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## Where the world's moving

# ANNUAL REPORT 2018

OFX GROUP LIMITED
ACN 165 602 273

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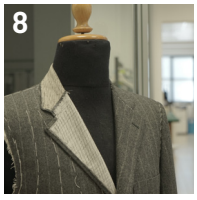
## Client Stories





Hakuba Snow Tours




Benjamin Siggers




Peter Pigott




Flow Hive

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The world we live in is constantly moving.

And with it, we're moving to embrace increasingly globalised ways of living and working, where people are frequently engaging across borders, for business or personal reasons.

As we evolve, some brands have been paying attention, adapting their services to help to facilitate our global lifestyles, seamlessly. OFX is one of these brands.

We help people move money around the world, quickly, safely and efficiently, with competitive exchange rates and low fees. We focus on doing one thing, and doing it exceptionally well. Our support team is highly experienced, culturally relevant and always available, infusing confidence with our clients in our ability to consistently deliver.

For 20 years, we've been helping international citizens and businesses participate in the global economy. The world will keep moving, and so will we.

# Our Story



Since 1998, we've been helping consumer and corporate clients



We were founded by two banking entrepreneurs who were inspired to drive change



Driven by the insight that clients deserve a 'fair go' when it comes to foreign exchange, we have truly Australian roots, but our business is global




While our HQ is in Sydney, we have offices in Auckland, Hong Kong, London, Singapore, San Francisco and Toronto




We've been innovating the foreign exchange market for two decades, and we work collaboratively with our banking partners to deliver a better experience



Our individual consumer clients use us for transfers including immigrations, property investment and travel




Our corporate clients include importers, exporters, online sellers transacting in global currencies, and businesses with growing global interests

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# Hakuba Snow Tours

## FROM SPREADSHEETS TO SNOWFIELDS

Queenslander Matt Gillespie, 30, turned his back on life as an accountant to become a barista. When that plan went surprisingly well, he sold the coffee shop and – following the purchase of a Japanese pension – set up Hakuba Snow Tours, originally built as part of the Nagano Olympics accommodation in October 2016. The company provides ski guides and all-inclusive accommodation and dining in one of the most accessible ski-in, ski-out locations in the Hakuba Valley.

Matt teamed up with OFX as an international currency partner early in his Japanese adventure. With multiple AUD – JPY transactions to plan in the early days, he knew that it was important to be savvy when it came to moving his hard-earned funds. "Working as an accountant, I knew that the banks weren't going to give me the best deal on the foreign exchange front, so I looked to OFX. Their platform integrates with the accounting software I use, so it was all seamless – easy. I calculate that I've saved at least A$50,000 over 18 months by using OFX compared to bank rates. When you're setting up in business, that kind of money makes a big difference."

Going into 2018, Matt's business is debt free and he has his sights set on acquiring the block of land next door, to further expand his business. He works during the winter season and spends the Japanese summer months chasing the snow on the other side of the globe.



**"I knew the banks weren't going to give me the best deal on foreign exchange, so I looked to OFX."**

*Matt Gillespie*

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# Our Global Footprint

## Our international offices enable us to deliver real-time client service

### How we make international payments a local experience

**24/7 Client Support Team**

**Competitive rates – usually up to 70% better than bank rates***



**Average savings based on published rates of ANZ, Westpac, NAB and CBA on a single transfer of AUD $10,000 to USD between 15.3.18 and 23.4.18 excluding weekends.*

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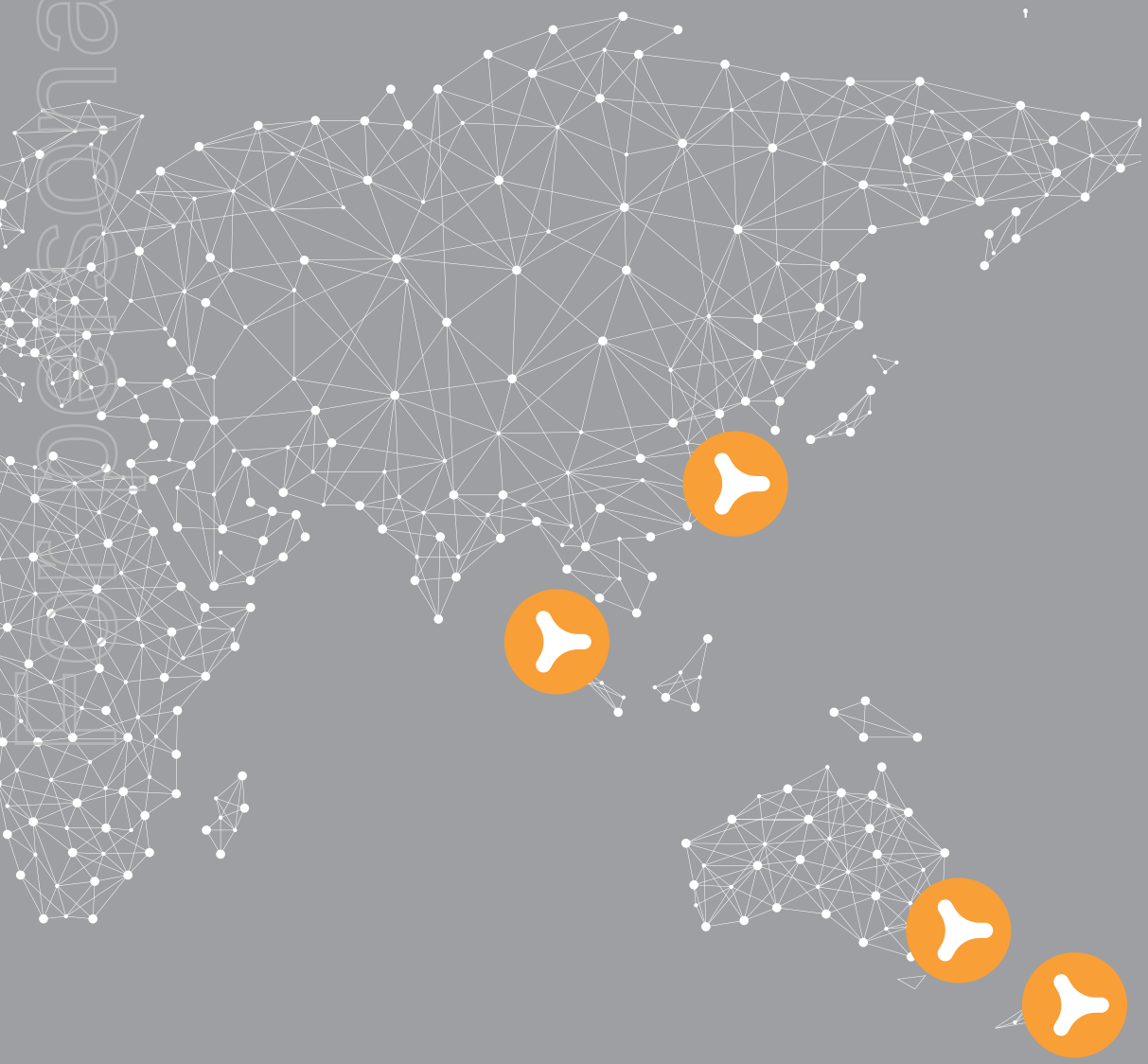
**Knowledgeable and local service**

**Rapid transfers – most transfers clear on the next business day**

**Secure network – our proprietary bank to bank network helps keep money**



# Setting the Benchmark in Client Care



"I run a UK business from Cape Town, and regularly transfer funds from the UK to ZA (South Africa) using using OFX. This has worked well for over 14 years. We have just bought a 45ft Lagoon Catamaran in Spain, and paid the owners in Australia, using OFX. As you read this, my family and I (including the kids and two small dogs) are leaving to sail around the world, over three years. We plan to start a blog –'two dogs on a cat!'"

*Jason Ball, UK*

"Whether it's for transferring funds to my children living overseas, paying a tour operator for my next exotic holiday abroad, investing overseas or simply reimbursing a friend for an expense (e.g. for a wreath or a wedding gift), we all need a cost-effective and reliable forex dealer. OFX is one."

*Gabriel Lee, Australia*





"In 2016, as a family, we moved to the south of Spain. OFX has been a lifesaver. Not only a more convenient alternative to the big banks, it literally saved us thousands of Euros in fees, commissions and unfair exchange rates. OFX has actually paid for our summer holidays in France with what they saved us! Thank you, OFX."

*Kfir Kalish, Spain*

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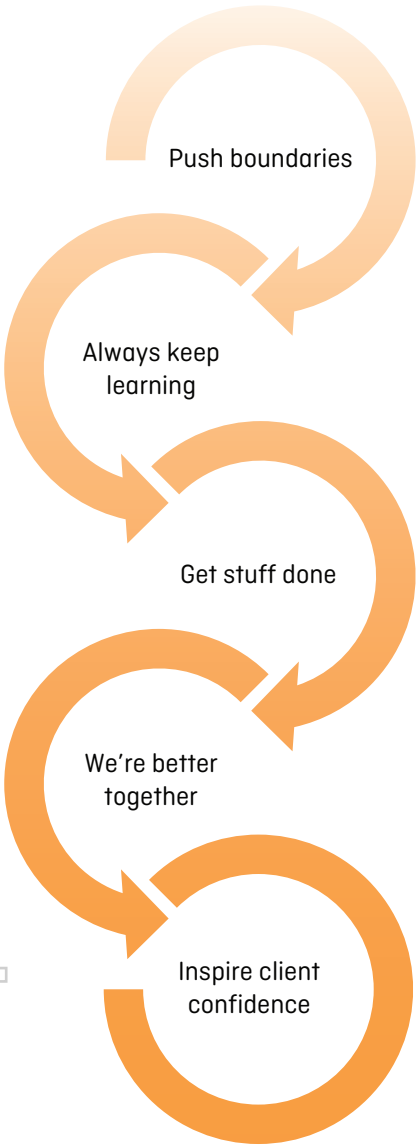
# How Our People Demonstrate Our Beliefs

Our team of over 340 employees enjoys a diverse, driven and collaborative culture where they are empowered to perform at their best. Here are some of the ways our team has brought our company values to life over the past 12 months:




## Push boundaries



Sonam Khedup in our Canadian office saw an opportunity to provide high net worth clients with an improved experience, and went for it. His work streamlined identification verification processes, making registration quicker. Twice as many high net worth clients were able to register and deal within one month. We are now also rolling this out globally. This was made possible by the desire to push boundaries, and the project was well supported by local leadership and operations teams.

## We're better together

More than 30 OFX employees from across the organisation worked collaboratively to develop our Global Currency Account. Together, they delivered an innovative and future-focused platform for our clients, wherever they're located. Our Global Currency Account demonstrates our whole organisation's shared commitment to our clients.

"Clients asked, we listened, and driven by client feedback the OFX Global Currency Account has gone live as an evolution of the online sellers product. It is the accumulation of a lot of hard work across the entire business from Legal, Compliance, Risk, Operations, Finance, Sales, Marketing, Onboarding & Technology. Great work team!" – Matthew Littlejohn, Product Owner, Global Currency Account

## Inspire client confidence

Putting our clients at the centre of what we do is a value that has come to the fore over the last 12 months, with great personal advocacy from our CEO. Feedback from clients is overwhelmingly positive.

"They say how you react to problems/complaints defines you & your company. I got on LI (Linked-In) to complain about how OFX wouldn't allow INAMO to transfer money to the US. Lynda Coker GAICD gets on and intro's CEO Skander Malcolm who gets his team onto the problem. Outcome: Within 48 hours funds transferred – awesome customer experience as well. You could hear the culture in the emails so thanks to you both." – Peter Colbert, founder & CEO of INAMO

"I'm all but speechless when it comes to OFX. EVERY time that I call for support, assistance, information, the conversation ends with me smiling, assured. Correspondence is prompt, courteous, professional, human. OFX is nothing short of BRILLIANT! OFX makes me feel secure and important. 'Life' should run as magnificently as OFX. I am absolutely grateful."

*Judah Kessler from Vermont, USA, on our North American team's work*

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# Benjamin Siggers

## HANDMADE MENSWEAR THAT TRULY MEASURES UP TO SUSTAINABILITY

Benjamin Siggers offers bespoke suits, handmade in Italy by traditional producers. The company was co-founded by Matthew Benjamin and James Siggers in 2017 with a clear ambition to tackle the hidden environmental cost of fashion by providing a sustainable and stylish alternative. The brand uses organic cotton and invests a percentage of profits into clean water projects in developing countries.

The company's clients are predominantly based in London and Dubai, so the brand takes payments in both GBP and AED. Furthermore, the company's suppliers are all based in Italy and paid in EU, so it's crucial that these international payments are fast, easy and reliable.

Before working with OFX, Matthew and James struggled to make payments to Italy. Every payment had to be transferred manually, to and from the founders' personal bank accounts. This meant making multiple transactions to each Italian supplier, and cost the founders precious time during the early days of their business, as well as additional fees.

"Our clients expect premium service. When international payments are delayed, it delays deliveries", explains Matthew Benjamin. "This problem was resolved on the very first day that we started working with OFX. Since then, we've saved ourselves a whole lot of time and aggravation – and with international payments now taken care of, we now have more time to focus on building our business."



**"When international payments are delayed, it delays deliveries", explains Matthew Benjamin. "This problem was resolved on the very first day that we started working with OFX."**

*Matthew Benjamin*

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# Where We're Focussing Our Efforts

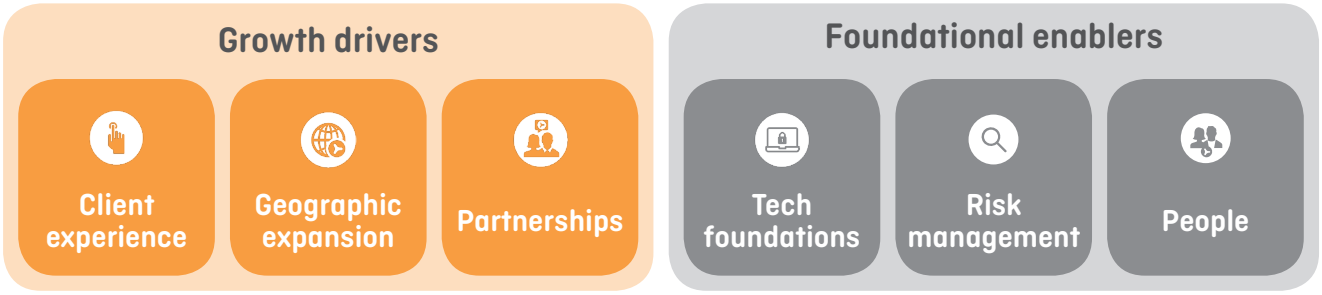
During 2018, we completed a detailed audience research study to gain a deeper understanding of our clients. This divulged valuable insights around what they need and want from money transfer providers; their priorities and expectations. What we've learned will influence not only our marketing, but also our tech and product roadmap, so that we can keep improving and evolving our services in ways that are timely and relevant.

With all global offices now operating under the single OFX brand, it has also been time to take stock of our place in the market, and identify what we want to be known for. At our core, we are a strong service company, and our clients tell us this is why they keep coming back. In 2019, we will push to gain more brand consideration among existing stakeholders and new audiences.

Working from our solid foundations, our technology platforms offer our clients a simple digital pathway to access our services; our compliance framework ensures that client money is kept safe; and our 'always on' team, accessible 24/7 around the world, underpins the consistency of service.

Looking forward, our core growth driver lies in evolving the client's overall experience, from the first touch to funds being deposited. The needs of our consumer clients and corporate clients are varied, and we need to further customise our offerings for each. We will also continue to expand globally, with the recent opening of our Singapore office in April 2018 marking an opportunity to expand our Asia business. North America is at the heart of our global expansion investment this year. Partnerships will also be a driver of our growth, as we build strong alliances in the Fintech ecosystem.

