliation of income tax expense

The income tax expense in the Statement of Comprehensive Income reconciles to accounting profit as follows:	2018 $'000	2017 $'000
Profit before tax	249,105	193,628
Income tax calculated at the Australian tax rate of 30% (2017: 30%)	74,732	58,088
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Difference in overseas tax rates	(23,351)	(14,649)
Previously unrecognised deferred tax assets	2,723	23
State and local taxes	2,507	1,511
Effect on deferred taxes of reduction in tax rates	2,047	496
Sundry non-deductible / (non-assessable) items	(769)	1,001
Employee equity grant amortisation	185	369
Adjustments for current tax of prior financial year	139	(120)
Tax credits and rebates	(66)	(546)
Total income tax expense	**58,147**	**46,173**
Represented by:		
Current tax	*55,315*	*48,936*
Deferred tax	*2,693*	*(2,643)*
Adjustments for current tax of prior periods	*139*	*(120)*

(b) Deferred tax balances

	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
	2018 $'000	2018 $'000	2017 $'000	2017 $'000
Employee equity grants	30,522	–	32,058	–
Employee benefits	10,416	–	11,885	–
Accrued expenses	973	–	1,203	–
Property, plant and equipment	371	–	1,248	–
Lease expenses	164	–	(682)	–
Business-related costs	19	–	29	–
Intangible assets	–	11,396	–	12,168
Available-for-sale financial assets	–	9,254	–	5,482
Foreign exchange (gain)/loss	–	4	(70)	2
Total	**42,465**	**20,654**	**45,671**	**17,652**

(c) Movements in deferred tax balances

	Balance as at 1 October $000	Charged to profit or loss $000	Charged to comprehensive income $000	Charged to equity $000	Balance as at 30 September $000
2018					
Deferred tax assets	45,671	(4,154)	1,689	(741)	42,465
Deferred tax liabilities	(17,652)	1,461	(4,463)	–	(20,654)
2017					
Deferred tax assets	39,341	69	134	6,127	45,671
Deferred tax liabilities	(17,910)	2,574	(2,316)	–	(17,652)

(d) Unrecognised temporary differences

Temporary difference relating to investments in subsidiaries for which deferred tax liabilities have not been recognised:

	2018 $'000	2017 $'000
Foreign currency translation	49,889	25,193
Unrecognised deferred tax liabilities relating to the above temporary differences	14,967	7,558

Accounting policy

Current tax

Current tax assets and liabilities are measured at the amount of income taxes payable or recoverable for the period, using tax rates and laws enacted or substantively enacted by the reporting date in the countries where the Company and its subsidiaries operate. The effective corporate tax rates applicable for the current period are 30% (2017: 30%) on Australian taxable income, 19% (2017: 19.5%) on UK taxable income, 24.5% (2017: 35%) on US federal taxable income and 17% (2017: 17%) on Singapore taxable income.

Deferred tax

Deferred tax is accounted for in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the asset can be utilised.

Deferred tax is not recognised if it arises from the initial recognition of goodwill or an asset or liability in a transaction, other than a business combination, which affects neither taxable income nor accounting profit or from investments in controlled entities, or foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax is measured using tax rates (and laws) that have been enacted or substantively enacted for each jurisdiction by the end of the reporting period and are expected to apply when the temporary differences reverse.

Current and deferred tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Tax consolidation

The Company and its wholly-owned Australian controlled entities are part of a tax consolidated group under Australian tax legislation. The Company is the head entity in the tax-consolidated group. Entities within the tax consolidated group have entered into a tax funding and a tax sharing agreement with the head entity.

Under the terms of the tax funding agreement, the Company and each entity in the tax consolidated group has agreed to pay (or receive) a tax equivalent payment to (or from) the head entity, based on the current tax liability or current tax asset of the entity. The funding amounts are recognised as current inter-company receivables or payables.

B5. Reconciliation of cash flow from operating activities

(a) Reconciliation of cash flow from operating activities

	2018 $'000	2017 $'000
Profit after tax for the financial year	190,958	147,455
Adjustments for non-cash expense items:		
Depreciation and write-off of fixed assets	3,112	1,635
Amortisation and impairment of intangibles	7,701	7,838
Amortisation of employee equity grants	43,303	53,672
Reinvested distribution income	(4,319)	–
Net gain on sale of available-for-sale financial assets	(8,046)	(3,894)
Interest and finance costs	149	185
Net exchange differences	(1,206)	(1,600)
Change in operating assets and liabilities:		
Increase in trade and other receivables	(3,939)	(7,052)
Decrease in prepayments	(468)	12
Increase in deferred tax assets	4,155	(69)
Increase/(decrease) in trade and other payables	7,009	6,701
Increase/(decrease) in employee benefits	(3,790)	12,290
Increase in lease liabilities	4,623	173
Decrease in current tax liabilities	3,468	(2,881)
Decrease in deferred tax liabilities	(1,460)	(2,574)
Net cash inflow from operating activities	**241,249**	**211,891**

(b) Cash and cash equivalents

	2018 $'000	2017 $'000
Cash at bank and in hand	92,199	94,667
Restricted cash in escrow	4,396	16,718
Deposits at call	71,539	82,814
Total cash and cash equivalents	**168,134**	**194,199**

Cash and cash equivalents include cash on hand and deposits held at call with financial institutions.

Restricted cash in escrow relates to deferred employee remuneration that is held by the Pendal Group in trust until certain service conditions have been satisfied by the employee. A corresponding employee benefit liability is recognised on the Consolidated Statement of Financial Position.

Deposits at call are invested in cash management trusts managed by the Pendal Group.

C. Capital and financial risk management

This section provides information relating to the Pendal Group's capital structure and its exposure to financial risk and how they are managed.

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C1. Capital management

The Pendal Group's objectives when managing capital are to maintain a strong capital base in excess of regulatory requirements throughout all business cycles that supports the execution of its strategic goals, in order to optimise returns to its shareholders, while ensuring compliance with the Pendal Group's Risk Appetite Statement.

The Company's current dividend policy is to pay out 80% - 90% of Cash NPAT each year. Capital retained in the business to grow the Pendal Group is largely used to provide seed capital for new funds and investment strategies. The seed capital portfolio has been growing as investments are made in new strategies and further capital support is provided to scale up funds as they achieve an established investment performance track record. During this financial year an additional $75.1 million was funded into the Pendal Group's corporate seed portfolio which totals $237.5 million as at 30 September 2018. The current level of seed capital within the Pendal Group sits within the Board risk appetite.

Cash profits generated from off-shore business units, beyond working capital and regulatory requirements, are repatriated back to the Company through dividends whereby a hedging program is in place to mitigate foreign exchange risk. In accordance with the Company's capital management plan, and to the extent possible, retention of franking credits is minimised.

The Board regularly reviews Pendal Group's free cash flow generation, cash and cash equivalents, borrowings, seed investments, tax and other financial factors in order to maintain an optimal capital structure. Debt may also be used at times to provide capital to the Pendal Group. In order to maintain an optimal capital structure, the Board may:

- adjust the amount of dividends paid to shareholders;
- utilise the dividend reinvestment plan;
- return capital to shareholders;
- increase or decrease borrowings;
- contribute to or redeem seed investments; or
- issue new shares.

The Pendal Group operates legal entities in a number of countries that are subject to various regulatory and capital requirements. These include:

- In Australia, Pendal Fund Services Limited (PFSL) acts as a responsible entity of the Pendal Australia registered and unregistered trusts, and Pendal Institutional Limited (PIL) provides investment management services to institutional clients and all Pendal Australia's registered and unregistered trusts. Both PFSL and PIL are required to maintain minimum capital requirements as part of the Australian Securities and Investments Commission's Australian financial services licensing conditions. The level of regulatory capital required as at 30 September 2018 is $6.2 million.
- In the UK, J O Hambro Capital Management Limited (JOHCML) provides investment management services to JOHCM's UK and Irish Open Ended Investment Companies (OEIC's), US Mutual Funds, institutional clients and other JOHCM entities. JOHCML has established an Internal Capital Adequacy Assessment Process (ICAAP) that is used to determine the amount of regulatory capital required to meet its licencing requirements with the Financial Conduct Authority (FCA). The level of regulatory capital required as at 30 September 2018 in accordance with the ICAAP is $69.0 million (£38.1 million). During 2016, JOHCM was awarded an investment firm waiver by the FCA. The waiver expires on 30 September 2021 with the impact eliminating the need to hold additional capital as a result of intangibles generated via the Company's acquisition of JOHCM in 2011.
- In Singapore, JOHCM (Singapore) Pte Limited provides investment management services to other JOHCM entities and a JOHCM Cayman fund. It is required to maintain minimum capital requirements as part of its licencing requirements with the Monetary Authority of Singapore. The level of regulatory capital required as at 30 September 2018 is $2.1 million (S$2.1 million).
- In the USA, JOHCM (USA) Inc. provides investment management services to a number of JOHCM's Delaware Statutory Trusts and other JOHCM entities. It is registered as an investment adviser with the Securities and Exchange Commission. It does not have any minimum capital requirements as part of its licence.