## Strategic growth pillars



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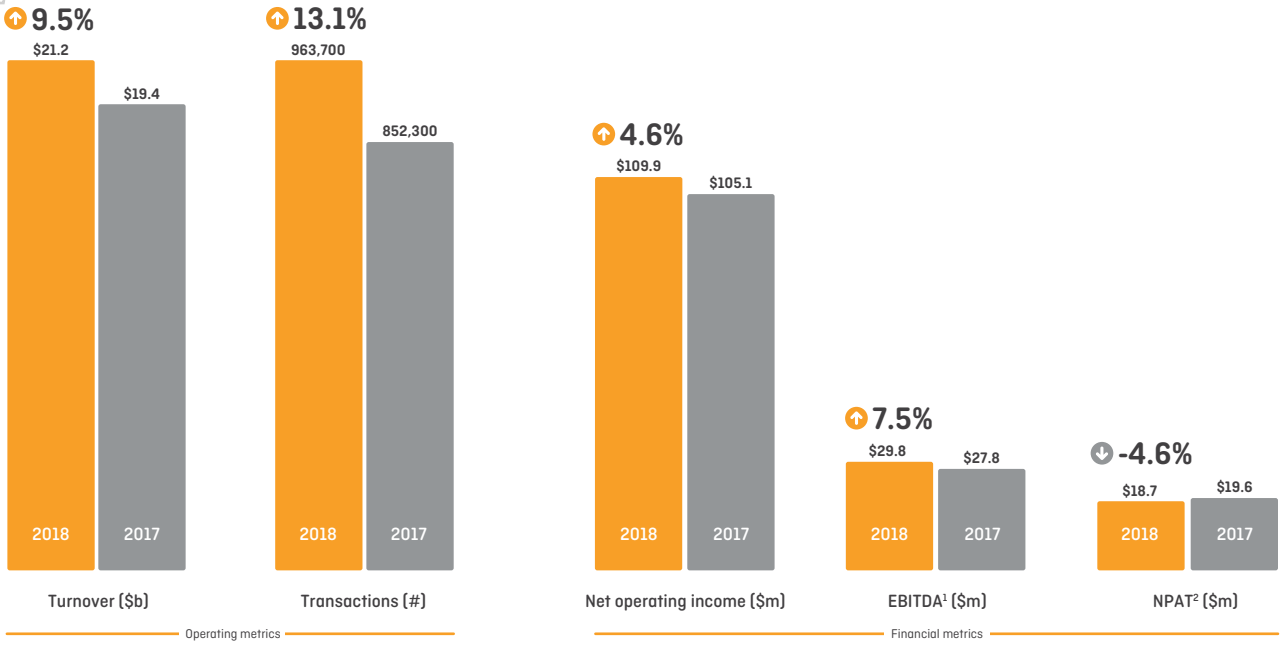
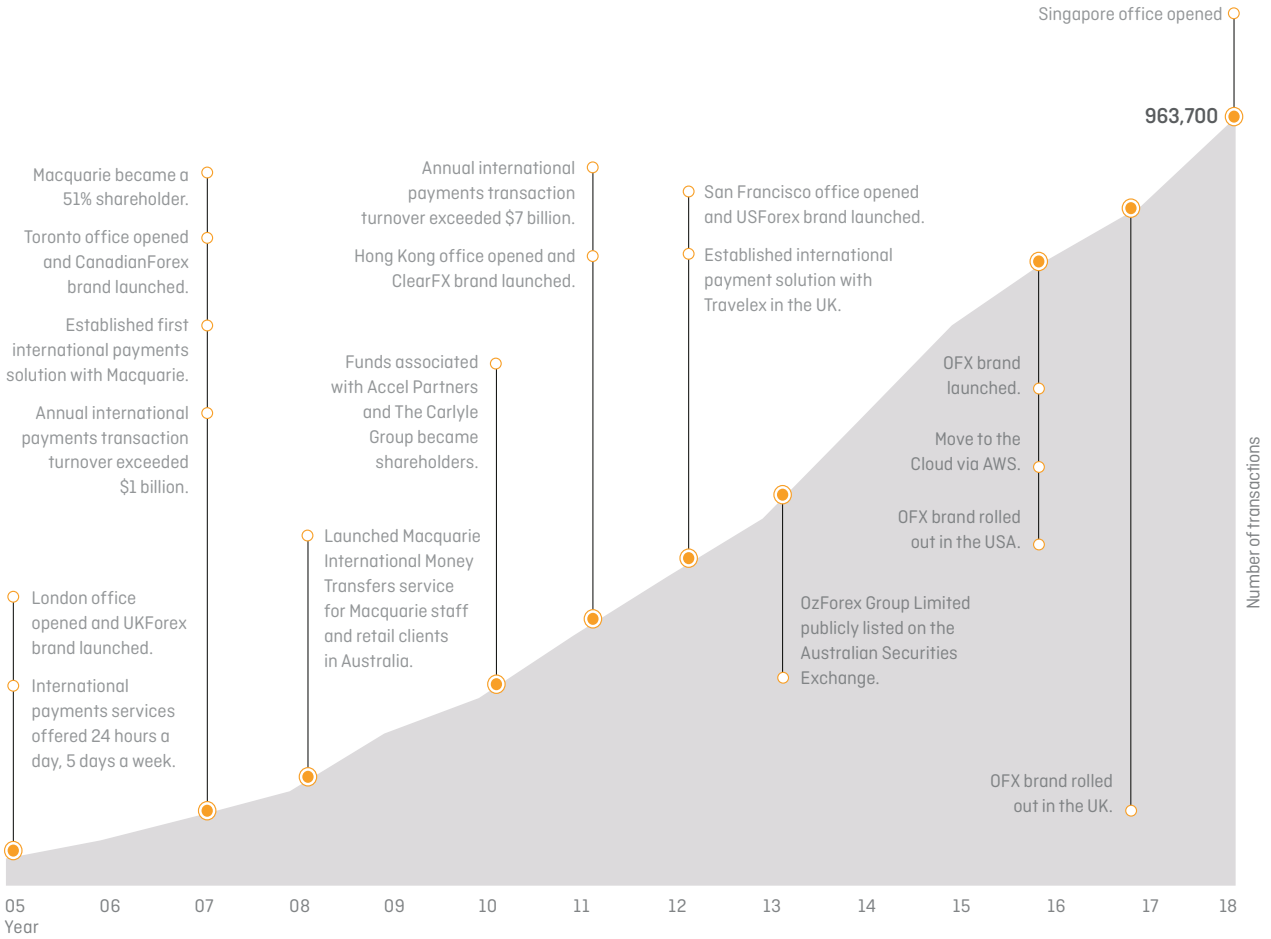
# Financial Highlights




*1 Earnings before interest, tax, depreciation and amortisation*
*2 Net profit after tax*

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# Chairman's Letter



Fellow Shareholders,

It has been a solid year for OFX. We're pleased that we were able to deliver on the commitments we made to you last year. We appointed a number of new executives throughout the year which included; Selena Verth (Chief Financial Officer), Wendy Glasgow (Chief Technology Officer), Mike Kennedy (President, North America) and Mark Shaw (Chief Risk Officer). We also welcomed Lisa Frazier as a Non-Executive Director. Lisa has deep expertise in technology and has worked in fast-growth, disruptive environments. It is also great to have Lisa, who lives in the San Francisco area of the United States, on the ground in our key growth geography. We believe that we have the right people at the executive level to drive and deliver the strategic growth objectives of the company.

You may recall that, upon Skander Malcolm's appointment, the Board and management team agreed that we would improve our execution. To that end, the Board asked Skander and the executive team to:

- Intensify our focus on the execution of the projects we were working on, reduce the number of projects and prioritise them;
- Drive the business to deliver positive operating leverage by growing revenue faster than operating expenses;
- Develop a better picture of the existing and prospective client drivers, so that we can grow confidently;
- Deepen our knowledge of the highly fragmented and fast moving payments market and develop a strategy based on this work and the client insight analysis; and
- Maintain our high quality risk management and compliance standards.

I am pleased to say that the team executed well against all of these key criteria. Skander will outline these achievements in his letter to you.

Another key objective was to improve the working relationship between the Board and the management team, by building a culture of transparency, trust, candour, contestability and foresight. During the year, the Board and management have undertaken a number of joint activities to achieve improvement in this area.

Our goal was to return OFX to being a sustainable growth company, in an environment of changing and intensifying competition. For the years 2011 to 2013 the sum of all the private funding to cross border fintechs was $18.8 billion. For the years 2014 to 2016, this increased to $67.8 billion, reflecting the huge amount of investment in our competitive space.

A lot of these private equity and venture capital-funded competitors are chasing client growth with a view to selling their companies in the short term with a valuation based upon client numbers. At OFX, we know that not all clients are the same. We want higher lifetime value clients who value an easy-to-use digital process but also know there is a helping hand when they need one.

We are focusing on building an investible company in the cross-border payments space. One where we grow active clients who do more frequent, higher value transactions with us over time, where we are able to maintain reasonable margins as well as strong risk management and compliance standards, and where we can make prudent investments to deliver sustainable earnings growth for our shareholders.

We believe we have a strong, client focused culture at OFX. Our culture is a tangible key to success for our business. OFX is a company where if you deliver financial results but you behave in a way that is not aligned to our values, you will not be rewarded. In fact, you will be coached on how to improve your values, or shown the door. We are fortunate to have a hugely committed group of employees, in whom we continue to invest to enhance their capabilities and help them grow with OFX.

Finally, I want to thank our people all over the world for their contribution to what has been a successful year for OFX. Your efforts and your commitment to our clients have positioned us well for the future.



Steven Sargent
Chairman

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# CEO's Letter



I'm pleased with the progress we have made in 2018. As I set out in last year's letter, putting the client at the heart of our thinking, executing well, investing selectively, and being strong risk managers were the priorities for us, and have driven the progress we made.

Our progress can be measured across a number of areas:

- Net operating income (NOI) growth of 4.6%, with the final two quarters being 7.1% and 11.5%, driven by strong performances in our corporate business and North America and Asia;
- Client experience: Net Promotor Score (NPS) scores at a global level of 59, our repeat clients (those 12 months or more with us) delivering over 70% of our total revenue; and
- Our technical foundations overhaul continued.

We added over 50 new product features, launched our new website in Australia, as well as several new versions of our app globally, and made considerable progress in our technical 'backbone', which we will continue to build on in 2019.

It was also a year of change in our people and teams. We farewelled some 'legends' of OFX, but we also added some very strong talent across the company, including at the executive level. I am more confident in our capabilities now than I was 12 months ago, and am looking forward to drawing on this confidence, and working with all of our people to execute our plans for 2019.

## 2018

In addition to the improvements we drove in our client experience, I was pleased with the profit outcomes we delivered in 2018, particularly the revenue growth, the strong cost management, and driving positive operating leverage. This was a core commitment from us to our investors, and it was important to me that we delivered. Our performance highlights included:

- NOI growth in every quarter, but particularly the way it built from -7.4% in Q1 to 11.5% in Q4 when comparing to prior comparative periods. In 2018, we exceeded $10 million in fee and trading income in a month four times. Prior to this year we had only done it twice in our history – and both during periods of extreme volatility. We have developed momentum, and we have done that without the historic benefit of volatility in the markets.
- Our cost management: we grew cash operating expenses from $77.4 million to $80.1 million, or 3.5%, which is slower than in 2017 or 2016, and yet grew our revenue faster. Our discipline and visibility to cost has grown each quarter, and we feel better informed today about where we can add cost to drive returns than we did 12 months ago.
- Our marketing execution was strong. We grew registrations 6.0%, but we did that whilst delivering decreases in cost per registrations (our marketing investment was broadly flat) and whilst growing the value of each new client.
- Our cost per transaction declined by 5.0% as we worked with our banking partners to optimise the transaction costs and built better electronic and digital payment capabilities. We also added speed on behalf of our clients, reducing time to settlement in key currency corridors.
- Active clients grew from 156.7 thousand to 161.9 thousand, a growth of 3.3%.
- NOI margin remained steady at 52bps.

In addition to these performance highlights, I especially liked the progress in the corporate business globally, as well as the growth being driven by our North American and Asian teams. It was pleasing to get the Australian business momentum in Q3 and Q4. Further, the efforts to re-engage our inactive clients have been rewarding – in one campaign we even managed to re-activate a client who had been inactive since 2003!




*Raising money for Breast Cancer Awareness day*

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Our risk management remained strong – we invested in further people and tools, increased visibility and attention in a couple of areas, and extended our engagement with key regulators globally. We saw no major breaches in 2018, continuing our strong track record. We see our risk management culture as being both critical and a point of differentiation, and we will not be complacent here. When we do it well, we drive both trust and speed – two things our clients expect and appreciate.

The year was not without its challenges also. We lost some real talent and experience at the executive level. We saw competition intensity grow in all our key markets. Regulatory expectations grew, and the industry paid record fines for breaches. We didn't execute everything we wanted in terms of product and technical delivery. And we can always do more for our clients during their client journeys.

However, it was a good year on balance, with teams operating well, good execution, growing clients, and pleasing economic delivery.

## 2019

In 2019 our growth priorities are clear – improving the client experience, continuing our geographic expansion, (with an emphasis on North America and Asia), and building partnerships to help us grow and execute better. We believe these growth levers can only be accessed if we take care of the fundamentals that underpin our company – our technological foundations, our risk management, and our people.

Our investment in the business, funded by strong cash generation, will grow. We are grateful for the strong support from our clients, employees, Board, and investors to invest in these areas. My assessment of the size of the opportunity is unchanged – it is large – and my enthusiasm to unlock it is undimmed.

Finally, a huge thank you to the OFX team. We have delivered a great client experience, worked tirelessly across the world to deliver better cost outcomes and been creative in accessing new growth; and the combination of high integrity and great team spirit has been inspirational.



Skander Malcom
Chief Executive Officer and Managing Director

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# Peter Pigott

## A LIFE-LONG PASSION FOR SCULPTURE

Thirty years ago, Peter Pigott (now 82) and his wife Ann walked into an art gallery in London. He came across a bronze sculpture of a young woman and was 'blown away' by its realism. Making enquiries, he discovered that Judith Holmes Drewry was the sculptor, and she worked with her husband, Lloyd Le Blanc, another famous sculptor. They used the traditional 'lost wax' bronze casting process, a method that has been used for over 5,000 years.

Peter and Ann drove to Leicestershire directly from London, and met Judith and her family. Peter used this meeting to pitch for the role of Australian sales and distribution representative for the artists. His first order was placed for two container loads of their work and at a launch party at the Pigotts' heritage property at Mount Wilson (in Sydney's Blue Mountains) in 1995, they sold over $300,000 worth of art in one day.

The Pigotts have used OFX to fund the import of these valuable bronze artworks, transferring AUD to GBP on a regular basis. In addition to existing artworks, custom sculptures in the likeness of children have proved popular with Australian clients. Peter explained, "We really like using OFX, their rates are terrific and the friendly service is second to none. I am ancient and they call me and walk me through the process so patiently. Every time, it's simply a joy to deal with them."

The Mount Wilson property is the perfect enchanted garden setting to display works by two of the top bronze portrait sculptors in the world. The gardens were originally developed in 1877 by Charles Moore, the Director of the Sydney Botanic Gardens. There is a sanctuary on-site for the once thought extinct parma wallaby – a miniature breed of wallaby that still exists in Tasmania and some isolated pockets of NSW.

**"OFX's rates are terrific and the friendly service is second to none. It is a joy to deal with them."**

*Peter Pigott*

*"Sophie" by Judith Holmes Drewry*
*Image credit: Le Blanc Fine Art*

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# Executive Team



*From left to right: Selena Verth, Rebecca Shears, Skander Malcolm, Adam Smith, Mark Shaw, Freya Smith, Wendy Glasgow, Mike Kennedy*

## SKANDER MALCOLM

**Chief Executive Officer and Managing Director**

Skander joined OFX Group Limited (OFX) in February 2017.

He has more than 23 years' experience in financial services including payments technology platforms in both established and emerging markets. As President and CEO of GE Capital (A&NZ), he led a team of more than 4,500 employees with an emphasis on delivering sustainable growth and operational excellence. While in the UK he launched the country's first and largest digital personal loan business, Hamilton Direct Bank, which grew to more than £3 billion (in assets) in its first five years.

He holds a Bachelor of Economics from the University of Sydney.

## SELENA VERTH

**Chief Financial Officer**

Selena joined OFX in October 2017.

Selena has more than 17 years' experience in finance, analytics, M&A and risk across various roles. Her most recent role was Head of Finance – Platforms, Superannuation and Investments and Head of Wealth Analytics and Insight at BT Financial Group Australia. Prior to this, Selena held a number of senior financial roles within GE, including Leader, Financial Planning and Analysis and Commercial Finance for GE Global Growth and Operations, A&NZ; and Director of Business Development for GE Australia.

Selena has a Bachelor of Commerce and an Executive MBA from the Australian Graduate School of Management and is a Certified Practising Accountant.

## ADAM SMITH

**Chief Operating Officer**

Adam commenced his role as Chief Operating Officer at OFX in October 2015.

Adam has more than 20 years' experience in top tier financial institutions, most recently as Co-Head of ANZ ETFS. Prior to this, Adam has held a number of commercial and operational positions within ANZ Global Markets, Macquarie Group and Deutsche Bank. Adam combines a strong background in financial markets products with an extensive knowledge of business support functions such as product development, technology, operations, risk and finance.

Adam has a Bachelor of Economics from the University of Sydney and a Master of Business (Finance) from the University of Technology Sydney.

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## WENDY GLASGOW
### Chief Technology Officer

Wendy joined OFX in February 2018.

Wendy has over 18 years' experience in the technology industry, leading teams to deliver business critical online products to Australian and international markets.

Wendy has led global product and engineering teams at organisations including AOL UK, Microsoft International and most recently spent over five years at Google leading Data Platforms and Consulting across APAC markets. Her focus at Google included launching Google's advanced data product, Ads Data Hub, while working with top partners developing and implementing integrated data, analytics and marketing strategies focused on delivering business growth.

Wendy holds a Bachelor of Information Technology and a Bachelor and Graduate Certificate in Laws from Queensland University of Technology.

## FREYA SMITH
### Chief Legal Officer and Company Secretary

Freya joined OFX in September 2015.

She has over 10 years' experience in legal practice and governance. Freya holds a Bachelor of Commerce and a Bachelor of Laws (Honours), a Master of Laws (High Distinction) and a Graduate Diploma of Applied Corporate Governance from the Governance Institute of Australia. Freya is admitted in the High Court of Australia, the Federal Court of Australia and the Supreme Court of New South Wales and is a member of the Association of Corporate Counsel and an Associate of the Governance Institute of Australia.

Freya is also currently a Non-Executive Director and Chairman-elect of the Sydney Fringe Festival.

## REBECCA SHEARS
### Chief Marketing Officer

Rebecca commenced her role as Chief Marketing Officer at OFX in August 2016.

Rebecca has more than 20 years' experience in marketing roles both in the UK and in Australia. She started her career at Unilever and has since held positions at British Telecom, Telstra and T-Mobile. Her most recent role was Head of Marketing for the UK and Ireland at HP Inc, focusing on increasing brand consideration, market share and driving digital transformation for its e-commerce business across Europe.

Rebecca holds a degree in Business and Commerce from Notthingham Trent University and a Postgraduate Diploma from the Charted Institute of Marketing.

## MIKE KENNEDY
### President, North America

Mike joined OFX in September 2017.

With 20 years' financial services and payments experience, Mike is an accomplished executive in both large corporate environments and early stage start-ups. Most recently, Mike was the co-founder and CEO of the high-growth digital payments company, clearXchange (now Zelle) – the largest bank-focused digital P2P payments network in the USA. Mike has also held a number of senior positions with McKinsey & Co and Wells Fargo, including Executive Vice President, Head of Innovation & Payments Strategy, Senior Vice President and Head of Group Strategy and Implementation within Wells Fargo's Wealth Management Group.

Mike has a Master of Business Administration, with distinction, from Harvard Business School and a Master of Science, Industrial Engineering and a Bachelor of Science, Industrial Engineering, with distinction from Stanford University.

## MARK SHAW
### Chief Risk Officer

Mark joined OFX in January 2018 as Chief Risk Officer. He is responsible for growing and maintaining the trust of OFX's clients and stakeholders through effective risk and compliance management.

Mark brings with him a track record in senior risk, compliance and regulatory affairs roles, gained at leading Australian and New Zealand banks over the past 15 years. Most recently he led the Operational Risk & Compliance function for the Australia Division at ANZ. Mark held several other senior compliance roles within ANZ, including Head of Compliance in both Australia and New Zealand.

Before joining ANZ in 2007, Mark worked at Suncorp managing the group's governance, policy and regulatory training frameworks, and overseeing compliance and operational risk teams across Australia. Mark holds Bachelors degrees in Law and Computer Science from the University of Queensland and has also completed all three levels of the Chartered Financial Analyst (CFA) program.

Before joining the world of finance, Mark was a professional rugby player, playing for the European club Calvisano S.R.L for the 2001/02 season and representing Italy at an Under 19 level.

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# Flow Hive

## THE BYRON BAY ONLINE SELLER DISRUPTING THE BEEKEEPING INDUSTRY

Passionate hobbyist beekeepers, Byron-based father and son duo Cedar and Stuart Anderson became frustrated with the age-old problem of extracting honey from the hive, without killing too many bees – or getting stung! Cedar explained, "You'd have to suit up, smoke the bees, crack the hive open, lift out the frames, sweep off the bees, transport the frames to your honey shed, uncap each frame with a hot knife, stick the frames in a centrifuge, spin out the honey, filter out the wax and bee bits, fill your jars, take the empty frames back to the hive, open the hive again to put them back in, then clean everything up."

Following a decade of work, the Andersons have invented the beekeeper's dream – a custom built hive with patented technology, featuring taps that simply release the honey from specially designed 'flow' frames. In February 2015, an Indiegogo campaign saw Flow Hive secure over $3.3 million in start-up funds, representing the sixth most successful crowdfunding campaign ever run.

Flow Hive is now selling its revolutionary hives online, and shipping its bee friendly hives to every corner of the world. OFX is assisting the business with its foreign currency management, including setting up a Global Currency Account that channels funds from Amazon and PayPal. Companies selling online and converting back to domestic currencies often use OFX's limit order function, to help them select an exchange rate level at which their funds will automatically debit.



**"OFX is assisting us with setting up a virtual US dollar account [Global Currency Account] to channel funds from online marketplaces."**

*Cedar Anderson*

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# Directors' Report

For the financial year ended 31 March 2018



*From left to right: Steven Sargent, Douglas Snedden, Melinda Conrad, Skander Malcolm, Grant Murdoch*

The Directors of OFX Group Limited (OFX, the Company), submit their report (including the Remuneration Report), the Statement of Comprehensive Income and the Statement of Cash Flows for the year ended 31 March 2018 and the Statement of Financial Position as at 31 March 2018 of the Company and its subsidiaries (the Consolidated Entity, the Group), the auditor's report, and report as follows:

## 1. Directors

The Directors of the Company as at 31 March 2018 at any time during or since the end of the financial year are:

### STEVEN SARGENT

Chairman – BBus, FAICD, FAATSE

**Member of the Audit, Risk and Compliance Committee and the Remuneration and Nomination Committee**

**Age:** 57 years

**Appointed:** 4 August 2016

**Independent Director**

**Residence:** Sydney, Australia

Steve joined OFX in August 2016 and has over 36 years' global corporate experience in industries including banking, financial services, mining and energy. Steven's prior professional experience includes 22 years at General Electric, including a number of leadership positions as President and CEO GE Capital Australia and NZ and President and CEO GE Capital Asia Pacific. Steve was appointed Vice President and Officer of General Electric Company in 2008 and was a member of GE's Global Corporate Executive Council, the first Australian to ever be appointed to such positions in GE's history.

**Current directorships**

**Director:** Origin Energy Limited, Nanosonics Limited, Lumitron Technology Inc., The Great Barrier Reef Foundation, Chair of the Origin Foundation.

**Other:** Fellow of the Australian Academy of Technological Sciences and Engineering and a Fellow of the Australian Institute of Company Directors.

**Interest in shares:** 100,000 ordinary shares.

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## JOHN ALEXANDER ('SKANDER') MALCOLM

Chief Executive Officer and Managing Director – BEc

**Age:** 49 years

**Appointed:** 1 February 2017

**Not independent**

**Residence:** Sydney, Australia

Skander was appointed Chief Executive Officer and Managing Director on 1 February 2017. He has more than 23 years' experience in financial services including payments technology platforms in both established and emerging markets. As President and CEO of GE Capital (A&NZ), he led a team of more than 4,500 employees with an emphasis on delivering sustainable growth and operational excellence. While in the UK he launched the country's first and largest digital personal loan business, Hamilton Direct Bank, which grew to more than £3 billion (in assets) in its first five years.

**Current Directorships**
Nil

**Interest in shares:** 1,904,136 ordinary shares (of which 1,877,166 have been issued under the Company's Executive Share Plan).

## MELINDA CONRAD

Non-Executive Director – MBA (Harvard), FAICD

**Chair of the Remuneration and Nomination Committee and member of the Audit, Risk and Compliance Committee**

**Age:** 49 years

**Appointed:** 19 September 2013

**Independent Director**

**Residence:** Sydney, Australia

Melinda joined OFX in September 2013 and has over 20 years' experience in business strategy and marketing. Melinda's prior professional experience includes executive roles at Harvard Business School, Colgate-Palmolive, and several retail businesses. Melinda was previously a director of APN News & Media Limited and David Jones Limited.

**Current directorships**
**Director:** ASX Limited, Caltex Australia Limited, Stockland Corporation Ltd, the George Institute for Global Health, the Centre for Independent Studies.

**Other:** Fellow of the Australian Institute of Company Directors; member of the Australian Institute of Company Directors Corporate Governance Committee

**Previous directorships**
The Reject Shop Limited (resigned 30 June 2017)

**Interest in shares:** 100,000 ordinary shares.

## GRANT MURDOCH

Non-Executive Director – MCom (Hons), FAICD, FICAA

**Chair of the Audit, Risk and Compliance Committee**

**Appointed:** 19 September 2013

**Age:** 66 years

**Independent Director**

**Residence:** Brisbane, Australia

Grant joined OFX in September 2013 and has over 35 years' experience in accounting and corporate finance. Grant's prior professional experience includes Head of Corporate Finance for Ernst & Young Queensland, and he is a graduate of the Kellog Advanced Executive Program at the North Western University, Chicago, United States.

**Current directorships**
**Director:** ALS Limited, Redbubble Limited, UQ Holdings Limited, Lynas Corporation Limited

**Other:** Senator of the University of Queensland; Adjunct Professor School of Business, Economics and Law at the University of Queensland; member of Queensland State Council of Australian Institute of Company Directors.

**Previous directorships**
Cardno Limited (resigned 6 November 2015)

QIC Limited (resigned 30 September 2017)

**Interest in shares:** 245,000 ordinary shares.

## DOUGLAS SNEDDEN

Non-Executive Director – BEC (ANU), MAICD

**Member of the Remuneration and Nomination Committee and member of the Audit, Risk and Compliance Committee**

**Age:** 60 years

**Appointed:** 16 March 2015

**Independent director**

**Residence:** Sydney, Australia

Doug joined OFX in March 2015 and has over 30 years' experience in finance, consulting, strategic management and outsourcing. Doug has previously worked as Country Managing Director of Accenture Australia.

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**Current directorships**
**Director:** Chairman of Odyssey House NSW McGrath Foundation, Chairman of Chris O'Brien Lifehouse, Chairman of isentia Group Limited, and Securities Industry Research Centre of Asia-Pacific (Sirca) Limited

**Other:** Member of the National Library of Australia Council, Director of Frisk Pty Ltd, Member of the Australian Institute of Company Directors

**Interest in shares:** 100,000 ordinary shares.

### LISA FRAZIER

Non-Executive Director – MBA, Bachelor of Chemical Engineering, GradDip Finance and Investment, MAICD

**Age:** 49 years

**Appointed:** 1 April 2018

**Independent Director**

**Residence:** San Francisco, United States of America

Lisa joined OFX in April 2018. Lisa has over 17 years' experience in digital and technology specialising in digital disruption, product innovation, client experience, data analytics and marketing across the B2B and B2C sectors. Lisa is currently based in the Silicon Valley providing specialised advice to Fintech companies.

Previously, she worked at Commonwealth Bank of Australia in the chief digital role as Executive General Manager Digital Channels. Lisa was previously a Partner at McKinsey & Company – Technology, Media & Telecom, based in New York and then San Francisco – where she led teams in the areas of digital strategy and transformation, digital media and marketing, and new business development.

**Interest in shares as at 31 March 2018:** Nil.

## 2. State of affairs and significant changes in the state of affairs

In the Directors' opinion there have been no significant changes in the state of affairs of the Group during the year. A further review of matters affecting the Group's state of affairs is contained on pages 24 and 25 in the Operating and financial review.

## 3. Directors

The following persons were Directors of the Company during the year and as at the date of the Report:

| | |
|---|---|
| Steven Sargent | Chairman |
| Skander Malcolm | Managing Director and Chief Executive Officer (CEO) |
| Melinda Conrad | Non-Executive Director |
| Grant Murdoch | Non-Executive Director |
| Douglas Snedden | Non-Executive Director |
| Lisa Frazier | Non-Executive Director, appointed 1 April 2018 |

The background, qualifications and experience of each of the Directors as at the date of this Report is included on pages 20 to 22.

## 4. Company Secretaries

### Freya Smith

Freya is the Chief Legal Officer and Company Secretary for OFX Group Limited. Freya was appointed as Company Secretary on 11 October 2016. She has over 10 years' experience in legal practice and governance. Freya holds a Bachelor of Commerce and a Bachelor of Laws (Honours), a Master of Laws (High Distinction) and a Graduate Diploma of Applied Corporate Governance from the Governance Institute of Australia. Freya is admitted in the High Court of Australia, the Federal Court of Australia and the Supreme Court of New South Wales and is a member of the Association of Corporate Counsel and an Associate of the Governance Institute of Australia.

Freya is also currently a Non-Executive Director and Chairman-elect of the Sydney Fringe Festival.

### Naomi Dolmatoff (appointed 18 October 2017)

Naomi is an experienced Company Secretary and has worked with ASX-listed entities in the financial services and mining and resources industries. Naomi holds a Bachelor of Commerce (Finance) with distinction and a graduate Diploma in

Applied Corporate Governance. Naomi is also an Associate of both the Governance Institute of Australia and the Institute of Chartered Secretaries and Administrators (UK).

## 5. Directors' meetings

The following table shows meetings held between 1 April 2017 and 31 March 2018 and the number attended by each Director or committee member.

| | Board | | Audit, Risk and Compliance Committee | | Remuneration and Nomination Committee | |
|---|---|---|---|---|---|---|
| **Director** | **Eligible** | **Attended** | **Eligible** | **Attended** | **Eligible** | **Attended** |
| S Sargent | 15 | 15 | 5 | 5 | 5 | 5 |
| S Malcolm[1] | 15 | 15 | 5 | 5 | 5 | 5 |
| M Conrad | 15 | 14 | 5 | 5 | 5 | 5 |
| G Murdoch[2] | 15 | 15 | 5 | 5 | 5 | 4 |
| D Snedden | 15 | 15 | 5 | 5 | 5 | 5 |

## 6. Directors' interests

The relevant interest of each Director in the equity of the Company as at the date of this Report is outlined in the table below. All interests are ordinary shares unless otherwise stated.

| | **Type** | **Opening balance** | **Issued[3]** | **Acquisition** | **Disposals/forfeit** | **Closing balance** |
|---|---|---|---|---|---|---|
| S Sargent | ordinary | 100,000 | – | – | – | **100,000** |
| S Malcolm | ordinary | – | 1,877,166 | 26,970 | – | **1,904,136** |
| M Conrad | ordinary | 100,000 | – | – | – | **100,000** |
| G Murdoch | ordinary | 245,000 | – | – | – | **245,000** |
| D Snedden | ordinary | 100,000 | – | – | – | **100,000** |
| L Frazier | ordinary | – | – | – | – | **–** |

There were no disposals of shares by the Directors during the year or share transactions post year end.

*1 Mr Malcolm is not a member; however he attended the Audit, Risk and Compliance Committee and the Remuneration and Nomination Committee meetings at the invitation of the committees.*
*2 Mr Murdoch is not a member; however he attended the Remuneration and Nomination Committee meetings at the invitation of the committee.*
*3 Shares were granted in accordance with the Executive Share Plan and are restricted until performance measures have been met and the corresponding loan in respect of those shares has been repaid.*

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## 7. Principal activities

The Group's principal activity during the year was the provision of international payments and foreign exchange services.

## 8. Dividend and distributions

Dividends paid or determined by the Company during and since the end of the year are set out in Note 19 to the Financial Statements respectively.

| | Final 2018 | Interim 2018 | Final 2017 |
|---|---|---|---|
| Per share (cents) | **3.00** | 2.40 | 2.90 |
| Total amount ($000) | **7,296** | 5,843 | 7,016 |
| Franked[1] | **100%** | 100% | 100% |
| Payment date | **22 June 2018** | 15 December 2017 | 23 June 2017 |

## 9. Operating and financial review

A summary of financial results for the years ended 31 March is outlined below:

| | 2018 $'000 | 2017 $'000 | Growth % |
|---|---|---|---|
| Net operating income | **109,923** | 105,115 | 4.6% |
| EBITDA[2] | **29,825** | 27,752 | 7.5% |
| EBITDA margin[3] | **27.1%** | 26.4% | – |
| Net profit (after tax) | **18,687** | 19,596 | (4.6%) |
| Earnings per share (EPS) (cents) | **7.79** | 8.17 | – |

Higher active client numbers and increased propensities to deal helped to drive fee and trading income growth momentum in all geographies. Net operating income grew by 4.6% to $109.9 million. The Group is committed to making continued, sustained and significant investment in the Group's core business, human capital, infrastructure and technology. An Executive Team restructure continued throughout the year, and the Group is delighted to be able to welcome our new executives to execute our strategy and drive future growth. The Group also paid short-term incentives in the year ended 31 March 2018. NPAT is down 4.5% to $18.7m due to a higher effective tax rate due to Research & Development (R&D) and Offshore Banking Unit (OBU) benefits recognised in FY17.

Australia and New Zealand (A&NZ) continued as the largest contributor to fee and trading income for the Group. During the year we have re-activated our Australian business and although fee and trading income remained flat for FY18, we saw solid growth in the second half of the year. The Group saw a return to growth in our European business, increasing fee and trading incomeby 5% to $20.7 million, as the impact of Brexit diminishes. The Group's A&NZ and North American business contributed 70% of the Group's fee and trading income in the year ended 31 March 2018.

In North America, there are operations in Canada and the USA. The Group operates in 49 of the states in the United States of America and all of Canada throughout the year ended 31 March 2018. During the year, we appointed Mike Kennedy as President of North America to lead OFX's growth in North America. In May, we launched an out-of-home marketing campaign taking over San Francisco's Embarcadero station, raising brand awareness to complement our display, search engine marketing, social media and client advocacy. The majority of our North American business is now derived from returning clients. Fee and trading income increased by 12% in North America. Contribution to total fee and trading income of the Group from North America increased from 17.5% in FY17 to 18.8% in FY18. Increased promotional and employment expenditure during the year decreased EBITDA from $3.8 million in FY17 to $2.1 million in FY18.