All entities complied with regulatory capital requirements at all times throughout the 2018 Financial Year.

In preparation for the UK exiting the European Union, a new entity was incorporated in Ireland to establish a European presence as a UCITs management company. The regulatory approval with the Central Bank of Ireland remains outstanding as at 30 September 2018. Once approval is received, the entity is expected to have a capital requirement of approximately $4.2 million (€2.6 million).

During the year, a new entity was incorporated in the UK to act as the Authorised Corporate Director for the J O Hambro Capital Management Umbrella Fund Plc, which is currently being performed by JOHCML. As at 30 September 2018 the regulatory approval remains outstanding with the FCA. Once licensed, the entity is expected to have a capital requirement of approximately $2.5 million (£1.4 million).

C2. Contributed equity

	2018 $'000	2017 $'000
Ordinary shares 318,006,576 (2017: 314,998,763) each fully paid	617,668	610,613
Treasury shares 36,406,060 (2017: 43,456,344)	(190,531)	(184,036)
Total contributed equity 281,600,516 (2017: 271,542,419)	**427,137**	**426,577**

(a) Ordinary shares

Ordinary shares entitle the holder to participate in dividends as declared and in the event of a winding up of the Company, to participate in the proceeds in proportion to the number of and amounts paid on the shares held. Ordinary shares entitle the holder to one vote per share, either in person or by proxy, at a meeting of the Company shareholders. All ordinary shares issued have no par value.

Movements in ordinary shares during the year:

	2018 Shares '000	2018 $'000	2017 Shares '000	2017 $'000
Balance at the beginning of the financial year	314,999	610,613	307,431	604,592
Converting notes converted into ordinary shares[1]	–	–	3,087	121
Fund linked equity share issuance [2]	2,304	–	3,951	–
Dividend reinvestment plan	704	7,055	530	5,900
Balance at the end of the year	**318,007**	**617,668**	**314,999**	**610,613**

1. The converting notes were issued to JOHCM employees in October 2011. Subject to certain adjustments, each converting note converted into one ordinary share in the Company over a period of up to five years provided certain conditions were met. Converting notes were fully converted by 4 November 2016.
2. The shares were issued to fund managers who operate under the FLE Scheme.

(b) Treasury shares

Treasury shares are those shares issued through the Company's 2007 Initial Public Offer and the Fund Linked Equity (FLE) Scheme together with those shares purchased as necessary, in order to meet the obligations of the Pendal Group under its employee share plans. These represent shares either held by the employee benefit trusts for future allocation or shares held by employees within Pendal Group share plans, subject to restrictions. These are recorded at cost and when restrictions on employee shares are lifted, the cost of such shares is appropriately adjusted to the share-based payment reserve. Details of the balance of treasury shares at the end of the financial year were as follows:

	2018 Shares '000	2018 $'000	2017 Shares '000	2017 $'000
Balance at the beginning of the year	(43,456)	(184,036)	(43,304)	(163,533)
Treasury shares acquired	(3,071)	(32,296)	(4,499)	(42,607)
Fund linked equity share issuance [3]	(2,304)	–	(3,951)	–
Treasury shares released	12,425	25,801	8,298	22,104
Balance at the end of the year	**(36,406)**	**(190,531)**	**(43,456)**	**(184,036)**

3. The shares were issued to fund managers who operate under the FLE Scheme.

Details of treasury shares at the end of the year were as follows:

	2018 Shares '000	2018 $'000	2017 Shares '000	2017 $'000
Unallocated shares held by trustees	18,277	130,425	18,603	126,840
Shares allocated to employees	18,129	60,106	24,853	57,196
Balance at the end of the year	**36,406**	**190,531**	**43,456**	**184,036**

Accounting policy

Ordinary shares

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

Treasury shares

Where the Company or other entities of the Pendal Group purchase shares in the Company, the consideration paid is deducted from total shareholders' equity and the shares treated as treasury shares. Treasury shares are recorded at cost and when restrictions on the sale of shares granted to employees are lifted from the employee share plans, the cost of such shares is appropriately adjusted to the share-based payment reserve.

C3. Reserves

Share-based payment reserve

The share-based payment reserve relates to the amortised portion of the fair value of equity instruments granted to employees for no consideration, recognised as an expense. Deferred tax in relation to amounts not recognised in the Statement of Comprehensive Income is also recognised in the share-based payment reserve. The balance of the share-based payment reserve is reduced by the payment of certain dividends not paid from retained earnings, where the requirements of the *Corporations Act* are met.

Foreign currency translation reserve

Exchange differences arising on the translation of the foreign controlled entities in addition to gains and losses on derivatives that are designated as net investment hedges are recognised in other comprehensive income and accumulated in the foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the net investment is partially disposed of or sold.

Available-for-sale financial assets reserve

The available-for-sale financial assets reserve represents changes in the fair value and exchange differences arising on translation of investments, classified as available-for-sale financial assets. Amounts are reclassified to profit or loss when the associated assets are sold or impaired.

Cash flow hedge reserve

The cash flow hedge reserve is used to record gains or losses on hedging instruments that are designated and qualify as cash flow hedges and that are recognised in other comprehensive income. Amounts are reclassified to profit or loss when the associated hedged transactions affect profit or loss.

Common control reserve

The common control reserve relates to the Company's purchase of the investment management business from a number of wholly owned subsidiaries of Westpac Banking Corporation effective 19 October 2007. Any difference between the cost of acquisition (fair value of consideration paid), and the amounts at which the assets and liabilities are recorded, has been recognised directly in equity as part of a business combination under the common control reserve.

	Share-based payment reserve $'000	Foreign currency translation reserve $'000	Available-for-sale-financial asset reserve $'000	Cash flow hedge reserve $'000	Common control reserve $'000	Total reserves $'000
Balance at 1 October 2017	201,575	22,125	23,149	–	(25,472)	221,377
Share-based payment expense	43,303	–	–	–	–	43,303
Deferred tax	(741)	–	(3,525)	–	–	(4,266)
Treasury shares released	(25,801)	–	–	–	–	(25,801)
Currency translation difference	–	24,686	–	–	–	24,686
Gain/(loss) on hedging activities	–	(2,304)	–	10	–	(2,294)
Revaluation	–	–	22,582	–	–	22,582
Reclassification to profit or loss	–	–	(8,046)	–	–	(8,046)
Balance at 30 September 2018	**218,336**	**44,507**	**34,160**	**10**	**(25,472)**	**271,541**

Balance at 1 October 2016	163,880	23,438	14,593	–	(25,472)	176,439
Share-based payment expense	53,672	–	–	–	–	53,672
Deferred tax	6,127	–	(2,174)	–	–	3,953
Treasury shares released	(22,104)	–	–	–	–	(22,104)
Currency translation difference	–	(1,313)	–	–	–	(1,313)
Revaluation	–	–	14,482	–	–	14,482
Reclassification to profit or loss	–	–	(3,752)	–	–	(3,752)
Balance at 30 September 2017	**201,575**	**22,125**	**23,149**	–	**(25,472)**	**221,377**

C4. Dividends

Equity dividends on ordinary shares

		2018 $'000	2017 $'000
(i)	Dividends declared and paid during the Financial Year		
	Final 25% franked[1] dividend for the 2017 Financial Year: 26.0 cents per share (2016 Financial Year: 24.0 cents per share 35% franked[1])	78,191	71,365
	Interim 15% franked[1] dividend for the 2018 Financial Year: 22.0 cents per share (2017 Financial Year: 19.0 cents per share 30% franked[1])	65,665	54,653
		143,856	**126,018**
(ii)	Dividends proposed to be paid subsequent to the end of the Financial Year and not recognised as a liability		
	Final dividend for the 2018 Financial Year 30.0 cents (15% franked[1]) per share (2017 Financial Year: 26.0 cents per share 25% franked[1])	89,873	79,761

1. The whole of the unfranked amount of the dividend will be Conduit Foreign Income, as defined in the Income Tax Assessment Act 1997.

Franked dividends

Dividends declared or paid during the year were 25% and 15% franked, respectively, at the Australian corporate tax rate of 30%.

The franked portions of the final dividend declared or paid after 30 September 2018 will be franked out of existing franking credits or out of franking credits arising from the payment of income tax in the year ending 30 September 2019.

	2018 $'000	2017 $'000
Franking credits available for subsequent financial years	24	160

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

(i) franking credits that will arise from the payment of the amount of the provision for income tax
(ii) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
(iii) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividends declared or paid by the Directors since year end, but not recognised as a liability at financial year end, will be a reduction in the franking account of $5,777,577 (2017: $8,545,851).

Accounting policy

Dividends

A provision is made for the amount of any dividend declared by the Directors before or at the end of the financial year but not distributed at balance date.

C5. Available-for-sale financial assets

	2018 $'000	2017 $'000
Unlisted securities		
Units held in pooled funds	237,530	129,542
Escrow units held in pooled funds[1]	17,847	3,295
Shares in Regnan-Governance Research and Engagement Pty Limited	100	100
Shares in James Hambro & Partners LLP	210	199
Total	**255,687**	**133,136**

1. Escrow units held in pooled funds relate to deferred employee remuneration that is held by the Pendal Group in trust until certain service conditions have been satisfied by the employee. A corresponding employee benefit liability is recognised on the Consolidated Statement of Financial Position.

Accounting policy

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or that are not classified as financial assets through profit or loss or loans and receivables.

Purchases and sales of available-for-sale financial assets are recognised on trade date, being the date on which the Pendal Group commits to purchase or sell the asset. Available-for-sale financial assets are initially recognised and subsequently carried at fair value. Gains and losses arising from changes in the fair value are recognised directly in equity, until the financial asset is de-recognised (when the rights to receive cash flows from the financial assets have expired or where the Pendal Group has transferred substantially all the risks and rewards of ownership), at which time the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income when the right to receive a payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Pendal Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Available for sale financial assets are assessed for impairment at each balance date. If objective evidence of impairment exists, such as a significant or prolonged decline in the fair value of a security below its cost, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is removed from equity and recognised in the Statement of Comprehensive Income. Impairment losses recognised in the Statement of Comprehensive Income on equity instruments classified as available-for-sale financial assets are not reversed through the Statement of Comprehensive Income.

C6. Borrowings

Multi-currency debt facility

On 2 November 2016, Pendal Group Limited entered into a new $25 million multi-currency debt facility with Westpac for a three year term. The facility remains undrawn at balance date.

Accounting policy

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as finance costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are removed from the Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expires. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in the Statement of Comprehensive Income as other income or finance costs.

C7. Financial risk management

The Pendal Group manages its business in Australia and outside of Australia and is consequently exposed to a number of financial risks. The key financial risks are market risk (including price risk, interest rate risk and foreign exchange risk), credit risk and liquidity risk. The Board is responsible for the establishment and oversight of an effective system of risk management. The Board delegates authority to management to conduct business activity within the limits of the approved business plans, policies and procedures.

The Pendal Group held the following financial instruments as at 30 September:

	2018 $'000	2017 $'000
Financial assets		
Cash and cash equivalents	168,134	194,199
Trade and other receivables	69,902	65,919
Available-for-sale financial assets	255,687	133,136
Derivatives	314	–
	494,037	**393,254**
Financial liabilities		
Trade and other payables	44,889	37,837
Derivatives	–	2,577
	44,889	**40,414**

C7. Financial risk management (continued)

(a) Market risk

The Pendal Group may take on exposure to market risks which include securities' price risk, interest rate risk and foreign exchange risk due to the nature of its investments and liabilities. The key direct risks are a result of investment and market volatility which have a resulting impact on the funds under management (FUM) of the Pendal Group. A reduction in FUM will reduce management fee income, calculated as a percentage of FUM, and consequently reduce net profit or loss after tax (Statutory NPAT). The Pendal Group estimates the potential movements in overall FUM, covering all its asset classes, and their impact on Statutory NPAT is as follows:

Profit sensitivity to movement in FUM:

	2018		2017	
	10% increase	10% decrease	10% increase	10% decrease
FUM ($ billion)	10.2	(10.2)	9.6	(9.6)
Statutory NPAT ($'000)	31,154	(31,052)	30,886	(30,892)

The sensitivity calculation is made on the basis of FUM as at 30 September 2018 increasing or decreasing by 10%. The profit or loss sensitivity calculation is derived by holding net flows, foreign currencies and market movements flat for 12 months, maintaining the current management fee margin, and flowing the revenue result through the current operating cost parameters and/or assumptions. Depending on the extent and duration of an actual FUM movement, management would respond with appropriate measures which would change the parameters and/or assumptions and potentially reduce or improve the calculated profit or loss impact.

(i) Price risk

The Pendal Group is exposed to securities' price risk. This arises from both FUM and investments directly held by the Pendal Group for which prices in the future are uncertain. The majority of the Pendal Group's revenue consists of fees derived from FUM. Exposure to securities price risk could result in fluctuations in FUM that would impact the Pendal Group's profitability.

Exposure to price risk also exists from directly held units in funds managed by the Pendal Group (refer C5), which invest in shares in unlisted companies and other investments.

Equity price risk sensitivity

The Pendal Group provides seed capital into a number of funds which invest in regions including the UK, Europe, Emerging Markets, US, Asia (ex Japan) and Australia which may be subject to price volatility. In aggregate, if the price increased or decreased by 10% with all other variables held constant, the value of other components of equity would move by:

	2018		2017	
	10% increase $'000	10% decrease $'000	10% increase $'000	10% decrease $'000
Equity	25,538	(25,538)	13,284	(13,284)

(ii) Interest rate risk

The Pendal Group is subject to interest rate risk, which impacts both the Pendal Group's FUM and the Pendal Group's cash balances and borrowings. This risk is managed through asset/liability management strategies that seek to limit the impact arising from interest rate movements.

Fair value sensitivity analysis

The Pendal Group does not account for any fixed rate financial instruments at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not result in a change of fair value affecting profit or loss.

C7. Financial risk management (continued)

a) Market risk (continued)

Cash flow sensitivity analysis for variable rate instruments

A change in interest rates would be applicable to the Pendal Group's cash balances and borrowings. A change of 50 bps in the average of the effective interest rates over the year ended 30 September 2018 would have increased/(decreased) Statutory NPAT and equity by the amounts shown below. This analysis assumes that all other variables remain constant.

	Profit or loss after tax		Equity	
	50 bps increase $'000	50 bps decrease $'000	50 bps increase $'000	50 bps decrease $'000
2018				
Cash and cash equivalents	632	(632)	–	–
2017				
Cash and cash equivalents	725	(725)	–	–

(iii) Foreign exchange risk

The Pendal Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the Pendal Group's functional currency.

In order to manage the Pendal Group's dividend requirements, a hedging program is in place to hedge a portion of its investment in its offshore operations.

Under AASB 139 any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to any ineffective portion is recognised immediately in Statement of Comprehensive Income within other income or other expenses. Gains or losses accumulated in equity are reclassified to Statement of Comprehensive Income when the foreign operation is partially disposed of or sold.

As at 30 September 2018, the notional exposure of the Company's hedging instruments totalled $76.0 million (2017: $53.7 million).

The following table details the Pendal Group's net exposure to foreign currency as at reporting date in Australian dollar equivalent amounts:

	Financial assets				Financial liabilities			Total
	Cash at bank $'000	Trade receivables $'000	Available-for-sale $'000	Derivatives $'000	Trade payables $'000	Derivatives $'000	Borrowings $'000	Net exposure $000
2018								
GBP	79,229	25,649	52,817	314	(14,547)	–	–	143,462
EUR	44	979	1,415	–	(8,353)	–	–	(5,914)
USD	1,988	22,656	190,811	–	(3,676)	–	–	211,780
SGD	403	198	–	–	(924)	–	–	(322)
2017								
GBP	85,051	27,131	3,857	–	(11,045)	(2,577)	–	102,417
EUR	197	660	8,074	–	(8,457)	–	–	474
USD	428	18,497	116,917	–	(5,288)	–	–	130,554
SGD	463	181	–	–	(646)	–	–	(2)

The table below shows the impact on the Pendal Group's Statutory NPAT and equity of a 10% movement in foreign currency exchange rates against the Australian dollar for financial assets and financial liabilities:

	Profit or loss after tax		Equity	
	10% increase $'000	10% decrease $'000	10% increase $'000	10% decrease $'000
2018				
GBP	210	(210)	14,136	(14,136)
EUR	(733)	733	142	(142)
USD	1,758	(1,758)	19,420	(19,420)
SGD	–	–	(32)	32
2017				
GBP	1,259	(1,259)	10,242	(10,242)
EUR	(760)	760	807	(807)
USD	1,491	(1,491)	11,565	(11,565)
SGD	–	–	–	–

(b) Credit risk

Credit risk is the risk that a counterparty will fail to perform contractual obligations, either in whole or in part under a contract. Credit risk exposures are monitored regularly with all Pendal Group counterparties. The major counterparties are The Westpac Group, Bank of Scotland, the funds for which Pendal Australia and JOHCM are the fund managers as well as outstanding receivables including credit exposures to wholesale and institutional clients. Exposure to credit risk arises on the Pendal Group's financial assets which are disclosed at the beginning of this Note.