*1 All dividends are fully franked based on tax paid at 30%.*
*2 Earnings before interest, tax, depreciation and amortisation (EBITDA) is a non IFRS measure that is unaudited.*
*3 EBITDA margins are calculated with reference to net operating income.*

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Hong Kong has been the main focus of the Group's Asian operations for FY18. Fee and trading income grew by 68% to $6.0 million in FY18. The Group continues to grow its presence in the Asian market, driven by a strong performance of clients using our Global Currency Account. Together, the Group's Asian and North American businesses contributed 23.9% of the Group's fee and trading income in the year ended 31 March 2018.

The International Payment Solutions (IPS) division (Wholesale division) maintained the Group's existing branded partnership solutions for Macquarie Bank and others in Australia and New Zealand. The year saw the exiting of the UK Travelex partnership. The IPS division's fee and trading income decreased by 5.8% to $8.6 million in FY18.

| | 2018 $'000 | 2017 $'000 | Growth % |
|---|---|---|---|
| Earnings before interest, tax, depreciation and amortisation (EBITDA)[1] | **29,825** | 27,752 | 7.5% |
| Less income tax expense | **(6,219)** | (4,391) | 41.6% |
| Less depreciation and amortisation | **(4,919)** | (3,765) | 30.7% |
| Statutory NPAT | **18,687** | 19,596 | (4.6%) |

The Group's financial position remains strong. The balance sheet consists predominantly of cash and client liabilities. The cash held for own use position increased to $47.3 million from $32.5 million. The Group currently has no external debt.

The financial position provides a good platform to pursue future growth opportunities.

## 10. Strategy

Our strategy remains simple: deliver a competitively priced and well supported product in the markets in which we operate. Our team will be focused on the few but critical initiatives that will help us grow: grow our acquisition marketing and sales, improve our service delivery, especially in on-boarding, and continue to improve our technology platform to drive a better client experience, lower cost, and enhanced security for our clients and shareholders.

## 11. Operational Highlights

- Global website and mobile application re-branding completed
- Continued enhancements of the registration and on-boarding process and client experience
- Embarked on and completed a segmentation of our prospect audience and client base
- More targeted display marketing
- Launched the CRM marketing program
- Launched the API Developer Portal
- Employed four new executives to the Global Executive Team
- Online Sellers Resource Hub launched
- Incremental infrastructure, system and server upgrades and enhancements

*1 The Group actively uses its cash balances as part of its hedging strategy, making the interest income integral to its earnings. For this reason, the Group regularly uses EBITDA as a measure of performance.*

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## 12. Risk

The potential risks associated with the Group's business are outlined below (also refer Note 11 on pages 63 to 66). This list does not cover every risk that may be associated with the Group, and the occurrence or consequences of some of the risks described are partially or completely outside the control of the Group, its Directors and senior management. There is also no guarantee or assurance that the risks will not change or that other risks will not emerge:

- Regulatory compliance – The cross-border payments market is a highly regulated area of economic activity. The Group devotes significant resources to comply with applicable regulations. However, there is a risk that any new or changed regulations could require the Group to increase its spending on regulatory compliance and/or change its business practices, which could adversely affect the Group's profitability. There is a risk that such regulations could also make it uneconomic for the Group to continue to operate in places where it currently does business. In addition, there is a risk that evidence of a serious failure to comply with laws may result in severe penalties, including being forced to cease doing business as a result of a revocation or cancellation of one or more of the Group's regulatory licences or authorisations. OFX's business is overseen by over 55 state and federal regulators across seven countries which conduct periodic reviews of its compliance.
- Information technology (IT) – The Group's business operations rely on IT infrastructure and systems. Any interruptions to these operations could impair the Group's ability to operate its client-facing websites, which could have a negative impact on performance. The Group has a number of operational processes and disaster risk recovery plans in place to mitigate this risk.
- Data security – Through the ordinary course of business, the Group collects a wide range of personal and financial data from clients. The Group takes measures to protect this data, however, there is a risk that a cyber-attack may result in data being compromised, resulting in loss of information integrity, breaches of the Group's obligations under applicable laws or client agreements and website and system outages, each of which may potentially have a material adverse impact on the Group's reputation and financial performance.
- Relationships with banking counterparties – The Group relies on banks to conduct its business, particularly to provide its network of local and global bank accounts and act as counterparties in the management of foreign exchange and interest rate risk. There is a risk that one or more of these banks may cease to deal with the Group (which may occur on short notice), cease to deal with international payments services generally, substantially reduce the services it offers, substantially alter the terms on which it is willing to offer services to the Group, exit one or more of the markets for which the Group uses its services, or collapse. This has occurred in the past and may occur again in the future. The Group manages this risk by investing in strong risk and compliance infrastructure and by having a suite of banking service providers to ensure that there is redundancy in its banking relationships to operate effectively.
- Fraud – There is a risk that, if the Group's services are used to transfer money in connection with a fraud or theft, the Group may be required to take steps to recover the funds involved and may in certain circumstances be liable to repay amounts that it accepted for transfer, even after it has made the corresponding international payment. For example, when the Group accepts payment by direct debit, it may ultimately be held liable for the unauthorised use of bank account details in an illegal activity and be required to refund the transaction. If the rate of refunds becomes excessive, banks and card associations may also require the Group to pay additional penalties. The Group has a range of fraud prevention controls in place to mitigate this risk.
- Foreign exchange rate fluctuations – The Group may be affected by a change in the value of currencies, in particular a strengthening of the Australian dollar, which may impact both transaction turnover and reported earnings. The Group continues to increase its geographic footprint, and therefore the diversity of its currency flows, in order to mitigate the impact of any one currency's fluctuation.
- Credit – The Group enters into forward exchange contracts with some of its clients and its banking counterparties. There is a risk that, in the event that a client or counterparties fail to make payment upon settlement of these contracts, the Group will be exposed to the mark-to-market value of the transactions.
- Competition – A substantial increase in competition could: result in the Group's services becoming less attractive to consumer or corporate clients and partner companies; require the Group to increase its marketing or capital expenditure; or require the Group to reduce its price or alter other aspects of its business model to remain competitive. The Group continues to invest in exceptional service delivery in order to retain clients as well as product innovation, marketing and monitoring competition to ensure that it is able to respond to such challenges.

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## 13. Outlook

Our outlook remains positive. We can drive strong and consistent earnings growth by:

- Improving the client experience;
- Continuing our geographic expansion, with an emphasis on North America and Asia; and
- Building partnerships to help us grow and execute better.

We have a strong balance sheet, a good track record of service delivery, an experienced and ambitious team, and a clear mandate from our Board and our shareholders to grow.

## 14. Events subsequent to balance date

Ms Lisa Frazier was appointed to the Board of OFX Group Limited effective 1 April 2018.

As at the date of this Report, the Directors are not aware of any other circumstance that has arisen since 31 March 2018 that has significantly affected, or may significantly affect the Group's operations in future financial years, the results of those operations in future financial years, or the Group's state of affairs in future financial years.

## 15. Likely developments and expected results

While the impacts of foreign exchange market conditions make accurate forecasting challenging, it is currently expected that the combined net profit for the financial year ending 31 March 2019 will increase versus the financial year ended 31 March 2018.

A growth driver for the Group is the number of active clients (the number of clients who have transacted at least once in the prior 12 months). The growth in active clients for FY18 was up 3.3% to 161.9 thousand. This was driven by the increased focus on active and inactive clients through Client Relationship Marketing (CRM).

We expect continued growth in the active client base of North America. This will drive growth in the North American market and build on the segment's increased contribution to the Group.

The opening of the Group's Singapore office in April 2018 provides further growth in Asia. We will also enhance our Online Sellers Platform (Global Currency Account). This will continue to build on the growth in revenue and profit in Asia.

Europe is a more competitive market and growth in active clients is building. The Group expects to build on the revenue growth in Europe.

The Australia and New Zealand region will continue to be the largest single contributor to the net profit of the Group.

Accordingly, the Group's result for the financial year ending 31 March 2019 is expected to be up on the result in FY18.

The Group's short-term outlook remains subject to the range of challenges outlined in the risks on page 26, including market conditions, the impact of volatility in the foreign exchange markets, the cost of its client acquisition through online channels, potential regulatory changes and tax uncertainties.

OFX is well positioned to deliver continued growth in the short to medium term.

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## 16. Insurance and indemnification of Directors and officers

The Directors of the Company, and such other officers as the Directors determine, are entitled to receive the benefit of an indemnity contained in the Constitution of the Company, to the extent allowed by the *Corporations Act 2001* (Cth) (Corporations Act).

The Company has entered into a standard form deed of indemnity, insurance and access with the Non-Executive Directors against liabilities they may incur in the performance of their duties as Directors of the Company, to the extent permitted by the Corporations Act. The indemnity operates only to the extent that the loss or liability is not covered by insurance.

During the year, the Company has paid premiums in respect of contracts insuring the Directors and officers of the Company against liability incurred in that capacity to the extent allowed by the Corporations Act. The terms of the policies prohibit disclosure of the details of the liability and the premium paid.

## 17. No officers are former auditors

No officer of the Consolidated Entity has been a partner of an audit firm or a Director of an audit company that is the auditor of the Company and the Consolidated Entity for the financial year.

## 18. Non-audit services

The Company may decide to employ the external auditor on assignments additional to its statutory audit duties where the auditor's expertise and experience with the Company and/or the Group are important.

The Audit, Risk and Compliance Committee is required to pre-approve all audit and non-audit services provided by the external auditor. The committee is not permitted to approve the engagement of the auditor for any non-audit services that may impair or appear to impair the external auditor's judgement or independence in respect of the Company.

The Board has considered the non-audit services provided during the year by the auditor and, in accordance with written advice provided by resolution of the Audit, Risk and Compliance Committee, is satisfied that the provision of those non-audit services during the year by the auditor is compatible with, and did not compromise, the auditor independence requirements of the Corporations Act for the following reasons:

- All non-audit services were subject to the corporate governance procedures adopted by the Group and have been reviewed by the Audit, Risk and Compliance Committee to ensure that they do not impact the integrity and objectivity of the auditor; and
- The non-audit services provided do not undermine the general principles relating to auditor independence as set out APES110 *Code of Ethics for Professional Accountants*, as they did not involve reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Group, acting as an advocate for the Group or jointly sharing risk or rewards.

During the year, the following fees were paid or payable for non-audit services provided by the external auditor of the Company PricewaterhouseCoopers (PWC), to its related practices and non-related audit firms:

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Taxation services | **264** | 135 |
| Other professional services | **–** | 56 |
| **Total remuneration for non-audit services** | **264** | 191 |

## 19. Auditor's independence declaration

A copy of the Auditor's Independence Declaration as required under section 307C of the Corporations Act in relation to the audit for the year ended 31 March 2018 is on page 47 of this Report.

## 20. Chief Executive Officer/Chief Financial Officer declaration

The Chief Executive Officer and the Chief Financial Officer have given the declarations to the Board concerning the Group's Financial Statements and other matters as required under section 295A(2) of the Corporations Act.

## 21. Rounding of amounts

The Group is of the kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, and in accordance with that instrument, amounts in the directors' report and the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

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# Remuneration Report

For the financial year ended 31 March 2018

## Remuneration Committee Chairman's Letter

Dear Shareholder,

On behalf of the Board, I am pleased to present OFX's 2018 Remuneration Report.

The last couple of years have been challenging as we have worked to improve the financial performance of the Group. As I write this, I am encouraged with the Group's FY18 financial results which show the commencement of the improvement we have been seeking. This has been the result of a significant amount of hard work at all levels within the organisation as we seek to improve our clients' experiences while upholding OFX's values.

A key part of the Board's strategy to achieve this improved performance has been focusing on ensuring that OFX attracts (and can retain) key talent, particularly experienced senior executives with strong leadership experience from across the financial services and technology industries. I am pleased to report that during the last 12 months, OFX has strengthened its Board and Key Management Personnel (KMP) with the appointment of Lisa Frazier as a Non-Executive Director, Selena Verth as Chief Financial Officer and Wendy Glasgow as our Chief Technology Officer. We have also welcomed Mike Kennedy, Vice President, North America and Mark Shaw, Chief Risk Officer to the Executive team. We believe that we have the right people at the Executive level to drive and deliver the strategic growth objectives of the Group.

During the financial year, KMP met between 72.5% and 81.7% of their targets. This has been achieved by hard work in driving operational execution including growing revenue faster than operating expenses and developing a good understanding of client needs to promote growth. Additionally, OFX has reduced its number of projects but intensified its focus on the projects that matter. This strategic shift of focus will assist in driving our objectives and at the same time ensuring that we maintain our high quality risk management and compliance standards.

| | |
|---|---|
| Short Term Incentive (STI) | To be eligible for STI, a minimum earnings before tax (EBT) gateway must be achieved by the Company of at least 90% of target EBT budget. For the first time in recent years, the Group has achieved 92% of its budgeted EBT for the financial period and therefore eligible for STI.<br>For the 2018 financial year, the Board set $117.2m Net Operating Income (NOI), $27.1m EBT and 175,000 Active Clients as the financial metric targets for KMP. Non-financial metrics were agreed with KMP at the beginning of each financial year. For the reporting period these included objectives around leadership and culture, project management and delivery, risk management outcomes, Net Promoter Score (NPS) outcomes and employee engagement scores.<br>Combined, KMP achieved between 72.5% and 81.7% of their targets and accordingly STI is payable for FY18. |
| Current Long Term Incentive (LTI) | In the 2017 financial year, the Group introduced a new LTI being the Executive Share Plan (ESP). The ESP was approved by shareholders at the 2016 AGM.<br>During FY18, KMP (Skander Malcolm and Selena Verth) were offered a single grant of shares upfront. The shares for the single grant are split into two tranches (A and B), each having a separate vesting condition of Compound Annual Growth Rate (CAGR) of Constant Currency Net Operating Income Growth (NOI Growth) and CAGR of Constant Currency Earnings per Share (EPS Growth) over a performance period of three financial years commencing 1 April 2017.<br>No grants issued under the ESP were due to vest in the 2018 financial year. |
| Director fees | The Board has decided not to increase fees paid to Non-Executive Directors during the financial year. Fees paid to Non-Executive Directors have remained the same since the Company's listing on the ASX in 2013. |

The Board is cognisant of the need to ensure that the remuneration mix for Executives is appropriately balanced. It comprises fixed pay, STI and LTI to encourage retention but to also provide the right level of motivation to achieve OFX's strategic objectives. It also must drive alignment with shareholder value creation.

As foreshadowed within our 2017 Remuneration Report, during FY18 OFX completed an extensive incentive plan review during FY18 to consider whether the existing STI and LTI structure remained appropriate to the Company. We consulted with several stakeholders, looked at industry best practice and considered these in the context of our global operations.

As a result of the review, OFX has decided to retain its existing ESP which is used to govern equity issuances under the Company's long term incentive plan. The ESP was last approved by shareholders in 2016 and modifications to the ESP are being considered for approval at the 2018 Annual General Meeting (AGM). OFX is also planning to seek shareholder approval of its Global Equity Plan (GEP) which will be used to facilitate equity issuances under its short term incentive plan. It is the intention that these plans will be effective during the 2019 financial year. We believe this type of structure creates a clear alignment of our Executives' and employees' interests with that of shareholders and is appropriate to the agile, fast moving business environment in which OFX operates. Further, we understand and embrace stakeholder expectations around remuneration. We believe that this structure will also ensure that, over the medium term, Executives are encouraged to think and act like shareholders, while also upholding OFX's values.

Yours sincerely,



Melinda Conrad
Remuneration and Nomination Committee Chair

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## Introduction

The Directors of OFX Group Limited (the Company) present the Remuneration Report for the Company and its controlled entities (collectively the Group or OFX) for the financial year ended 31 March 2018 prepared in accordance with the requirements of the *Corporations Act 2001* (Cth) (the Corporations Act) and as audited as required by section 308(3C) of the Corporations Act.

### 1. Key Management Personnel

The Remuneration Report outlines the remuneration arrangements in place for the Key Management Personnel (KMP) of the Group, which comprises all Directors (Executive and Non-Executive) and those Executives who have authority and responsibility for planning, directing and controlling the activities of the Group. In this report, 'Executives' refers to members of the Group Executive team, which includes KMP and other executives.

The following table details the Group's KMP during the 2018 financial year and up to the date of this report:

| Name | Role |
|---|---|
| **Non-Executive Directors** | |
| Steven Sargent | Chairman and Non-Executive Director |
| Melinda Conrad | Non-Executive Director |
| Grant Murdoch | Non-Executive Director |
| Douglas Snedden | Non-Executive Director |
| Lisa Frazier | Non-Executive Director, appointed 1 April 2018 |
| **Executive Director** | |
| Skander Malcolm | Managing Director and Chief Executive Officer (CEO) |
| **Other KMP** | |
| Mark Ledsham | Chief Financial Officer (CFO), ceased to be KMP on 13 April 2017 |
| Selena Verth | CFO, commenced as KMP on 16 October 2017 |
| Adam Smith | Chief Operating Officer (COO) |
| Craige Pendleton-Browne | Chief Technology Officer (CTO), ceased to be KMP on 30 April 2018 |
| Wendy Glasgow | CTO, commenced as KMP on 19 February 2018 |

**Contractual arrangements – Skander Malcolm – Managing Director and CEO**

Mr Malcolm was appointed Managing Director and CEO effective 1 February 2017.

For the 2018 financial year Mr Malcolm's TFR was $650,000 per annum. At the AGM held on 2 August 2017, Shareholders approved Mr Malcolm eligible to participate in the OFX Executive Share Plan (ESP). During the period, 1,877,166 shares were granted to Mr Malcolm as a single LTI grant representing 150% of his fixed remuneration, which will vest over a three year performance period. The shares are split into two tranches (A and B), each having a separate vesting condition of Compound Annual Growth Rate (CAGR) of Constant Currency Net Operating Income (NOI Growth) and CAGR of Constant Currency Earnings Per Share (EPS Growth). Vesting is based on performance against a Threshold Measure, a Target Measure and a Stretch Measure as per the following table:

| Tranche | Vesting Condition[1] | Threshold Measure | Target Measure | Stretch Measure |
|---|---|---|---|---|
| Tranche A (50%) | EPS CAGR over 3 year performance period | 12.5% | 15% | 17.5% |
| Tranche B (50%) | NOI CAGR over 3 year performance period | 10% | 12.5% | 15% |

*1 Measured on a constant currency basis.*

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The terms of Mr Malcolm's appointment and termination arrangements are set out below.

| Contract Components | Details |
|---|---|
| Duration | Ongoing contract |
| Termination by Executive | 6 months' notice |
| Termination by the Company | 6 months' notice |
| Post-employment restraints | 6 month post-employment non-compete and non-solicitation restraint, or failing that, 3 months after termination. |
| Treatment of STI and LTI | Upon termination, if the CEO is considered a good leaver, the CEO will be entitled to a pro-rata STI award. Board discretion applies to the treatment of any unvested LTI. |

KMP (excluding Managing Director and CEO) employment contracts and notice periods are set out below:

| Contract Components | Details |
|---|---|
| Duration | Ongoing contract |
| Termination by Executive | 6 months' notice for all KMP |
| Termination by the Company | 6 months' notice for all KMP |
| Post-employment restraints | C Pendleton-Browne and A Smith have 6 month post-employment restraints. W Glasgow and S Verth have a restraint of up to 12 months after termination of employment. No other KMP have post-employment restraints. |
| Treatment of STI and LTI | Upon termination, if the KMP is considered a good leaver, the KMP may be entitled to a pro-rata STI award. Board discretion applies to the treatment of any unvested LTI. |

## 2. Remuneration snapshot for the 2018 financial year

Executives of the Group receive Total Reward Remuneration (TRR) that comprises fixed and variable (at risk) annual pay, a blend of fixed short-term and long-term incentives and which has three components:

- Fixed – Total Fixed Remuneration (TFR);
- At Risk – Short Term Incentive (STI); and
- At Risk – Long Term Incentive (LTI).

The relative proportion of 'fixed' and 'at risk' components of Executive remuneration varies by Executive. Executives with a closer link to the growth drivers of the business have a higher proportion of 'at risk' remuneration, while Executives more aligned to risk and compliance functions have a lower 'at risk' component. Participation in special retention plans is not taken into account in determining the Executives' percentage allocations. The three components of the remuneration framework are outlined as follows:

| Total fixed remuneration (TFR) | Short Term Incentive (STI) | Long Term Incentive (LTI)[1] |
|---|---|---|
| • 28-70% of TRR.<br>• TFR is set by reference to benchmark market information for comparable roles and individual performance.<br>• Includes cash, non-financial benefits, and superannuation. | • 15-43% of TRR.<br>• 40% of target STI is based on non-financial Key Performance Indicators (KPIs) and 60% of target STI is based on financial KPIs.<br>• Paid in cash and shares. The STI paid in shares is deferred over a two-year period.<br>• 90% Earnings Before Tax (EBT) Budget gateway. | • 15-30% of TRR.<br>• Executive Share Plan (ESP) as approved by shareholders at the 2016 AGM.<br>• Shares granted upfront pursuant to a company loan.<br>• Performance hurdles linked to NOI and EPS at constant currency. |

*1 In addition to the components set out above, a number of grants issued under the Legacy LTI Plan remain on foot subject to vesting conditions as determined by the Board.*

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Remuneration is reviewed annually to ensure it remains competitive within the market. Remuneration increases are subject to merit and are in respect of Executives, subject to the approval of the Board, on the recommendation from the Remuneration and Nomination Committee. Pursuant to delegated authority by the Board, the Remuneration and Nomination Committee has the discretion to approve total bonus pool, salary increase pool, changes to the CEO/Managing Director, CFO and Global Executive Team remuneration and bonus payments, annual STI payments to the Global Executive Team and the issuance of performance rights under OFX's ESP, as it considers appropriate.

## 3. Role of the Remuneration and Nomination Committee

The Remuneration and Nomination Committee (Remuneration Committee) is responsible for reviewing and making recommendations to the Board on the Company's remuneration packages for Non-Executive Directors, the CEO, and Executives. It is also responsible for reviewing the Company's recruitment policies, superannuation arrangements, Board and Executive succession planning and performance evaluations among other things. The Charter of the Remuneration and Nomination Committee is available on the Group's website at www.ofx.com/en-au/investors/corporate-governance/.

To assist in performing its duties, the Remuneration Committee seeks independent advice from external consultants on various remuneration related matters. The Remuneration Committee follows protocols around the engagement and use of external remuneration consultants to ensure compliance with the relevant Executive remuneration legislation.

OFX did not obtain any remuneration recommendations from consultants during the 2018 financial year that related to remuneration of any of the KMP.

## 4. Remuneration principles and structure

The objective of the remuneration framework is to ensure reward for performance is competitive and appropriate for the results delivered. The remuneration framework aligns remuneration for Executives across the Group with achievement of strategic objectives and the creation of value for shareholders. The Group's remuneration framework is structured to:

- Encourage a strong focus on performance and support the delivery of positive returns to the Group's shareholders;
- Attract, retain and motivate appropriately qualified and experienced individuals who will contribute to the Group's financial and operational performance;
- Motivate Executives to deliver results with both short and long-term horizons at the same time meeting OFX's values; and
- Align Executive and shareholder interests through share ownership.

### Overview of Executive remuneration components

#### Total Fixed Remuneration (TFR)

TFR may be delivered as a combination of cash and prescribed non-financial benefits at the Executive's discretion. Retirement benefits are provided via defined contributions to approved superannuation funds.

Executives are offered a competitive base pay that comprises the fixed cash component of pay and rewards inclusive of superannuation. External remuneration consultants from time to time provide analysis and advice to ensure TFR is set to reflect the market for a comparable role.

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### Short Term Incentive (STI)

| STI Component | Details |
|---|---|
| Eligibility | All KMP, with the exception of Wendy Glasgow, were eligible to participate in the STI during the 2018 financial year. The exclusion of Wendy's eligibility for the FY18 STI was considered appropriate on the basis of her appointment late in the financial year period on 19 February 2018. However, Wendy will be eligible to participate during STI for FY19. |
| Opportunity | The size of the STI opportunity available to each Executive is based on their accountabilities and impact of their role on the Company. This is typically in the range of 15-50% of TRR.<br>If an Executive commences or ceases employment with the Company during the financial year, the Board will consider eligibility for a pro-rata share of their STI entitlement.<br>Executives will not be eligible for a STI payment if terminated due to misconduct, poor performance or in general, if they resign. |
| KPIs | The Remuneration Committee will annually approve the KPIs to link Executive STI and the level of payout if the KPI targets are met. This includes setting any maximum payout and minimum levels of performance. The Remuneration Committee is responsible, after the preparation of the financial statements each year (in respect of financial measures) and after a review of performance against non-financial measures by the CEO (and in the case of the CEO, by the Board following recommendation by the Committee), for recommending to the Board the final STI payout for the previous financial year. The Board retains the discretion to vary the final STI payout if performance is considered to be deserving of either a greater or lesser amount.<br>The KPIs linked to STI comprise two tranches and within each tranche are a series of objectives. To be eligible for access to STI a minimum EBT performance gateway must be achieved of at least 90% of target EBT. No STI will be payable if the 90% EBT Budget gateway is not met irrespective of whether the Tranche A and Tranche B performance indicators are met. Target EBT is approved by the Board at the commencement of the performance period.<br>Tranche A – Non-financial performance indicators<br>40% of the total target STI is available in Tranche A (non-financial performance indicators). If an Executive does not meet a minimum performance threshold in Tranche A, they are not eligible to participate in Tranche B. The non-financial performance indicators are designed to drive leadership performance and behaviours consistent with the role and expectations for each Executive. These include objectives around leadership and culture, project management and delivery, risk management outcomes, Net Promoter Score (NPS) outcomes and employee engagement scores.<br>Tranche B – Financial performance indicators<br>60% of the total target STI is available in Tranche B. The financial performance indicators for the 2018 financial year were:<br>• NOI;<br>• EBT; and<br>• Active Clients[1]<br>In the event of out performance against the target financial and non-financial performance indicators, there is a potential additional outperformance bonus available of 20% on Tranche A and 33% on Tranche B. |
| Payment | CEO: 50% in cash and the remaining 50%, subject to shareholder approval, deferred equity to be delivered in performance rights to vest one year after issue with a holding lock applied for a further one year after vesting.<br>Executives: 75% settled in cash with 25% deferred to be delivered in performance rights to vest one year after issue with a holding lock applied for a further one year after vesting.<br>The CEO and Executives do not receive any dividends and are not entitled to vote in relation to the rights during the vesting period. If a participant ceases employment before the rights vest, the rights will be forfeited, except in limited circumstances that are approved by the Board on a case-by-case basis.<br>The fair value of the rights is determined based on the market price of the Company's shares at the grant date, with an adjustment made to take into account the vesting period over two years and expected dividends during that period that will not be received by the participants. |

*1 Active Clients are the numbers of clients who have transacted at least once in the prior 12 months.*

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**Long Term Incentive (LTI)**

LTI was available to KMP in the 2018 financial year pursuant the OFX Group Limited Executive Share Plan (the ESP) as approved by shareholders at the Company's 2016 AGM. Under the ESP, non-recourse loans are issued for the sole purpose of acquiring shares in the Group.

OFX underwent an extensive equity incentive plan review during FY18 to consider whether the existing LTI structure remained appropriate and that the interests of executives eligible to participate in the LTI were appropriately aligned with those of shareholders. The outcome of the review was to retain its existing ESP which was last approved by shareholders in 2016, with minor modifications being considered. It is intended that the ESP will again be presented for shareholder approval at OFX's 2018 AGM.

**The Executive Share Plan**

| LTI Component | Details |
|---|---|
| Objective | The ESP is designed to link long-term KMP reward with the ongoing creation of shareholder value, with the allocation of equity awards which are subject to satisfaction of performance hurdles as set by the Board. |
| Eligibility | During the 2018 financial year, the ESP was limited to KMP. Non-Executive Directors are not eligible to participate in the ESP. |
| Award value | During the 2018 financial year, LTI awards under the ESP were in the range of 15-30% of TRR. |
| Loan arrangements | The loan amount provided to each KMP is based on their LTI target amount (LTI percentage of TFR) multiplied by an externally determined 'loan value' which is calculated using an adjusted Black-Scholes option pricing valuation model.<br>The loan is 'interest free' in that there is no annual interest charge to the participant on the loan. However, the notional value of this interest is taken into account in the overall structure of the plan.<br>The KMP is obliged to pay a portion of the post-tax value of any dividends received during the loan term toward repayment of the loan amount.<br>To access shares under the ESP, KMP must repay their loan in full. Following the end of the relevant vesting period, assuming the earnings 'gateway' is achieved, the KMP can either repay the loan directly or sell some or all of their shares and apply the proceeds to repay the loan. Repayment of the loan must be received within two years in order to access the shares.<br>The Board may, in its discretion, include one or more vesting conditions as a term of the Loan which, if satisfied, will result in part forgiveness of the loan. The Board may exercise this discretion for current shares on foot under the ESP if NOI Growth or EPS Growth (defined below) for the relevant performance period exceeds the Stretch Measure as set out in the invitation terms. |
| Allocation methodology, timing and performance period | The ESP was approved by shareholders at the Company's 2016 AGM. For the 2018 financial year, Skander Malcolm and Selena Verth were offered a single grant of shares upfront. The shares for the single grant are split into two tranches (A and B), each having a separate vesting condition of Compound Annual Growth Rate (CAGR) of Constant Currency Net Operating Income Growth (NOI Growth) and CAGR of Constant Currency Earnings per Share (EPS Growth) over a performance period of three financial years commencing 1 April 2017.<br>In previous financial years, a triple grant had been issued as an incentive to focus on the key performance drivers of the Group's strategy at that time, helping to deliver sustainable growth in shareholder value. The three tranches had performance periods of three, four and five years respectively. During the 2018 financial year, the vesting conditions for the applicable FY17 award (Tranche 2) was modified for each of Adam Smith and Craige Pendleton-Browne such that the vesting is now aligned with that of the CEO. This has the effect of changing the vesting conditions to be based on performance against a Threshold Measure, a Target Measure and a Stretch Measure.<br>Shares under the ESP were issued in the 2018 financial year at a price equal to the five-day volume weighted average price (VWAP) for the period prior to issue. A loan will be provided equal to the five-day VWAP multiplied by the total number of shares to be issued. |

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| LTI Component | Details |
|---|---|
| Vesting condition | The shares for each award are split into two tranches (Tranche A and Tranche B), each having a separate vesting condition of Compound Annual Growth Rate (CAGR) of constant currency Net Operating Income (NOI Growth) and CAGR of constant currency Earnings Per Share (EPS Growth) over a specified performance period. The Board implemented a 'gateway' level of minimum acceptable growth in EPS performance below which no shares will vest which applies to both tranches. These are detailed on page 32.<br>The shares are subject to performance hurdles and ongoing employment. The performance hurdles to apply to each issuance will be determined by the Board at the time of issue. |
| Performance testing | Testing of the vesting conditions for each tranche will occur once the results for the relevant financial year in the last year of the performance period have been approved by the Board. There is no retesting of the vesting conditions. |
| Trading restrictions | KMP must not transfer, encumber, hedge or otherwise deal with shares acquired under the ESP until the loan in respect of those shares has been paid in full or arrangements satisfactory to the Board are made for repayment of the loan in full from proceeds of sale of the shares. At all times, KMP must also comply with OFX's Securities Trading Policy. |
| Forfeiture conditions | If the performance-based vesting conditions are not met then the shares will be forfeited, with the forfeited shares treated as full consideration for the repayment of the loan. |
| Control event | The Board has absolute discretion to determine that some or all of the unvested Shares will vest if there is a takeover or scheme of arrangement of the Company or a proposed winding up of the Company. |
| Shareholder approval | Shareholder approval is required for the issue of shares to any Executive Director. |

## 5. Legacy remuneration practices

### Legacy LTI Plan

OFX's LTI changed in the 2017 financial year from the Legacy LTI Plan to the ESP to align with market practice, while continuing to support the Group's strategy. The Legacy LTI Plan is now a legacy plan. The Legacy LTI Plan issued performance rights, service rights and share options to Executives and KMP. The Legacy LTI Plan will continue to operate until all issuances on foot vest or lapse in accordance with relevant vesting conditions as determined by the Board.

The grants under the Legacy LTI Plan have the following vesting conditions:

### Performance rights

| | | Vesting Level (EBTDA CAGR) | | | |
|---|---|---|---|---|---|
| Issuance | EPS CAGR | 100% | 25%-100% | 0% | Performance Period |
| Retention rights tranche 1[1] | ≥ 14% | ≥ 19% | 14%-19% | <14% | 54 Months |
| Retention rights tranche 2[1] | ≥ 14% | ≥ 19% | 14%-19% | <14% | 54 Months |
| Retention rights tranche 3 | ≥ 14% | ≥ 19% | 14%-19% | <14% | 54 Months |
| FY15 performance rights | ≥ 17% | ≥ 22% | 17%-22% | <17% | 36 Months |

| | | Vesting Level (NOI CAGR) | | | |
|---|---|---|---|---|---|
| | EPS CAGR | 100% | 25%-100% | 0% | Performance Period |
| FY16 performance rights | ≥ 17% | ≥ 22% | 17%-22% | <17% | 36 Months |

*1 The performance period and performance targets of these tranches were modified in the 2017 financial year to align with tranche 3.*

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**Service rights**
Service rights are not subject to performance conditions. Vesting is subject to meeting employment service requirements.

**Share options**
Share options are not subject to performance conditions. Vesting is subject to meeting employment service requirements and an exercise price.