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates. The credit quality of financial assets is AA- for The Westpac Group and A+ for Bank of Scotland (2017: AA- for The Westpac Group and A for Bank of Scotland). For wholesale customers the credit quality of the customer is assessed by taking into account its financial position, past experience and other factors.

Credit risk further arises in relation to financial guarantees given to certain parties (refer E1). Such guarantees are only provided in exceptional circumstances and are subject to specific Board approval.

(c) Liquidity risk

Liquidity risk is the risk that the Pendal Group may not be able to meet its financial obligations in a timely manner at a reasonable cost. The Pendal Group maintains sufficient cash and working capital in order to meet future obligations and statutory regulatory capital requirements.

Maturities of financial liabilities

The table below analyses the Pendal Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year $'000	Between 1 – 2 years $'000	Over 2 years $'000	Total contractual cash flows $'000	Carrying amount of liabilities $'000
2018					
Trade and other payables	44,889	–	–	44,889	44,889
2017					
Trade and other payables	37,837	–	–	37,837	37,837

(d) Fair value estimation

The Pendal Group measures and recognises its available-for-sale financial assets (see Note C5) and derivatives at fair value on a recurring basis, and its borrowings and converting notes initially at fair value and subsequently at amortised cost (see Note C6).

The Pendal Group also has a number of financial instruments which are not measured at fair value in the balance sheet. Due to the short-term nature of the current receivables and current payables, the carrying amount is assumed to approximate their fair value.

C7. Financial risk management (continued)

(i) Fair value hierarchy

The Pendal Group classifies fair value measurements using a fair value hierarchy that reflects the subjectivity of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Changes in Level 2 and 3 fair values are analysed at each reporting date and there were no transfers between Levels 2 and 3 during the financial period.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
2018				
Financial assets				
Available-for-sale assets:				
Units held in pooled funds [1]	–	237,530	–	237,530
Escrow units held in pooled funds [2]	–	17,847	–	17,847
Shares in James Hambro & Partners LLP [3]	–	–	210	210
Shares in Regnan-Governance Research and Engagement Pty Limited (Regnan)	–	–	100	100
Derivatives	–	314	–	314
Total financial assets	**–**	**255,691**	**310**	**256,001**
Financial liabilities				
Derivatives	–	–	–	–
Total financial liabilities	**–**	**–**	**–**	**–**
2017				
Financial assets				
Available-for-sale assets:				
Units held in pooled funds [1]	–	129,542	–	129,542
Escrow units held in pooled funds [2]	–	3,295	–	3,295
Shares in James Hambro & Partners LLP [3]	–	–	199	199
Shares in Regnan-Governance Research and Engagement Pty Limited (Regnan)	–	–	100	100
Total financial assets	**–**	**132,837**	**299**	**133,136**
Financial liabilities				
Derivatives	–	2,577	–	2,577
Total financial liabilities	**–**	**2,577**	**–**	**2,577**

Notes:

1. These securities represent shares held in unlisted pooled funds managed by the Pendal Group and are measured at fair value. The fair value is measured with reference to the underlying net asset values of the pooled funds.
2. Escrow units held in pooled funds relate to deferred employee remuneration that is held by the Pendal Group in trust until certain service conditions have been satisfied by the employee. A corresponding employee benefit liability is recognised on the Consolidated Statement of Financial Position.
3. James Hambro & Partners LLP is an independent private asset management partnership business.

C7. Financial risk management (continued)

(ii) Valuation techniques used to derive Level 2 and Level 3 fair values

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. The fair value of financial instruments that are not in an active market are determined using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and do not rely on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3, as is the case for unlisted equity securities.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active, the Pendal Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Specific valuation techniques used to value financial instruments include:

Pooled funds

JOHCM has two open-ended investment companies (OEICs), domiciled in the United Kingdom and Ireland, an open-end registered investment company responsible for the JOHCM mutual fund range and Delaware Statutory Trust, both domiciled in the United States of America. Each investment vehicle is an umbrella scheme with various sub-funds, each with their own investment strategy. Each sub fund had a single price directly linked to the fair value of its underlying investments.

Pendal Australia have unit trusts, domiciled in Australia where units are redeemable at any time for cash based on redemption price, which is equal to a proportionate share of the unit trust's net asset value.

Shares

The shares in Regnan and in James Hambro & Partners LLP are considered Level 3 as the inputs to the asset valuation are not based on observable market prices and are measured at cost, which approximates the fair value of the shares held based on the net assets of the company at balance date. The Pendal Group performs the valuations for Level 3 fair values for financial reporting purposes. The valuations are carried out half-yearly in line with the Pendal Group's reporting dates.

Derivatives

The fair value of derivative foreign exchange forward contracts that are designated as hedging instruments was determined using forward exchange rates at balance date.

(iii) Unobservable inputs

The following table represents the movement in Level 3 financial instruments:

	Shares in Regnan $'000	Shares in James Hambro & Partners LLP $'000	Total fair value – level 3 $'000	Carrying amount $'000
2018				
Balance at the beginning of the financial period	100	199	299	299
Effects of foreign exchange movements	–	11	11	11
Balance at the end of the financial period	100	210	310	310
2017				
Balance at the beginning of the financial period	100	197	297	297
Effects of foreign exchange movements	–	2	2	2
Balance at the end of the financial period	100	199	299	299

D. Employee remuneration

This section provides a breakdown of how the Pendal Group rewards and remunerates its employees, including Key Management Personnel (KMP). Talent management is at the centre of Pendal Group's remuneration systems which are aimed at attracting, retaining and equitably rewarding its highly talented workforce while safeguarding the interests of its clients and delivering returns to shareholders.

Further information on Pendal Group's overall remuneration approach, remuneration of KMP and insights into how the fund managers, sales teams and general corporate employees are remunerated can be found in the Remuneration Report.

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D1. Employee benefits

	2018 $'000	2017 $'000
Annual leave	1,678	1,478
Long service leave	1,535	1,235
Provision for incentives	97,532	103,152
Total current employee liabilities	**100,745**	**105,865**
Long service leave	1,135	1,219
Provision for incentives	5,826	4,411
Total non-current employee liabilities	**6,961**	**5,630**

Included in employee expenses recognised in the Consolidated Statement of Comprehensive Income is an amount related to the Pendal Group's defined contributions to employees' superannuation and pensions of $5.0 million (2017: $4.5 million)

Accounting policy

Employee benefits

Employee benefit liabilities represents accrued wages, salaries, annual and long-service leave entitlements and other incentives recognised in respect of employee services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled and include related on-costs, such as payroll tax.

D2. Share-based payments

(a) Share options and performance share rights

The Pendal Group has four long-term incentive plans which are aimed at driving performance by delivering value only when specific performance hurdles are met or exceeded. Under these plans eligible employees are granted either nil cost options or performance share rights in the Company, which convert to ordinary shares on a one-to-one basis when performance and service conditions are met.

Scheme	Description	Vesting conditions	Vesting period
Pendal Australia Performance Reward Scheme (Pendal Aust PRS)	This scheme gives the employee the right to receive ordinary shares at a future point in time upon meeting specified vesting conditions, with no amount payable. They are granted at no consideration and carry no dividend entitlement or voting rights until they vest, however, there will be a dividend-equivalent payment made for dividends attributable to performance share rights that vest at the end of the performance period.	Continued employment and performance hurdles based on Total shareholder return (TSR), and Cash earnings per share growth (Cash EPS).	Up to 8 years
JOHCM Performance Reward Schemes (JOHCM PRS)	This scheme gives the employee the right to receive ordinary shares at a future point in time upon meeting specified vesting conditions, with no amount payable. They are granted at no consideration and carry no dividend entitlement or voting rights until they vest, however, there will be a dividend-equivalent payment made for dividends attributable to performance share rights that vest at the end of the performance period.	Continued employment and performance hurdles based on TSR, and Cash EPS.	3 years
JOHCM Long Term Retention Equity – nil cost options (LTR – NCOs)	As part of the acquisition of JOHCM, JOHCM fund managers were awarded nil cost options which will vest and be exercised into ordinary shares in the Company, on a one-to-one basis.	Continued employment and FUM retention.	Up to 1 year post fund manager departure
JOHCM Long Term Retention Equity – (NCOs)	Following the JOHCM acquisition additional awards were made. The number of other nil cost options awarded is determined with reference to individual performance each year through the performance period ending 30 September.	Continued employment.	Up to 7 years