## 6. Group performance

The Group's 2014-2018 annual financial performance measures are listed below. The financial measures for the Group for the period 1 April 2013 to 11 October 2013 are based on the results of OzForex Limited (formerly OzForex Pty Limited), as the Group's financial results have been prepared as a continuation of the OzForex Limited consolidated group.

| Performance Metrics | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|
| Net operating income[1] | $72.6m | $90.1m | $103.9m | $105.1m | **$109.9m** |
| EBITDA | $22.4m | $34.5m | $33.1m | $27.8m | **$29.8m** |
| Underlying EBITDA | $29.4m | $34.5m | $36.1m | $27.8m | **$29.8m** |
| Active Clients | 120,500 | 142,500 | 150,900 | 156,700 | **161,900** |
| Basic earnings per share[2] | 6.84cps | 10.11cps | 9.09cps | 8.17cps | **7.79cps** |
| Underlying basic earnings per share[3] | 8.92cps | 10.11cps | 9.95cps | 8.17cps | **7.79cps** |
| Dividend per share[4] | N/A | $0.05875 | $0.07184 | $0.05900 | **$0.05800** |
| Closing share price | $3.30 ($1.30 above 'retail' price) | $2.41 | $2.02 | $1.48 | **$1.69** |

*1 Net operating income, a non-IFRS measure, is the combination of 'Fee and trading income' and "Fee and commission expense' and 'Interest income'. These are not calculations based on constant currency.*
*2 For the calculation of EPS refer to Note 6 of the financial statements. These are not calculations based on constant currency.*
*3 Underlying basic earnings per share is the basic earnings per share calculation utilising the Underlying NPAT of the Group.*
*4 This represents dividends distributed in the period.*

## 7. Executive remuneration disclosures

| | | Short-term employment benefits | | | Post-employment benefits | Long-term benefits | Share-based payments | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Year | Cash salary and fees | Cash bonus | Other[1] | Superannuation | Long service leave | Performance rights | Share loan | Options | Total |
| **Current KMP** | | | | | | | | | | |
| S Malcolm[2] | 2018 | 630,059 | 306,375 | – | 19,941 | 545 | 260,419 | 304,259 | – | **1,521,598** |
| | 2017 | 105,064 | – | – | 4,904 | – | – | – | – | **109,968** |
| A Smith[3] | 2018 | 330,059 | 115,188 | – | 19,940 | 889 | 58,545 | 10,443 | – | **535,064** |
| | 2017 | 320,538 | – | – | 26,134 | 366 | 145,639 | 65,749 | – | **558,426** |
| S Verth[4] | 2018 | 161,987 | 120,587 | – | 10,024 | – | 34,166 | 35,719 | – | **362,483** |
| | 2017 | – | – | – | – | – | – | – | – | **–** |
| W Glasgow[5] | 2018 | 38,500 | – | – | 3,658 | – | – | – | – | **42,158** |
| | 2017 | – | – | – | – | – | – | – | – | **–** |
| C Pendleton-Browne[6] | 2018 | 330,136 | 3,000 | – | 19,940 | 860 | (77,293) | (65,749) | – | **210,894** |
| | 2017 | 330,692 | – | – | 26,780 | 339 | 59,093 | 65,749 | – | **482,653** |
| **Former KMP** | | | | | | | | | | |
| M Ledsham[7] | 2018 | 251,375 | – | – | 11,122 | (37,087) | (208,272) | (65,749) | – | **(48,611)** |
| | 2017 | 330,448 | – | – | 19,539 | 9,561 | (214,724) | 65,749 | – | **210,573** |
| R Kimber[8] | 2018 | – | – | – | – | – | – | – | – | **–** |
| | 2017 | 400,397 | – | 530,398 | 22,331 | – | 29,356 | 60,919 | 18,484 | **1,061,885** |
| M Loyez[9] | 2018 | – | – | – | – | – | – | – | – | **–** |
| | 2017 | 96,025 | – | 184,331 | 17,866 | – | – | – | – | **298,222** |
| **Total KMP Remuneration** | | | | | | | | | | |
| | 2018 | **1,742,116** | **545,150** | **–** | **84,625** | **(34,793)** | **67,565** | **218,923** | **–** | **2,623,586** |
| | 2017 | **1,583,164** | **–** | **714,729** | **117,554** | **10,266** | **19,364** | **258,166** | **18,484** | **2,721,727** |

*1 Other payments relate to amounts paid subject to separation arrangements following cessation of employment.*
*2 S Malcolm commenced employment with the Group on 1 February 2017.*
*3 A Smith commenced employment with the Group on 6 October 2015.*
*4 S Verth commenced employment with the Group on 16 October 2017. Includes payment of FY18 STI in accordance with sign on agreement.*
*5 W Glasgow commenced employment with the Group on 19 February 2018.*
*6 C Pendleton-Browne was a KMP for the whole of the reporting period, however ceased to be KMP and an employee on 30 April 2018.*
*7 M Ledsham's remuneration includes a writeback of previously expensed share-based payments. M Ledsham ceased to be KMP on 13 April 2017.*
*8 R Kimber ceased to be KMP and employee on 31 January 2017.*
*9 M Loyez ceased to be KMP and employee on 22 July 2016.*

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**Short Term Incentive**

The minimum EBT performance gateway of at least 90% of target EBT was achieved during the year ended 31 March 2018 and therefore Executives were eligible for STI.

For the CEO, the STI is settled 50% in cash and the remaining 50%, subject to shareholder approval, deferred equity to be delivered in performance rights to vest one year after issue with a holding lock applied for a further one year after vesting.

For Executives, the STI is settled 75% in cash with 25% deferred to be delivered in performance rights to vest one year after issue with a holding lock applied for a further one year after vesting.

**FY18 performance and achievement of STI**

KMP were assessed under an agreed set of financial and non-financial key performance indicators for the 2018 financial year period and STI achieved by each member of KMP is set out below:

| | | | | Payment | |
|---|---|---|---|---|---|
| KMP | STI at target | STI achievement | STI achievement $ | Cash $ | STI portion deferred $ |
| S Malcolm | 750,000 | 81.7% | 612,750 | 306,375 | 306,375 |
| A Smith | 210,000 | 72.5% | 152,250 | 114,188 | 38,063 |
| S Verth | 221,770[1] | 72.5% | 160,783 | 120,587 | 40,196 |
| C Pendleton-Browne | 210,000 | 0% | – | – | – |
| W Glasgow | N/A | N/A | N/A | N/A | N/A |

Mr Malcolm's performance was assessed by the Board on the following financial and non-financial key performance indicators:

- Deliver EBITDA of $32m through strong operational execution;
- Manage risk to ensure no major risk events were incurred during 2018;
- Develop a detailed client insight program that can improve Cost Per Registration, drive positive trend in NPS and increase activity from both active and inactive clients;
- Deliver the Company's technology program on budget, on time and on expectation to drive a better client experience; and
- Deliver investment cases for Board consideration for further investment.

**ESP**

Australian Accounting Standards require the shares be treated as options for accounting purposes due to the structure of the plan. The shares are not subject to an exercise price and the amounts receivable from participants in relation to these loans are not recognised in the consolidated financial statements. The details of notional options held by executives under the Executive Share Plan during the year ended 31 March 2018 are set out in the tables below.

*1 Includes payment of FY18 STI in accordance with sign on agreement.*

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| Issuance | Grant date | Vesting date | Expiry date | Price per share at grant date | Performance achieved | % vested |
|---|---|---|---|---|---|---|
| Share-based loan (tranche 1) | 30 September 2016 | 7 June 2019 | 6 June 2021 | 0.74 | To be determined | – |
| Share-based loan (tranche 2) | 30 September 2016 | 7 June 2020 | 6 June 2022 | 0.81 | To be determined | – |
| Share-based loan (tranche 3) | 30 September 2016 | 7 June 2021 | 6 June 2023 | 0.87 | To be determined | – |
| FY18 share-based loan | 22 September 2017 | 7 June 2020 | 6 June 2022 | 0.65 | To be determined | – |

The number and value of notional options held by KMP under the ESP during the 2018 financial year is set out below.

| | Held at 1 April 2017 | Granted during the year | Exercised during the year | Lapsed during the year | Held at 31 March 2018 | Value of options at grant date $ |
|---|---|---|---|---|---|---|
| **Current KMP** | | | | | | |
| A Smith | 500,000 | – | – | – | **500,000** | 401,698 |
| S Malcolm | – | 1,877,166 | – | – | **1,877,166** | 1,220,158 |
| S Verth | – | 220,370 | – | – | **220,370** | 143,241 |
| C Pendleton-Browne[1] | 500,000 | – | – | (500,000) | **–** | 384,650 |
| **Former KMP** | | | | | | |
| M Ledsham | 500,000 | – | – | (500,000) | **–** | 384,650 |

**Loans to Executives under ESP**

The details of non-recourse loans provided to the executives under the ESP during the 2018 financial year are set out below. The value of the loan is calculated using the five-day volume weighted average price (VWAP) for the period prior to issue.

| Name | Held at 1 April 2017 $ | Advances during the year $ | Loan forgiveness during the year $ | Repayments during the year $ | Held at 31 March 2018 $ | Interest free value $ | Highest indebtedness during the year $ |
|---|---|---|---|---|---|---|---|
| **Current KMP** | | | | | | | |
| S Malcolm | – | 3,397,670 | – | (23,878) | **3,373,792** | 102,003 | 3,397,670 |
| A Smith | 1,057,860 | – | – | (13,755) | **1,044,105** | 60,814 | 1,057,860 |
| S Verth | – | 398,870 | – | (2,803) | **396,067** | 11,975 | 398,870 |
| W Glasgow | – | – | – | – | **–** | – | – |
| C Pendleton-Browne[1] | 1,057,860 | – | – | (1,057,860) | **–** | 42,091 | 1,057,860 |
| **Former KMP** | | | | | | | |
| M Ledsham[2] | 1,057,860 | – | – | (1,057,860) | **–** | 2,182 | 1,057,860 |

*1 C Pendleton-Browne was a KMP for the whole of the reporting period, however ceased to be KMP and an employee on 30 April 2018. Shares forfeited following C Pendleton-Browne ceasing to be an employee and will be dealt with in accordance with the terms of the ESP, the proceeds of which will satisfy the loan applicable to those shares.*

*2 M Ledsham ceased to be KMP on 13 April 2017 and shares forfeited will be dealt with in accordance with the terms of the ESP, the proceeds of which will satisfy the loan applicable to those shares.*

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**Legacy LTI Plan**

Performance rights, service rights and options as vested and on foot as at 31 March 2018.

*Performance rights*

On vesting, each performance right is convertible into one ordinary share of the Company. No exercise price is payable.

*Service rights*

Service rights are issued in certain circumstances as part of the initial employment arrangements for employees. The only vesting condition is ongoing employment at the vesting date. On vesting, each service right is convertible into one ordinary share of the Company. No exercise price is payable.

*Share options*

On vesting, each share option is convertible into one ordinary share of the Company. An exercise price of $2.49 is payable in order for the options to vest and must be exercised within 12 months of the vesting date. There were no share options issued during the year ended 31 March 2018.

Further information on share-based payments is set out in Note 22 of the Financial Report.

The details of performance rights, service rights and share options relating to the Legacy LTI Plan are set out below:

| Issuance | Grant date | Vesting date | Price per share at grant date | Performance achieved | % vested |
|---|---|---|---|---|---|
| Retention rights tranche 1[1] | 20 October 2014 | 7 June 2019 | 2.21 | To be determined | – |
| Retention rights tranche 2[1] | 20 October 2014 | 7 June 2019 | 2.21 | To be determined | – |
| Retention rights tranche 3 | 20 October 2014 | 7 June 2019 | 2.21 | To be determined | – |
| FY15 performance rights | 26 June 2015 | 7 June 2018 | 1.84 | No | – |
| Service rights Executive A | 16 October 2015 | 7 June 2017 | 2.51 | N/A | 100% |
| Service rights Executive B | 20 November 2015 | 20 November 2018 | 2.42 | N/A | 0% |
| Share options tranche 1 | 1 June 2015 | 30 June 2018 | 0.52 | N/A | – |
| Share options tranche 2 | 1 June 2015 | 30 June 2019 | 0.50 | N/A | – |

*1 The performance period of these tranches was modified in the 2017 financial year to align with tranche 3.*

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**Movement in share-based payments during the year**

The movement in the performance rights, service rights and share options during the year ended 31 March 2018 is outlined below:

| | Held at 1 April 2017 | Number granted during the year | Number vested during the year | Number forfeited during the year | Held at 31 March 2018 | Value of shares at 1 April 2017 $[1] | Value of vested shares $[1] | Value of shares forfeited $[1] | Value of shares at 31 March 2018 $[1] |
|---|---|---|---|---|---|---|---|---|---|
| **Current KMP** | | | | | | | | | |
| **A Smith** | | | | | | | | | |
| Service rights – Executive A | 92,829 | – | (92,829) | – | – | 233,001 | (233,001) | – | – |
| **C Pendleton-Browne[2]** | | | | | | | | | |
| Service rights – Executive B | 82,645 | – | – | (82,645) | – | 200,001 | – | (200,001) | – |
| **Former KMP** | | | | | | | | | |
| **M Ledsham[3]** | | | | | | | | | |
| Retention rights | 450,000 | – | – | (450,000) | – | 994,500 | – | (994,500) | – |
| FY15 performance rights | 59,838 | – | – | (59,838) | – | 101,102 | – | (101,102) | – |

**Transactions of KMP**

Shares held in the Company by KMP at the end of the financial year, excluding shares granted under the ESP, are set out below.

| | Held at 1 April 2017 | Exercise of share options or rights during the period | Other movements | Held at 31 March 2018 |
|---|---|---|---|---|
| **Current KMP** | | | | |
| S Malcolm | – | – | 26,970 | **26,970** |
| S Verth | – | – | 5,800 | **5,800** |
| A Smith | – | 92,829 | – | **92,829** |
| W Glasgow | – | – | – | **–** |
| C Pendleton-Browne[2] | – | – | – | **–** |
| **Former KMP** | | | | |
| M Ledsham[3] | 27,500 | – | – | **27,500** |

*1 The value of shares reflects the fair value at the time of grant.*
*2 C Pendleton Browne was a KMP for the whole of the reporting period, however ceased to be KMP and an employee on 30 April 2018.*
*3 Ceased to be KMP on 13 April 2017. The balance above is reflective of the known balance at resignation date.*

The percentage of remuneration received as fixed pay and at-risk pay during the year ended 31 March 2018 by the Executive KMP is outlined below:

**Fixed and at-risk remuneration**

| | | At risk – STI | | At risk – LTI | | |
|---|---|---|---|---|---|---|
| Name | Fixed remuneration | Deferred | Cash bonus | Rights | Options | Share loan |
| S Malcolm | 43% | 17% | 20% | – | – | 20% |
| A Smith | 65% | 6% | 22% | 5% | – | 2% |
| S Verth | 48% | 9% | 33% | – | – | 10% |
| W Glasgow | 100% | – | – | – | – | – |
| C Pendleton-Browne[1] | 167% | – | 1% | (37%) | – | (31%) |

## 8. Non-Executive Director disclosure

### Fee framework

The Board seeks to set fees for the Non-Executive Directors that reflect the demands which are made on and the responsibilities of the Directors, and at a level which will attract and retain directors of the highest quality.

Non-Executive Director fees will be reviewed from time to time and they may seek the advice of external remuneration advisors for this purpose. There were no changes in fees during the year.

### Fee pool

The maximum payable to be shared by all Non-Executive Directors is currently set at $1,000,000 per annum, which was approved by shareholders in General Meeting prior to the Company's listing on the ASX in 2013. To preserve independence, Non-Executive Directors do not receive any equity as part of their remuneration and do not receive any performance related compensation. Non-Executive Directors receive superannuation contributions where required by Superannuation Guarantee legislation.

### Fees applicable for 2018

| Role | $ |
|---|---|
| Chairperson fee | 200,000 |
| Base Director fee | 100,000 |
| Committee Chair fee | 25,000 |
| Committee Member fee | 15,000 |

*1 C Pendleton-Browne was a KMP for the whole of the reporting period, however ceased to be KMP and an employee on 30 April 2018.*

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**Statutory Non-Executive Director fees for the year ended 31 March 2018**

Details of the fees paid to the Non-Executive Directors are outlined below:

| | | Short-term employee benefits | Post-employment benefits | |
|---|---|---|---|---|
| **Non-Executive Directors** | **Year** | **Cash salary and fees** | **Superannuation** | **Total** |
| S Sargent[1] | 2018 | 210,130 | 19,870 | **230,000** |
| | 2017 | 118,850 | 11,198 | **130,048** |
| M Conrad | 2018 | 127,854 | 12,146 | **140,000** |
| | 2017 | 127,854 | 12,146 | **140,000** |
| G Murdoch | 2018 | 114,155 | 10,845 | **125,000** |
| | 2017 | 114,155 | 10,845 | **125,000** |
| D Snedden | 2018 | 118,721 | 11,279 | **130,000** |
| | 2017 | 118,721 | 11,279 | **130,000** |
| P Warne[2] | 2018 | – | – | **–** |
| | 2017 | 131,334 | 12,175 | **143,509** |
| **Total Non-Executive Director remuneration** | **2018** | **570,860** | **54,140** | **625,000** |
| | **2017** | **610,914** | **57,643** | **668,557** |

## 9. Non-Executive Director shareholdings

Details of the Non-Executive Directors' and their affiliates' shareholdings in OFX Group Limited are set out below:

| **Non-Executive Directors** | **Year** | **Shares held at the beginning of the year** | **Movement** | **Shares held at the end of the year** |
|---|---|---|---|---|
| S Sargent | 2018 | 100,000 | – | **100,000** |
| | 2017 | – | 100,000 | **100,000** |
| M Conrad | 2018 | 100,000 | – | **100,000** |
| | 2017 | 100,000 | – | **100,000** |
| G Murdoch | 2018 | 245,000 | – | **245,000** |
| | 2017 | 145,000 | 100,000 | **245,000** |
| D Snedden | 2018 | 100,000 | – | **100,000** |
| | 2017 | 39,000 | 61,000 | **100,000** |

## 10. Securities Trading Policy

All Directors and employees are required to comply with the Group's Securities Trading Policy in undertaking any trading in the Company's shares and may not trade if they are in possession of any inside information. Directors and employees can only trade during the specified trading windows immediately following the release of the half year and full year results and the annual meeting. In addition, Directors and certain restricted employees may only trade during the trading windows with prior written clearance as set out in the Policy. The Policy prohibits employees who participate in any equity-based plan from entering into any transaction in relation to unvested securities which would have the effect of limiting the economic risk of an unvested security.

*1 S Sargent commenced as Non-Executive Director on 4 August 2016.*
*2 P Warne ceased as Non-Executive Director on 14 November 2016.*

## 11. Outlook

The Group will continue to review and adjust its reward mechanisms annually, as required, to ensure that its long-term growth aspirations are met.

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

On behalf of the Board

22 May 2018



Steven Sargent
Chairman



Skander Malcolm
Chief Executive Officer and Managing Director

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# Auditor's Independence Declaration

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## Auditor's Independence Declaration

As lead auditor for the audit of OFX Group Limited for the year ended 31 March 2018, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of OFX Group Limited and the entities it controlled during the period.



CPG Cooper
Partner
PricewaterhouseCoopers

Sydney
22 May 2018

***PricewaterhouseCoopers, ABN 52 780 433 757***
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Liability limited by a scheme approved under Professional Standards Legislation.

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# Financial Statements

## Consolidated Statement of Comprehensive Income

For the year ended 31 March 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| Fee and trading income | 2 | **119,022** | 114,063 |
| Fee and commission expense | 2 | **(10,662)** | (10,117) |
| Net income | | **108,360** | 103,946 |
| | | | |
| Interest and other income | 2 | **1,563** | 1,169 |
| **Net operating income** | | **109,923** | 105,115 |
| | | | |
| Employment expenses | 3 | **(46,104)** | (42,772) |
| Promotional expenses | | **(16,127)** | (16,303) |
| Occupancy expenses[1,2] | 3 | **(4,018)** | (4,091) |
| Other operating expenses[1,2] | 3 | **(13,849)** | (14,197) |
| **Earnings before interest expense, tax, depreciation and amortisation (EBITDA)**[1,2] | | **29,825** | 27,752 |
| Depreciation and amortisation expense[1,2] | 3 | **(4,919)** | (3,765) |
| **Net profit before income tax** | | **24,906** | 23,987 |
| Income tax expense | 4 | **(6,219)** | (4,391) |
| | | | |
| **Net profit attributable to ordinary shareholders** | | **18,687** | 19,596 |
| | | | |
| **Other comprehensive income** | | | |
| *Other comprehensive income that may be reclassified to profit and loss* | | | |
| Exchange differences on translation of foreign operations, net of hedging | | **(29)** | (65) |
| | | | |
| **Total comprehensive income attributable to ordinary shareholders** | | **18,658** | 19,531 |
| | | | |
| **Earnings per share attributable to ordinary shareholders:** | | **Cents** | **Cents** |
| Basic | 6 | **7.79** | 8.17 |
| Diluted | 6 | **7.69** | 8.05 |

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

*1 Refer to 'Changes to presentation' on page 53.*
*2 Comparative information has been restated to conform with presentation in the current year.*

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# Financial Statements

## Consolidated Statement of Financial Position

For the year ended 31 March 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash held for own use[1,2] | 7 | **47,252** | 32,535 |
| Cash held for settlement of client liabilities[1,2] | 7 | **155,826** | 115,924 |
| Deposits due from financial institutions | 7 | **10,189** | 10,114 |
| Derivative financial assets | 9 | **12,930** | 14,154 |
| Prepayments | | **2,874** | 2,402 |
| Other receivables[2] | 8 | **1,882** | 2,133 |
| Property, plant and equipment | 12 | **3,874** | 5,473 |
| Intangible assets | 13 | **7,246** | 5,456 |
| Prepaid current income tax | | **–** | 2,238 |
| Deferred income tax assets | 5 | **215** | 219 |
| **Total assets** | | **242,288** | 190,648 |
| | | | |
| **Liabilities** | | | |
| Client liabilities[1,2] | 7, 8 | **156,867** | 116,894 |
| Derivative financial liabilities | 9 | **10,690** | 7,351 |
| Other creditors and accruals | 14 | **6,133** | 7,047 |
| Provisions | 15 | **4,562** | 1,763 |
| Current tax liabilities | | **944** | – |
| Deferred income tax liabilities | 5 | **98** | 120 |
| Total liabilities | | **179,294** | 133,175 |
| Net assets | | **62,994** | 57,473 |
| | | | |
| **Equity** | | | |
| Ordinary share capital | 18 | **24,360** | 24,360 |
| Retained earnings | | **37,608** | 31,636 |
| Foreign currency translation reserve | | **184** | 213 |
| Share-based payments reserve | | **842** | 1,264 |
| Total equity attributable to shareholders | | **62,994** | 57,473 |

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

*1 Refer to 'Changes to presentation' on page 53.*
*2 Comparative information has been restated to conform with presentation in the current year.*

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# Financial Statements

## Consolidated Statement of Changes in Equity

For the year ended 31 March 2018

| | Notes | Ordinary share capital $'000 | Retained earnings $'000 | Foreign currency translation reserve $'000 | Share-based payments reserve $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|
| **Balance at 1 April 2016** | | 24,360 | 26,293 | 278 | 2,298 | 53,229 |
| Net profit | | – | 19,596 | – | – | 19,596 |
| Other comprehensive income | | – | – | (65) | – | (65) |
| Total comprehensive income | | – | 19,596 | (65) | – | 19,531 |
| Transactions with shareholders in their capacity as shareholders: | | | | | | |
| Dividends paid | 19 | – | (14,253) | – | – | (14,253) |
| Expenses related to share-based payments | 22 | – | – | – | (1,034) | (1,034) |
| | | – | (14,253) | – | (1,034) | (15,287) |
| **Balance at 31 March 2017** | | 24,360 | 31,636 | 213 | 1,264 | 57,473 |
| Net profit | | **–** | **18,687** | **–** | **–** | **18,687** |
| Other comprehensive income | | **–** | **–** | **(29)** | **–** | **(29)** |
| Total comprehensive income | | **–** | **18,687** | **(29)** | **–** | **18,658** |
| Transactions with shareholders in their capacity as shareholders: | | | | | | |
| Dividends paid | 19 | **–** | **(12,715)** | **–** | **–** | **(12,715)** |
| Expenses related to share-based payments | 22 | **–** | **–** | **–** | **(422)** | **(422)** |
| | | **–** | **(12,715)** | **–** | **(422)** | **(13,137)** |
| **Balance at 31 March 2018** | | **24,360** | **37,608** | **184** | **842** | **62,994** |

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

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# Financial Statements

## Consolidated Statement of Cash Flows

For the year ended 31 March 2018

| | Notes | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| **Cash flows from operating activities**[1] | | | |
| Profit from ordinary activities after income tax | | **18,687** | 19,596 |
| *Adjustments to profit from ordinary activities* | | | |
| Depreciation and amortisation | | **4,919** | 3,765 |
| Movement in share-based payment reserve | | **(422)** | (1,034) |
| Foreign exchange revaluation | | **(665)** | (1,706) |
| Fair value changes on financial assets and liabilities through profit/(loss) | | **4,563** | (123) |
| Movement in foreign currency translation reserve | | **(29)** | (65) |
| *Operating cash flow before changes in working capital* | | **27,053** | 20,433 |
| **Changes in assets and liabilities** | | | |
| (Increase) in prepayments and other receivables | | **(221)** | (639) |
| Decrease in deferred tax assets | | **4** | 1,091 |
| (Increase)/decrease in cash held for client liabilities | | **(39,902)** | 8,903 |
| Increase/(decrease) in amounts due to clients | | **39,973** | (8,627) |
| (Decrease)/increase in accrued charges and creditors | | **(914)** | 2,293 |
| (Decrease)/increase in deferred tax liabilities | | **(22)** | 98 |
| Increase/(decrease) in provisions | | **2,799** | (704) |
| Increase/(decrease) in tax provision | | **3,182** | (293) |
| **Net cash flows from operating activities**[1] | | **31,952** | 22,555 |
| **Cash flows from investing activities** | | | |
| Payments for property, plant and equipment | | **(243)** | (821) |
| Payments for intangible assets | | **(4,867)** | (4,601) |
| Cash deposited with financial institutions | | **(75)** | 10,688 |
| **Net cash flows from investing activities** | | **(5,185)** | 5,266 |
| **Cash flows from financing activities** | | | |
| Dividends paid | 19 | **(12,715)** | (14,253) |
| **Net cash flows from financing activities** | | **(12,715)** | (14,253) |
| **Net increase in cash held for own use** | | **14,052** | 13,568 |
| Cash held for own use at the beginning of the year | | **32,535** | 17,261 |
| Exchange gains on cash held for own use | | **665** | 1,706 |
| **Cash held for own use at the end of the year** | 7 | **47,252** | 32,535 |
| *Including cash held for settlement of client liabilities (classified as operating activities)* | | | |
| Cash held for settlement of client liabilities at the beginning of the year | | **115,924** | 124,827 |
| Cash inflows from clients | | **21,160,084** | 19,368,113 |
| Cash outflows to clients | | **(21,122,033)** | (19,377,341) |
| Exchange gain on cash held for client liabilities | | **1,851** | 325 |
| **Cash held for settlement of client liabilities at the end of the year** | 7 | **155,826** | 115,924 |
| **Total cash and cash equivalents** | 7 | **203,078** | 148,459 |

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

*1 Refer to 'Changes to presentation' on page 53.*

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# Notes to the Financial Statements

## About this Report

For the year ended 31 March 2018

## ABOUT THIS REPORT

OFX Group Limited (the Company) is a company limited by shares, incorporated and domiciled in Australia. Its shares are publicly traded on the Australian Securities Exchange. This financial report presents the consolidated performance, position and cash flows of OFX Group Limited and its subsidiaries (the Group). The Group is for-profit for the purpose of preparing the financial statements. The accounting policies explained in this report are consistent for all the periods presented unless otherwise stated. The Directors have the power to amend and reissue the financial report.

The financial report is a general purpose financial report which:

- Is prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001* (Cth). Consequently, this financial report has also been prepared in accordance with and complies with IFRS as issued by the IASB.
- Has been prepared under the historical cost convention except for derivatives and share-based payments which are measured at fair value.
- Presents reclassified comparative information where required for consistency with the current year's presentation.
- Is presented in Australian dollars with all values rounded to the nearest thousand dollars in accordance with ASIC Legislative Instrument 2016/191 unless otherwise indicated.

No new Accounting Standards or amendments to Accounting Standards became effective in the current year and had a material impact on the Group. Refer to Note 26 for further details.

### Critical estimates and judgements

Preparing the financial report requires judgement in applying the accounting policies and calculating certain critical accounting estimates. The Group's critical accounting estimates and significant judgements are:

- Fair value of financial instruments (Note 10).
- Share-based payments (Note 22).

### Basis of consolidation

The consolidated financial report comprises the assets and liabilities of all subsidiaries of OFX Group Limited ('the Group') as at 31 March 2018 and the results of all subsidiaries for the year then ended. A list of controlled entities at year end is contained in Note 21.

Subsidiaries are all those entities over which the Group has the power to direct the relevant activities, exposure to significant variable returns and the ability to utilise power to affect the Group's own returns. The determination of control is based on current facts and circumstances and is continuously assessed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the separate financial statements of Ozforex Limited in accordance with AASB 127 *Separate Financial Statements*.

*1 Refer to 'Changes in Presentation' on page 53.*

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# Notes to the Financial Statements

## About this Report

For the year ended 31 March 2018

### Functional and presentation currency

Foreign operations are measured in the Group's financial statements using the currency of the primary economic environment in which the foreign operation operates (the functional currency). The functional currencies of overseas subsidiaries are listed in Note 21.

The Group's financial statements are presented in Australian dollars, which is the Group's functional and presentation currency. Exchange differences arising on translation of investments in foreign controlled entities that do not have an Australian dollar functional currency are recognised in the foreign currency translation reserve.

### GST

Revenues, expenses and fixed assets are recognised net of the associated GST, unless the GST is not recoverable from the relevant taxation authority.

Receivables and creditors are presented including the GST. The net GST recoverable from, or payable to, each taxation authority is presented in other receivables or other payables.

Cash flows are presented including GST. The GST components of the cash flows arising from investing or financing activities which are recoverable from, or payable to, the taxation authority, are presented as operating cash flows.

### Changes to presentation

#### The Consolidated Statement of Comprehensive Income

- Includes recognition of expenses classified by nature in the current period. This approach is determined to most accurately reflect the relevant components of the Group's financial performance. Expenses have previously been classified by function.
- Has been presented with an additional subtotal demonstrating earnings before interest expense, taxation, depreciation and amortisation (EBITDA). EBITDA is the measure used by the Group internally to evaluate performance, establish strategic goals and to allocate resources. EBITDA is a non-audited financial measure commonly used to benchmark performance.

#### The Consolidated Statement of Financial Position

Current period Cash and cash equivalents balances have been updated to present separately:

- Cash balances held for own use; and
- Balances held for subsequent settlement of client liabilities.

This has been determined most effective to the user's understanding of the Group's own cash balances compared with cash balances held to settle client liabilities.

Cash and cash equivalent balances were previously presented as a single balance combining cash balances held for own use and balances held for subsequent settlement of client liabilities.

#### The Consolidated Statement of Cash Flows

- Has been presented applying the indirect method in the current period. Profit has been adjusted for non-cash items, deferrals or accruals of past or future operating cash receipts or payments, and items of income or expense associated with investing or financing cash flows.
- This is determined most appropriate to demonstrate the cash flow of the Group's cash held for own use and demonstrate separately the cash flow of client funds. The Consolidated Statement of Cash Flows was previously. presented applying the direct method.

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# Notes to the Financial Statements

## Segment Information

For the year ended 31 March 2018

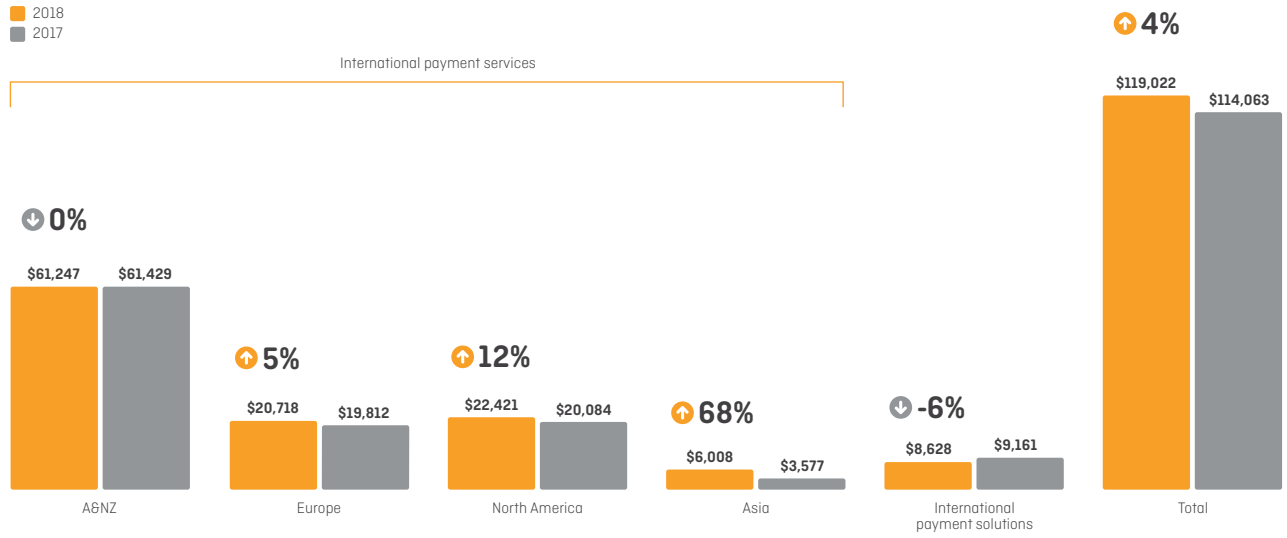
## NOTE 1. SEGMENT INFORMATION

The operating segments presented below reflect how senior management and the board of directors (the chief operating decision makers) allocate resources to the segments and review their performance. The chief operating decision makers examine the performance both from a product and geographic perspective and have identified five reportable segments.