Number and weighted average exercise price (WAEP) of nil cost options and performance share rights awarded during the year:

	Pendal Aust PRS		JOHCM PRS		LTR – NCOs		NCOs	
	Rights No.	WAEP $	Rights No.	WAEP $	Rights No.	WAEP $	Rights No.	WAEP $
2018								
Outstanding at 1 October	1,087,115		973,750		5,618,628		6,772,201	
Granted	340,450	8.95	339,829	8.95	–	–	1,482,085	10,69
Vested / Exercised	(407,926)		(318,000)		(681,346)		–	
Forfeited	(142,155)		(383,916)		–		–	
Lapsed	(20,672)		(16,116)		–		–	
Outstanding at 30 September	856,812		595,547		4,937,282		8,254,286	
Exercisable at 30 September	137,910		99,960		681,346		–	
2017								
Outstanding at 1 October	1,565,927		1,033,125		5,618,628		5,393,012	
Granted	399,030	7.31	397,372	7.31	–	–	1,379,189	10.82
Vested / Exercised	(786,895)		(425,792)		–		–	
Forfeited	(90,947)		(30,955)		–		–	
Lapsed	–		–		–		–	
Outstanding at 30 September	1,087,115		973,750		5,618,628		6,772,201	
Exercisable at 30 September	417,882		325,762		681,346		–	

D2. Share-based payments (continued)

Fair value of nil cost options granted during the year

The fair value of the options are valued with reference to the Company's share price at grant date. The fair value at grant date of the nil cost options issued during the year was $10.69 (2017: $10.82). The weighted average remaining contractual life of outstanding nil cost options as at 30 September 2018 was 1.4 years (2017: 2.4 years).

Fair value of performance share rights awarded during the year

The fair value of the performance share rights linked to Cash EPS or revenue targets are valued with reference to the Company's share price at grant date and the fair value of performance share rights linked to TSR are determined using a Monte Carlo simulation pricing model with the following inputs:

- Risk free interest rate 2.15%
- Volatility 32%
- Dividend yield 0%

The fair value at grant date of the performance share rights issued during the year was $6.85 (2017: $5.68) for the TSR performance share rights and $11.04 (2017: $8.94) for the Cash EPS performance share rights. The weighted average remaining contractual life of outstanding performance share rights at 30 September 2018 was 1.5 years (2017: 1.6 years).

(b) Equity grants

The Pendal Group has a number of short-term incentive schemes, under which ongoing equity grants are made to employees and key management personnel. Details of the schemes are as follows:

Scheme	Description	Vesting conditions	Vesting period
Pendal Australia new and existing employee equity grants	New and existing employees may receive one-off equity grants for retention.	Continued employment	Up to 5 years
Pendal Australia Boutique variable reward scheme	Eligible fund managers receive variable remuneration based on a profit share arrangement directly attributed to the boutique, with a portion of the variable reward deferred into ordinary shares in the Company.	Continued employment	Up to 5 years
Pendal Australia Corporate variable reward scheme	Management employees are paid a combination of fixed and variable reward in the form of cash and mandatorily deferred ordinary shares in the Company.	Continued employment	Up to 5 years
Pendal Australia Annual CEO award	To recognise individual achievement, the winner of the Annual CEO Award is eligible to receive $5,000 of ordinary shares in the Company.	Continued employment	Up to 1 year
Sales Incentive Plans	Incentive scheme designed to reward performance of Business Development Managers who work within the Pendal Australia and JOHCM sales teams.	Continued employment	Up to 5 years
JOHCM Fund manager variable reward scheme	Eligible fund managers receive variable remuneration based on a profit share arrangement with a portion of the variable reward deferred into ordinary shares in the Company.	Continued employment	Up to 5 years
JOHCM Corporate variable reward scheme	Management employees are paid a combination of fixed and variable reward in the form of cash and/or ordinary shares in the Company.	Continued employment	Up to 5 years

Number and weighted average grant date fair value of equity grants awarded during the year:

	Equity grants 2018 Number	Fair value 2018 $	Equity grants 2017 Number	Fair value 2017 $
Total	2,235,949	10.69	2,058,802	10.82

Fair value of equity grants awarded during the year

The fair value of the equity grants was estimated by taking the Company's share price on grant date and a discount rate reflecting the expected dividend yield over their vesting periods.

D2. Share-based payments (continued)

(c) Fund linked equity (FLE)

The fund linked equity scheme is for JOHCM fund managers which allow them to convert part of the revenue generated from the growth in FUM related to their investment strategies into ordinary shares in the Company based on a pre-determined formula.

No dividends are payable on the fund linked equity and the fund linked equity does not carry voting rights.

The fair value of the fund linked equity at the time of grant is independently determined based on a market based valuation of the investment strategies.

At the time of conversion, the number of ordinary shares in the Company exchanged for fund linked equity is based on a pre-determined formula which applies a market based measure to the after-tax profits generated by the investment strategies. The ordinary shares in the Company exchanged subsequently have a vesting profile over a period of five years.

The fund linked equity is an equity settled scheme which is not re-measured after grant date. If the scheme was re-measured to reflect current after tax profits generated by the investment strategies, the current value of the fund linked equity issued would exceed the valuation accounted for at grant date.

During the year, new FLE awards were issued to one investment team who had rights to participate in the FLE Scheme. In addition the Company issued 2,304,178 ordinary shares to two investment teams who converted their previously issued awards under the FLE Scheme. The shares issued are subject to vesting conditions of up to five years.

Further details on the FLE Scheme are outlined on pages 36 to 38 of the Remuneration Report.

(d) Expenses arising from share-based payment transactions

Expenses of the Pendal Group arising from share-based payment transactions recognised during the financial year as part of employee benefit expense were as follows:

	2018 $'000	2017 $'000
Total amortisation of employee equity grants	43,303	53,672

Critical accounting assumptions and estimates: Share based payments

The cost of equity-settled share-based payments is measured by reference to the fair value of the equity instruments at the date at which they are granted. The fair value calculation is performed by an external valuation expert and is determined using Binomial/Monte-Carlo simulation valuation techniques and other market based valuation techniques, taking into account the terms and conditions upon which the equity instruments were granted. The valuation methodologies involve a number of judgements and assumptions which may impact the share based payment expense taken to profit and loss and equity.

The tax effect of the excess of estimated future tax deductions for share-based payments over the related cumulative remuneration expense is recognised directly in equity. The estimated future tax deduction is based on the share price of ordinary shares in the Company at balance date in accordance with AASB 112 Income Taxes.

Accounting policy

Share-based payments

Share-based payment compensation benefits are provided to employees via employee share, performance share rights and option schemes. The fair value of shares, performance share rights and options granted to employees for no consideration is recognised as an expense over the vesting period, with a corresponding increase in shareholders' equity. The fair value of shares, performance share rights and options granted without market-based vesting conditions approximates the listed market price of the shares on the ASX at the date of grant. The fair value of shares granted with market-based vesting conditions has been determined using option-equivalent valuation methodologies. The fair value of performance share rights and options granted are measured using Binomial/Monte-Carlo simulation valuation techniques, taking into account the terms and conditions upon which the performance share rights and options were granted.

D3. Key management personnel disclosures

(a) KMP compensation

	2018 $	2017 $
Short-term employee benefits	6,053,908	5,790,661
Post-employment benefits	169,975	152,888
Long-term benefits	32,549	35,234
Share-based payments	1,629,867	(2,795,351)
Total	**7,886,299**	**3,183,432**

(b) Shareholdings

The following table sets out details of number of ordinary shares in the Company held by key management personnel (including their related parties):

	2018	2017
Held at the beginning of the year	1,677,407	2,617,707
Granted as remuneration	141,701	186,211
Purchases	16,694	19,981
Sales	(11,109)	(1,260,535)
Other changes[1]	76,154	114,043
Held at the end of the year	**1,900,847**	**1,677,407**

1. Other changes relate to the conversion of performance share rights to ordinary shares and change of key management personnel during the year.

(c) Other equity instruments

The following table sets out the number of performance share rights and converting notes held by key management personnel (including related parties):

	2018			2017		
	Performance share rights	Performance shares	Converting notes	Performance share rights	Performance shares	Converting notes
Held at the beginning of the year	646,495	–	–	744,168	2,049,230	968,728
Granted as remuneration	312,168	–	–	331,800	–	–
Acquired during the year	–	–	–	–	–	–
Vested during the year	(183,229)	–	–	(262,910)	(204,923)	(968,728)
Lapsed during the year	(9,270)	–	–	–	(1,844,307)	–
Other changes[2]	(363,117)	–	–	(166,563)	–	–
Held at the end of the year	**403,047**	**–**	**–**	**646,495**	–	–

2. Other changes relate to change of key management personnel during the year.

E. Group structure

This section explains significant aspects of the Pendal Group structure including changes during the year.
The ultimate parent entity within the Pendal Group is Pendal Group Limited which is a listed entity in Australia with subsidiaries in Australia and overseas.

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E1. Parent entity information

(a) Summary financial information

	Company	
	2018 $'000	2017 $'000
Profit for the financial year	180,803	151,762
Total comprehensive income for the financial year	**187,338**	**150,693**
Current assets	87,842	116,555
Total assets	**817,041**	**758,100**
Current liabilities	32,657	43,371
Total liabilities	**39,011**	**45,859**
Shareholders' equity:		
Contributed equity	435,785	426,577
Reserves		
Common control reserve	(25,472)	(25,472)
Share-based payment reserve	196,836	179,334
Available for sale reserve	10,889	1,999
Foreign currency translation reserve	(5,383)	(3,068)
Cash flow hedge reserve	10	–
Retained earnings	165,365	132,871
Total equity	**778,030**	**712,241**

(b) Guarantees entered into by the parent entity

The parent entity has guaranteed the obligations of its subsidiary, PIL, to its institutional clients. The effect of the guarantee which is capped at $5 million will provide recourse to capital exceeding the minimum regulatory capital required to be maintained by PIL.

(c) Contingent liabilities of the parent entity

The parent entity has contingent liabilities as outlined in Note F3.

(d) Contractual commitments for the acquisition of property, plant or equipment

The parent entity had no contractual commitment for the acquisition of property, plant and equipment (2017: $nil).

Accounting policy

The financial information for the parent entity has been prepared on the same basis as the consolidated financial statements of the Pendal Group except for the items below.

Capital contributions

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Pendal Group is treated as a capital contribution to that subsidiary undertaking. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity.

Financial guarantees

Where the parent entity has provided financial guarantees in relation to loans and payables of subsidiaries for no compensation, the fair values of these guarantees are accounted for as contributions and recognised as part of the cost of the investment.

E2. Subsidiaries and controlled entities

			Equity holding	
Name	Country of incorporation/ formation	Class of shares	2018 %	2017 %
Pendal Institutional Limited	Australia	Ordinary	100	100
Pendal Fund Services Limited	Australia	Ordinary	100	100
Pendal UK Limited	UK	Ordinary	100	100
J O Hambro Capital Management Holdings Limited	UK	Ordinary	100	100
J O Hambro Capital Management Limited	UK	Ordinary	100	100
JOHCM (USA) Inc.	USA	Ordinary	100	100
JOHCM (Singapore) PTE Limited	Singapore	Ordinary	100	100
JOHCM Funds (UK) Limited	UK	Ordinary	100	–
JOHCM Funds (Ireland) Limited	Ireland	Ordinary	100	–
Pendal Group Limited Employee Equity Plan Trust	Australia	Ordinary	–	–
Pendal Group Employee Benefit Trust	Jersey	Ordinary	–	–

Accounting policy

Principles of consolidation

The Financial Report incorporates the financial statements of the Company and entities controlled by the Pendal Group and its subsidiaries. Subsidiaries are all those entities over which the Pendal Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which the Company obtains control and until such time as control ceases.

In preparing the Financial Report, all Intercompany transactions, balances and unrealised gains arising within the Pendal Group are eliminated in full.

Controlled entities within the Pendal Group conduct investment management and other fiduciary activities as responsible entity, trustee or manager on behalf of individuals, trusts, retirement benefit plans and other institutions. These activities involve the management of assets in investment schemes and superannuation funds, and the holding or placing of assets on behalf of third parties.

Where the controlled entities, as responsible entity or trustee, incur liabilities in respect of these activities, a right of indemnity exists against the assets of the applicable trusts. To the extent these assets are sufficient to cover liabilities, and it is not probable that the controlled entity will be required to settle them; the liabilities are not included in the consolidated financial statements.

Foreign currency translation

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Statement of Comprehensive Income.

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses included in the Statement of Comprehensive Income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income in the foreign currency translation reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the closing rate.

E3. Unconsolidated structured entities

A structured entity is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity and the relevant activities are directed by means of contractual arrangements. The Pendal Group has significant influence over the funds it manages due to its power to participate in the financial and operating policy decisions of the investee through its investment management agreements.

The Pendal Group considers all its fund vehicles to be structured entities. The Pendal Group invests in its own capital for the purpose of seeding fund vehicles to develop a performance track record prior to external investment being received. The Pendal Group also receives management and performance fees for its role as investment manager.

The funds' objectives range from achieving medium to long term capital growth and whose investment strategy does not include the use of leverage. The funds invest in a number of different financial instruments including equities and debt instruments. The funds finance their operations by issuing redeemable units which are puttable at the holder's option and entitle the holder to a proportional stake in the respective fund's net assets.

The Pendal Group holds redeemable units in its managed funds. The nature and extent of the Pendal Group's interests in funds is summarised by asset class below:

	Australian equities $'000	Australian diversified and property $'000	Australian cash and fixed income $'000	International equities $'000	Other $'000	Total $'000
2018						
Cash and cash equivalents	–	–	71,539	–	–	71,539
Trade and other receivables	2,233	–	1,352	31,910	264	35,759
Available-for-sale financial assets	–	–	–	255,377	–	255,377
Total Assets	**2,233**	**–**	**72,891**	**287,287**	**264**	**362,675**
Maximum exposure to loss	**2,233**	**–**	**72,891**	**287,287**	**264**	**362,675**
Net asset value of funds	3,235,807	1,610,023	4,241,378	41,750,159	918,009	51,755,376
2017						
Cash and cash equivalents	–	–	82,814	–	–	82,814
Trade and other receivables	3,130	–	5,456	30,875	–	39,461
Available-for-sale financial assets	–	–	–	132,837	–	132,837
Total Assets	**3,130**	**–**	**88,270**	**163,712**	**–**	**255,112**
Maximum exposure to loss	**3,130**	**–**	**88,270**	**163,712**	**–**	**255,112**
Net asset value of funds	2,924,966	1,224,964	3,890,571	38,334,751	840,750	47,216,002

Unless specified otherwise, the Company's maximum exposure to loss is the total of its on-balance sheet positions as at reporting date. There are no additional off balance sheet arrangements which would expose the Company to potential loss.

During the year the Company earned both management and performance fee income from structured entities. Refer to Note B2 for further information.

E4. Related party transactions

J D Hambro is Deputy Chairman of J O Hambro Capital Management Holdings Limited, a wholly owned subsidiary of the Company, and is also a member and has a significant holding directly and indirectly in James Hambro & Partners LLP (JH&P), of which JOHCM holds a 5.13% interest (2017: 5.13%).

J D Hambro is also a director and substantial holder of Runnall Limited, and a director and shareholder of JH&P Holdings Limited, which are both members of JH&P.

J D Hambro holds an equity interest in Barnham Broom Holdings Limited which holds the trademark licences for the J O Hambro name. The licence for the trademark is for a term of 7 years at a fee of $90,580/£50,000 (2017: $85,543/£50,000), which was extended to 26 April 2019 subsequent to year-end.

F. Other

This section provides details on other required disclosures to comply with the Australian Accounting Standards and International Financial Reporting Standards.

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F1. Intangible assets

	Goodwill $'000	Fund and investment management contracts $'000	Other intangibles $'000	Total $'000
2018				
Net book value as at 1 October 2017	463,341	69,997	1,940	535,278
Additions	–	–	845	845
Foreign exchange gain	13,588	3,994	–	17,582
Amortisation expense	–	(5,735)	(746)	(6,480)
Impairment loss	–	(1,967)	(245)	(2,211)
Net book value as at 30 September 2018	**476,929**	**66,290**	**1,794**	**545,013**
Represented by:				
Cost	*476,929*	*134,988*	*4,710*	*616,628*
Accumulated amortisation and impairment	*–*	*(68,698)*	*(2,916)*	*(71,615)*
2017				
Net book value as at 1 October 2016	462,049	77,620	1,834	541,503
Additions	–	–	755	755
Foreign exchange loss	1,292	216	–	1,508
Amortisation expense	–	(5,639)	(649)	(6,288)
Impairment loss	–	(2,200)	–	(2,200)
Net book value as at 30 September 2017	**463,341**	**69,997**	**1,940**	**535,278**
Represented by:				
Cost	*463,341*	*127,459*	*4,242*	*595,042*
Accumulated amortisation and impairment	*–*	*(57,462)*	*(2,302)*	*(59,764)*

F1. Intangible assets (continued)

Fund and investment management contracts:
Fund management contracts relate to contractual relationships to manage open-ended funds (OEICs). Investment management contracts comprise contractual relationships with individual clients. They were acquired via the business combination with JOHCM and are made up as follows:

	2018 $'000	2017 $'000
Fund management contracts – OEICs	60,056	61,995
Investment management contracts – Segregated mandates	6,234	8,002
Total	**66,290**	**69,997**

The recoverable amount of each fund and management contract has been measured using the present value of future cash flows expected to be derived for each asset. The discount rate used to discount the cash flow projections (post tax) is 12% (2017:12%), based on the cost of capital.

An impairment loss of $2.0 million (2017: $2.2 million) due to the re-measurement of the fund and investment management contracts to the lower of their carrying value and their recoverable amount is included in the depreciation, amortisation and impairment expense in the Statement of Comprehensive Income. Reversal of impairment losses are made in certain circumstances if there has been a change in forecasts and market conditions used in determining the recoverable and carrying amounts.

Goodwill:
Goodwill has been derived from the following business combinations:

	2018 $'000	2017 $'000
Purchase of the investment management business from Westpac effective 19 October 2007	233,300	233,300
Acquisition of JOHCM effective 1 October 2011	243,629	230,041
Total	**476,929**	**463,341**

For the purpose of impairment testing, assets are grouped at the lowest level for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units or CGUs). To determine if goodwill is impaired, the carrying value of the identified CGU to which the goodwill is allocated is compared to its recoverable amount.

Goodwill is allocated to CGUs according to operating segments (refer B1). Goodwill attributable to Pendal Australia and Pendal International is $233.3 million and $243.6 million respectively.

The recoverable amount of each CGU is determined using a 'Fair value less cost of disposal' methodology that utilises cash flow projections (post tax) based on management's best estimates over a 5 year period and then applies a terminal value in perpetuity of 3%. The discount rates used to discount the cash flow projections for Pendal Australia and Pendal International are rounded up to 11% and 12% (2017: 11% and 12%) respectively based on the cost of capital (post tax) for each of these CGU's.

Management is of the view that reasonably possible changes in the key assumptions, such as an increase to the discount rate of 2% or a reduction in cash flow of 10%, would not cause the recoverable amount for each CGU to fall short of the carrying amounts as at 30 September 2018.

There has been no impairment of goodwill during the year ended 30 September 2018. The amount of goodwill relating to the JOHCM acquisition has been translated from the British pound to Australian dollar using the spot rate at 30 September 2018.

Accounting policy

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Pendal Group's share of the net identifiable assets acquired at the date of acquisition. Goodwill is carried at cost less accumulated impairment losses.

Fund and investment management contracts

Fund and investment management contracts acquired as part of a business combination are recognised separately from goodwill. They are carried at their fair value at the date of acquisition less accumulated amortisation and impairment losses. Amortisation is calculated based on the timing of projected cash flows of the contracts over their estimated useful lives, currently estimated at between 5 and 20 years.

F1. Intangible assets (continued)

Accounting policy

Other intangibles

Other intangibles relates to IT development and software costs incurred in developing products or systems and costs incurred in acquiring software and licences that will contribute to future period financial benefits through revenue generation and/or cost reduction. Costs capitalised include external direct costs of service and are recognised as intangible assets. Amortisation is calculated on a straight-line basis between three and five years.

Impairment

Goodwill and other intangibles assets are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired, or whenever events or changes in circumstances indicate the carrying amount may not be recoverable.

An impairment loss is recognised through the Statement of Comprehensive Income for the amount by which the asset's carrying amount exceeds its recoverable amount. Intangible assets other than goodwill are reviewed for possible reversal of impairment losses at each reporting date. Reversals are made in certain circumstances if there has been a change in forecasts and market conditions used in determining the recoverable and carrying amounts.

Critical accounting assumptions and estimates: Intangible assets

The Fund and investment management contracts are initially measured at their fair value. This involves the use of judgements, estimates and assumptions about future fund flows and investment performance, based largely on past experience and contractual arrangements.

The Pendal Group tests whether goodwill has suffered any impairment on an annual basis. The recoverable amount of a cash generating unit (CGU) is determined based on 'fair value less cost of disposal' methodology which requires the use of assumptions. Key assumptions requiring judgement include projected cash flows, growth rate assumptions and, discount rates.

F2. Lease and capital commitments

Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:

	2018 $'000	2017 $'000
Within one year	4,630	4,121
Later than one year but not later than five years	26,711	16,072
Later than five years	21,496	5,248
Total commitments	**52,837**	**25,441**

Lease commitments predominantly represent property leases entered into by the Pendal Group. The Pendal Group had no finance leases as at 30 September 2018.

During the year, a 10 year lease was entered into for a new London office to accommodate recent and future growth in the business. The existing premises are expected to be vacated from 26 November 2018 and remain unlet with a further 24 months remaining before the lease can be terminated. As there is currently no immediate prospect of being let, the Pendal Group has recognised an onerous contract provision of $3.8 million (£2.1 million) for the year ended 30 September 2018, representing the future amounts payable under the existing lease.

As at 30 September, $3.9 million in capital expenditure for the new London office was committed to and is unpaid.

Accounting policy

Leases

When the terms of a lease transfer substantially all the risks and rewards of ownership to the Pendal Group, the lease is classified as a finance lease, all other leases are classified as operating leases. Payments made under operating leases are recognised as an expense on a straight-line basis over the period of the lease, net of any incentives received from the lessor which are deducted from the lease incentive liability in the Statement of Financial Position.

F3. Contingent assets and liabilities

Performance fees

The Pendal Group manages the investments of certain funds and clients for which it may be entitled to receive fees contingent upon performance of the portfolio managed, on an annual basis or longer. Performance fees which are contingent upon performance to be determined at future dates have not been recognised as income or as a receivable at 30 September 2018 as they are not able to be estimated or measured reliably and may change significantly. All fees are exposed to significant risk associated with the funds' performance, including market risks (such as price risk, interest rate risk and foreign exchange risk) and liquidity risk.

Regulatory authority

J O Hambro Capital Management Limited is the subject of an investigation by its UK regulator relating to the eligibility of certain services approximating $9.1 million (£5.0 million) paid for out of dealing commissions between 2006 and 2016. It is possible that, as part of the investigation, the eligibility of other services may also be assessed. This is a continuation of the dialogue arising out of a thematic industry review referenced in Pendal Group's prior period financial reports. The UK regulator has stated that, although an investigation has been commenced, this does not mean that any determination has been made that rule breaches and/or other contraventions have occurred. The likely outcome or consequence of this matter (including any sanctions or penalties) is unable to be reliably estimated at this time.

Capital guarantee

The Company has guaranteed the obligations of PIL to its institutional clients. The effect of the guarantee, which is capped at $5 million in aggregate, will provide recourse to capital exceeding the minimum regulatory capital required to be maintained by PIL.

F4. Remuneration of auditors

(a) Audit and other services – Australia

	2018 $	2017 $
PricewaterhouseCoopers		
Audit and review of Financial Reports	407,798	441,224
Other services	14,000	14,000
Audit of Australian Financial Service Licences	17,364	17,364
Total remuneration for services – Australia	**439,162**	**472,588**

(b) Audit and other services – outside of Australia

	2018 $	2017 $
PricewaterhouseCoopers		
Audit and review of Financial Reports	253,624	234,388
Other services	126,436	–
Financial Conduct Authority client assets report	117,754	83,832
	497,814	**318,220**

(c) Non-audit services

It is the Pendal Group's policy to engage PwC on assignments additional to their statutory audit duties where PwC's expertise and experience is important to the Pendal Group.

(d) Other services to non-consolidated trusts

The external auditor, PwC, provides audit and non-audit services to non-consolidated trusts for which PFSL and PIL act as trustee, manager or responsible entity. The fees were approximately $1,310,759 for the financial year (2017: $1,509,757).

F5. Subsequent events

Subsequent to year end, the licence for the J O Hambro trademark was extended to 26 April 2019.

There is no other matter or circumstance which is not otherwise reflected in this Financial Report that has arisen subsequent to the balance date, which has significantly affected or may significantly affect the operations of the Pendal Group, the results of those operations or the state of affairs of the Pendal Group in subsequent financial periods.

Directors' Declaration

FOR THE FINANCIAL YEAR ENDED 30 SEPTEMBER 2018

In the Directors' opinion:

a) the financial statements and notes set out on pages 61 to 95 are in accordance with the *Corporations Act*, including:

i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements

ii) giving a true and fair view of the Pendal Group's financial position as at 30 September 2018 and of its performance for the year ended on that date; and

b) there are reasonable grounds to believe that Pendal Group Limited will be able to pay its debts as and when they become due and payable.

Note A1 confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The Directors have been given the declarations required under section 295A of the *Corporations Act* by the Group Chief Executive Officer and Group Chief Financial Officer.

This declaration is made in accordance with a resolution of the Directors.

For and on behalf of the Board.

James Evans

James Evans
Chairman

Emilio Gonzalez

Emilio Gonzalez
Managing Director and Group Chief Executive Officer

Sydney, 8 November 2018

Independent auditor's report

To the members of Pendal Group Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Pendal Group Limited (formerly known as BT Investment Management Limited) (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 September 2018 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group's financial report comprises:

- the consolidated statement of financial position as at 30 September 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

Basis for opinion

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of 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 also fulfilled our other ethical responsibilities in accordance with the Code.

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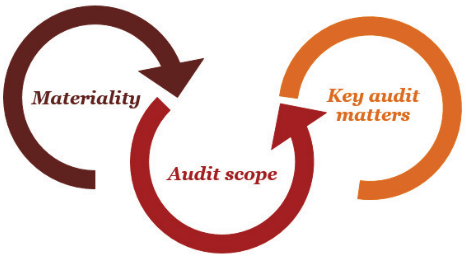
Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates. The Group provides investment management services through its two operating segments comprised of the investment management business in Australia (Pendal Australia formerly known as BTIM Australia) and outside Australia (Pendal International formerly known as BTIM International).



Materiality	***Audit scope***	***Key audit matters***
• For the purpose of our audit we used overall Group materiality of $12.5 million, which represents approximately 5% of the Group's profit before tax. • We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole. • We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is commonly measured. • We utilised a 5% threshold based on our professional	• Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events. • The Group engagement team directed the involvement of component auditors, who performed an audit of the financial information of Pendal International. All other audit procedures were performed by the Group engagement team. • For the work performed by component auditors, we considered the level of involvement we needed to have in their audit work to be able to evaluate whether sufficient appropriate audit evidence had been obtained as a basis for	• Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee: – Carrying value of intangible assets comprising goodwill and fund and investment management contracts – Accounting for employee remuneration schemes and employee incentives – Recognition of fee revenue • These are further described in the *Key audit matters* section of our report.

judgement, noting it is within the range of commonly acceptable thresholds.	our opinion on the Group financial report as a whole. This included active dialogue during the audit and review of their work.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Carrying value of intangible assets - goodwill and fund and investment management contracts *Refer to Note F1 of the financial report* This was a key audit matter as the intangible assets were the largest asset balance ($545 million as at 30 September 2018) and due to the complexity and judgments in the discounted cash flow models used each year by the Group to perform an impairment assessment of the assets. The Group's significant judgements in assessing impairment of goodwill, fund and investment management contracts included forecasting cash flows of the Group for five years for goodwill and between five and twenty years for fund and investment management contracts, which involved making revenue growth rate and discount rate assumptions.	Our audit procedures on the goodwill asset included, amongst others: • Obtaining an understanding and evaluating relevant controls associated with the Group's goodwill impairment process. • Assessing whether the Group's determination of Cash Generating Units (CGUs), which are the smallest identifiable groups of assets that can generate largely independent cash inflows, was consistent with our understanding of the nature of the Group's operations and internal Group reporting. • Testing the mathematical accuracy of the calculations in the discounted cash flow models used in the impairment assessment (the models). • Evaluating the cash flow forecasts used in the models and the process by which they were developed, including comparing the forecasts to historical results and the latest Board-approved management accounts. • Assessing the historical ability of the Group to forecast future cash flows by comparing current year (2018) actual results with the prior year (2017) forecast to consider whether any forecasts included assumptions that, with hindsight, had been optimistic. • Comparing the key assumptions for revenue growth rates and discount rates with market information, calculating what rates would result in an impairment and considering whether these levels were reasonably possible based on our knowledge of the business and historical results. • Performing stress-test calculations of the potential impact from severe market shocks on the impairment of goodwill.

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Key audit matter	*How our audit addressed the key audit matter*
	• Assessing if the disclosures of the goodwill are in accordance with the requirements of Australian Accounting Standards. Our audit procedures on the fund and investment management contracts included, amongst others: • Selecting a sample of contracts based on certain risk criteria and comparing the cash flow forecasts in the discounted cash flow model used to assess impairment to actual contract performance for the year. • Recalculating the amortisation charge for the year for each contract and comparing this to the Group's calculations, checking that the key inputs were consistent with contractual terms. • Varied key assumptions within the model to identify what change would result in an impairment. • Assessing if the Group's disclosures relating to fund and investment management contracts are in accordance with the requirements of Australian Accounting Standards.
Accounting for employee remuneration schemes and employee incentives *Refer to Section D and the remuneration report of the financial report* Accounting for employee remuneration schemes and incentives, specifically Fund Linked Equity (FLE) and share-based payments, was a key audit matter due to the financial significance of the expenses in the consolidated statement of comprehensive income, the nature of the expenses and the level of judgement that is applied in their determination, including assessing the likelihood of specific performance hurdles being met. During the year, the Group issued 2.3 million ordinary shares to satisfy a partial exercise of the equity rights by fund managers under the FLE schemes.	Our audit procedures performed on the FLE expense included, amongst others: • Recalculating the FLE expense and agreeing the key inputs in the calculation (such as the listed share price of the Group, FUM, margin, earnings per share) to appropriate supporting data. • Obtaining an understanding of performance hurdles specified in the FLE agreements and assessing if the calculations of the FLE were consistent with the actual performance. • Assessing the disclosures in the financial report in light of our understanding of the matter and the requirements of Australian Accounting Standards. Our audit procedures performed on the share-based payments expense included, amongst others: • For a sample of employees, compared the number of shares granted in the year to third party confirmations and approval by the Company, and agreeing the grant date share price to published pricing data. • For grants made in prior periods, recalculating the

Key audit matter	*How our audit addressed the key audit matter*
	amortisation expense for the current year based upon the grant date share price and the number of shares. • For a sample of share-based payment expenses recognised during the year, we obtained the relevant employee contract and checked the performance and service conditions were met. • Recalculating the current and deferred tax impact of the accounting entries posted.
Recognition of fee revenue *Refer to Note B2 of the financial report* This was a key audit matter because revenue was the most significant account balance in the consolidated statement of comprehensive income. Additionally, although there was no significant judgement involved in their determination, performance fees fluctuate depending on market performance and some employee incentives are linked to fund performance. Revenue of $558 million comprises a number of streams including, amongst others: • Investment management fees ($504 million) • Performance fees ($54 million) • Transactions fees ($0.3 million) The calculations of these fees were performed by the service providers used by the Group to provide accounting and other services. The terms of these fees were set out in signed agreements and are invoiced regularly throughout the year.	In relation to the key controls over recognising fee revenue for Pendal Australia • We obtained the most recent report issued by the provider of accounting and administration services setting out the controls in place at that service organisation (including those over the recognition of fee revenue). This report included an independent audit opinion over the design and operating effectiveness of those controls. • We assessed the report by: developing an understanding of the control objectives and associated control activities; evaluating the tests undertaken by the auditor; and evaluating the results of these tests and the conclusions formed by the auditor on the design and operational effectiveness of controls to the extent relevant to our audit of the Group. For Pendal International and Pendal Australia, we also performed the following audit procedures, amongst others: • Assessing whether the revenue accounting policy was consistent with the requirements of Australian Accounting Standards. • Agreeing a sample of investment management, performance and transaction fees back to invoices and relevant supporting external evidence, such as underlying fund financial statements and third party calculations (Pendal International). • Recalculating a sample of investment management fees and performance fees.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 September 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors' Report included in the Group's financial report. We expect the remaining other information to be made available to us after the date of this auditor's report, including Chairman's Letter, Group Chief Executive Officer's Report, Strategic Report, Global Operating Review, Investment Strategies Overview, Corporate Sustainability & Responsibility, Shareholder information, Glossary and Corporate Directory.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of the auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are 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 the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material pwc

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/ar1.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Our opinion on the remuneration report

We have audited the remuneration report included in pages 29 to 58 of the directors' report for the year ended 30 September 2018.

In our opinion, the remuneration report of Pendal Group Limited for the year ended 30 September 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Group are responsible for the preparation and presentation of the remuneration report in accordance with section 300A of *the Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with Australian Auditing Standards.

PricewaterhouseCoopers

PricewaterhouseCoopers

V. Papageorgiou

Voula Papageorgiou
Partner

Sydney
8 November 2018