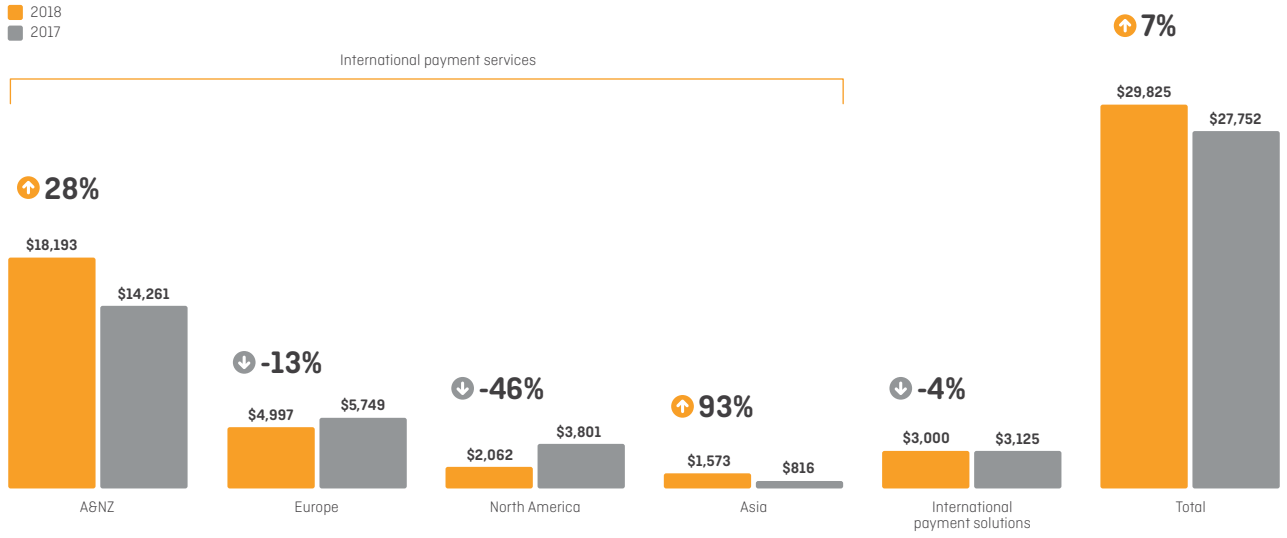
The two products are international payment services and international payment solutions:

- International payment services are monitored by geographic region (based on client location) and provide bank to bank currency transfers servicing businesses and consumers.
- International payment solutions are monitored globally and provide strategic partners with a package which includes: OFX IT platform; client service; compliance sophistication; banking relationships; and payments capabilities.

**Segment fee and trading income – 2018 v 2017 ($'000)[1]**




**Segment EBITDA – 2018 v 2017 ($'000)[1]**




*1 Comparative information has been restated to conform with presentation in the current year.*

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# Notes to the Financial Statements

## Segment Information

For the year ended 31 March 2018

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Group EBITDA**[1] | **29,825** | 27,752 |
| Depreciation and amortisation | **(4,919)** | (3,765) |
| Net profit before income tax | **24,906** | 23,987 |
| Income tax expense | **(6,219)** | (4,391) |
| **Net profit** | **18,687** | 19,596 |

| | International payment services | | | | | |
|---|---|---|---|---|---|---|
| **2018** | **Australia & New Zealand $'000** | **Europe $'000** | **North America $'000** | **Asia $'000** | **International payment solutions $'000** | **Consolidated $'000** |
| **Segment assets** | **161,832** | **32,546** | **56,049** | **17,550** | **–** | **267,977** |
| Intergroup eliminations | **(4,937)** | **(12,081)** | **–** | **(8,886)** | **–** | **(25,904)** |
| Deferred tax assets | | | | | | **215** |
| **Total assets** | | | | | | **242,288** |
| **Segment liabilities** | **(118,444)** | **(28,144)** | **(47,883)** | **(10,629)** | **–** | **(205,100)** |
| Intergroup eliminations | **–** | **–** | **25,904** | **–** | **–** | **25,904** |
| Deferred tax liabilities | | | | | | **(98)** |
| **Total liabilities** | | | | | | **(179,294)** |
| **2017** | | | | | | |
| **Segment assets**[1] | 134,155 | 21,915 | 30,823 | 11,772 | – | 198,665 |
| Intergroup eliminations | (1,934) | (6,302) | – | – | – | (8,236) |
| Deferred tax assets | | | | | | 219 |
| **Total assets** | | | | | | 190,648 |
| **Segment liabilities**[1] | (92,424) | (19,277) | (24,197) | (5,393) | – | (141,291) |
| Intergroup eliminations | 3 | – | 5,559 | 2,674 | – | 8,236 |
| Deferred tax liabilities | | | | | | (120) |
| **Total liabilities** | | | | | | (133,175) |

*1 Comparative information has been restated to conform with presentation in the current year.*

# Notes to the Financial Statements

Results for the Year

For the year ended 31 March 2018

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## NOTE 2. REVENUE

### Fee and trading income

Fee and trading income consists of the foreign currency transaction margins, fees charged on low-value transactions and changes in exchange rates between the time when a client rate is agreed and a subsequent hedge transaction is entered into by the Group.

Fee and trading income is presented inclusive of realised and unrealised income earned from the sale of foreign currency contracts to clients.

### Fee and commission expense

Fee and commission expenses are transactional banking fees and commissions paid to strategic and referral partners.

### Interest income

Interest income is recognised using the effective interest rate method, which spreads fees and costs associated with an interest bearing receivable across its life.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Realised margin and fees on foreign exchange contracts | **122,501** | 112,279 |
| Unrealised losses on foreign exchange contracts | **(4,204)** | (79) |
| Revaluation of foreign exchange assets and liabilities | **725** | 1,863 |
| Fee and trading income | **119,022** | 114,063 |
| Fee and commission expense | **(10,662)** | (10,117) |
| Net income | **108,360** | 103,946 |
| Interest and other income | **1,563** | 1,169 |
| **Net operating income** | **109,923** | 105,115 |

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# Notes to the Financial Statements

## Results for the Year

For the year ended 31 March 2018

## NOTE 3. EXPENSES

Refer to Note 22 for details of the Group's share-based payments, Note 15 for details of the employee provisions and Notes 12 and 13 for details on property, plant and equipment and intangibles.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Employment expenses** | | |
| Salaries and related costs including commissions | **(38,657)** | (38,144) |
| Employee short-term incentives | **(2,833)** | (35) |
| Share-based payments | **202** | 229 |
| Defined contribution plan | **(2,283)** | (2,250) |
| Total employee compensation expense | **(43,571)** | (40,200) |
| Other employment expenses (on-costs, recruitment and staff training) | **(2,533)** | (2,572) |
| **Total employment expenses** | **(46,104)** | (42,772) |
| **Occupancy expenses** | | |
| Operating lease rentals | **(2,652)** | (2,988) |
| Other occupancy expenses | **(1,366)** | (1,103) |
| **Total occupancy expenses** | **(4,018)** | (4,091) |
| **Other operating expenses** | | |
| Professional fees | **(2,047)** | (2,403) |
| Information technology | **(5,177)** | (4,794) |
| Communication | **(665)** | (701) |
| Compliance | **(1,995)** | (2,158) |
| Insurance | **(822)** | (841) |
| Travel | **(862)** | (1,058) |
| Bad and doubtful debts | **(663)** | (484) |
| Non-recoverable GST | **(224)** | (285) |
| Other expenses | **(1,394)** | (1,473) |
| **Total other operating expenses** | **(13,849)** | (14,197) |
| **Depreciation and amortisation** | | |
| Depreciation of furniture, fittings and leasehold improvements | **(1,261)** | (1,325) |
| Depreciation of computer equipment | **(581)** | (535) |
| Amortisation of website and mobile applications | **(2,295)** | (1,536) |
| Amortisation of software | **(782)** | (369) |
| **Total depreciation and amortisation** | **(4,919)** | (3,765) |

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# Notes to the Financial Statements

Results for the Year

For the year ended 31 March 2018

## NOTE 4. INCOME TAXES

Income tax expense is the tax payable on the current period's taxable income adjusted for changes in deferred income tax. Changes in deferred tax assets and liabilities are due to temporary timing differences and to unused tax losses.

Current income tax is based on tax laws enacted or substantively enacted in each jurisdiction of the Group's operations at the end of the reporting period. If required, provisions are established for the amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method at the tax rates expected to apply when the assets are recovered or the liabilities are settled. Deferred tax assets and liabilities arise on temporary differences between the tax base of assets and liabilities and their carrying amounts. In addition, deferred tax assets may be recognised due to unused tax losses. Amounts are only recognised to the extent it is probable future taxable amounts will be available to use those temporary differences or tax losses.

Deferred tax assets and liabilities are offset when:

- There is a legally enforceable right to offset current tax assets and liabilities; and
- The deferred tax balances relate to the same taxation authority.

Current tax assets and liabilities are offset when:

- There is a legally enforceable right to offset; and
- There is an intention to settle on a net basis.

Current and deferred taxes attributable to amounts recognised directly in equity are also recognised directly in equity.

### Tax consolidation

The tax consolidation legislation was adopted by the Group as of 15 October 2013. As a consequence, Ozforex Limited and its wholly-owned Australian controlled entities are taxed as a single entity. The Group has a tax year ending on 30 September.

### Offshore Banking Unit

Ozforex Limited, a subsidiary of OFX Group Limited, was declared an Offshore Banking Unit (OBU) on 10 October 2015. In accordance with Australian income tax legislation, assessable offshore banking (OB) income derived by the OBU is taxable at a concessional rate of 10%. OB income includes revenue earned on foreign exchange transactions with offshore counterparties, excluding those with any AUD component.

**a) Income tax expense**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Current tax expense | **6,237** | 3,782 |
| Adjustments to current tax of prior years[1] | **–** | (580) |
| Total current tax expense | **6,237** | 3,202 |
| Deferred income tax (benefit)/expense | **(18)** | 1,189 |
| **Total income tax expense** | **6,219** | 4,391 |

*1 The prior period tax adjustment reflected in the prior year relates to OBU transactions included within the period from 10 October 2015 to 31 March 2016.*

# Notes to the Financial Statements

## Results for the Year

For the year ended 31 March 2018

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**b) Reconciliation of income tax expense to prima facie tax payable**

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Net profit before income tax | **24,906** | 23,987 |
| Prima facie income tax expense at 30% (2017: 30%) | **7,472** | 7,196 |
| Decrease in tax expense as a result of operating as an OBU in the current period | **(995)** | (1,060) |
| Decrease in tax expense as a result of operating as an OBU in a prior period[1] | **–** | (580) |
| Research and Development tax credits | **(149)** | (817) |
| Other items | **(109)** | (348) |
| **Total income tax expense** | **6,219** | 4,391 |

## NOTE 5. DEFERRED INCOME TAX ASSETS/(LIABILITIES)

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| **Deferred income tax assets** | | |
| The balance comprises temporary differences attributable to: | | |
| Provisions and accrued expenses | **1,241** | 951 |
| IPO expenditure deemed capital for taxation | **348** | 1,043 |
| Tax credit carry forward | **174** | 239 |
| Financial instruments | **–** | 3 |
| Property, plant and equipment | **13** | – |
| Total deferred income tax assets – before offset | **1,776** | 2,236 |
| Offset deferred income tax liabilities (refer Note 4 for accounting policy) | **(1,561)** | (2,017) |
| **Net deferred income tax assets – after offset** | **215** | 219 |
| | | |
| **Deferred income tax liabilities** | | |
| Tax credit carry forward | **(966)** | – |
| Financial instruments | **(635)** | (2,004) |
| Property, plant and equipment | **(58)** | (133) |
| Total deferred income tax liabilities – before offset | **(1,659)** | (2,137) |
| Offset deferred income tax assets (refer Note 4 for accounting policy) | **1,561** | 2,017 |
| **Net deferred income tax liabilities – after offset** | **(98)** | (120) |
| | | |
| **Net deferred income tax assets** | **117** | 99 |

*1 The prior period tax adjustment reflected in the prior year relates to OBU transactions included within the period from 10 October 2015 to 31 March 2016.*

# Notes to the Financial Statements

Results for the Year

For the year ended 31 March 2018

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## NOTE 6. EARNINGS PER SHARE

### Earnings per share

Basic earnings per share shows the profit attributable to each ordinary share. It is calculated as the net profit attributable to ordinary shareholders divided by the weighted average number of ordinary shares in each year.

Diluted earnings per share shows the profit attributable to each ordinary share if all the dilutive potential ordinary shares had been ordinary shares.

There are no discontinued operations of the Group.

| (a) Earnings per share | 2018 Cents | 2017 Cents |
|---|---|---|
| Basic | **7.79** | 8.17 |
| Diluted | **7.69** | 8.05 |
| **(b) Earnings** | **$'000** | **$'000** |
| Net profit attributable to ordinary shareholders used to calculate basic and diluted earnings per share | **18,687** | 19,596 |
| **(c) Weighted average number of shares** | | |
| Weighted average number of ordinary shares used to calculate basic earnings per share | **240,000,000** | 240,000,000 |
| Dilutive potential ordinary shares | **3,032,889** | 3,465,211 |
| Weighted average number of ordinary shares used as the denominator in calculating diluted earnings per share | **243,032,889** | 243,465,211 |

# Notes to the Financial Statements

## Financial Assets and Liabilities

For the year ended 31 March 2018

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## NOTE 7. CASH AND CASH EQUIVALENTS, CLIENT LIABILITIES, AND DEPOSITS DUE FROM FINANCIAL INSTITUTIONS

Cash and cash equivalents includes cash on hand and deposits held at short call with financial institutions with an original maturity of less than three months (together, 'cash held for own use') and cash held for subsequent settlement of client liabilities.

Cash held for subsequent settlement of client liabilities represents transactions in progress where amounts have been received by the Group but the corresponding payment has not yet occurred. They are unsecured and short-term in nature and are recognised initially at their fair value. Client liabilities are initially measured at amortised cost using the effective interest method and are shown in cash net of client receivable balances which are recognised in other receivables (refer Note 8). Gross client liabilities total $156,867,000 as at 31 March 2018 (2017: $116,894,000).

Deposits due from financial institutions are primarily short-term deposits with an original maturity of greater than three months, but less than 12 months and are accounted for at the gross value of the outstanding balance and are held at amortised cost.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Cash held for own use | **47,252** | 32,535 |
| Cash held for settlement of client liabilities | **155,826** | 115,924 |
| Cash and cash equivalents | **203,078** | 148,459 |
| | | |
| Deposits due from financial institutions | **10,189** | 10,114 |
| Cash held for subsequent settlement of client liabilities | **(155,826)** | (115,924) |
| **Net cash held**[1] | **57,441** | 42,649 |

## NOTE 8. OTHER RECEIVABLES (CURRENT ASSETS)

Other receivables includes client receivables, GST receivables and other debtors. Other debtors includes rental deposits and interest receivable. Client receivables includes amounts settled on behalf of OFX Group clients that are yet to be received. All receivables are recognised at amortised cost, less any impairment. Interest is recognised in the Statement of Comprehensive Income using the effective interest method.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Client receivables | **1,041** | 970 |
| GST receivables | **283** | 474 |
| Other debtors | **558** | 689 |
| **Other receivables** | **1,882** | 2,133 |

*1 Includes $28,552,027 (2017: $21,413,469) which is held as collateral by counterparties for over the counter derivative transactions.*

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# Notes to the Financial Statements

## Financial Assets and Liabilities

For the year ended 31 March 2018

## NOTE 9. DERIVATIVE FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT AND LOSS

Derivative instruments entered into by the Group include foreign exchange forward contracts. They are principally used to offset foreign currency contracts with clients and as hedges over the group's net investment in foreign operations.

Derivatives are recognised at trade date and initially and subsequently measured at fair value. Movements in the carrying amounts of derivatives are recognised in net fee and trading income within the Consolidated Statement of Comprehensive Income.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Value of forward contracts – assets | **12,930** | 14,154 |
| Value of forward contracts – liabilities | **(10,690)** | (7,351) |
| **Net financial instruments at fair value** | **2,240** | 6,803 |

## NOTE 10. FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

OFX Group has categorised its financial instruments that are either measured in the Statement of Financial Position at fair value or of which the fair value is disclosed, into a three level hierarchy based on the priority of the inputs to the valuation.

A financial instrument's categorisation within the valuation hierarchy is based on the lowest level input that is significant to the fair value measurement. Cash and cash equivalents, amounts due from financial institutions, client liabilities, creditors and receivables are excluded from the fair value hierarchy as these instruments are held at amortised cost. Their fair value approximates the carrying value as they are short-term in nature.

| Level | Instruments | Valuation process |
|---|---|---|
| Level 1 - Traded in active markets and fair value is based on recent unadjusted quoted prices. | None – the Group does not hold any of these instruments. | Not applicable. |
| Level 2 - Not actively traded and fair value is based on valuation techniques which maximise the use of observable market prices. | Over the counter derivatives. | Foreign currency forward contract valuations are based on observable spot exchange rates and the yield curves of the respective currencies. |
| Level 3 – Not actively traded and fair value is based on at least one input which is not observable in the market due to illiquidity or complexity. | None – the Group does not hold any of these instruments. | Not applicable. |

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# Notes to the Financial Statements

Financial Assets and Liabilities

For the year ended 31 March 2018

## NOTE 11. FINANCIAL RISK MANAGEMENT

### Risk management

The Group is exposed to the following risks, and manages this in the following ways:

| Type of risk | How the risk is managed |
|---|---|
| **Market risk** – Market risk is comprised of both foreign currency risk and interest rate risk. | |
| **Foreign currency risk** – Arises from exposure to changes in foreign exchange rates between the time of agreeing rates with a client and either a corresponding hedge being taken out with a counterparty or an international payment settlement. Settlement typically occurs between 12 and 24 hours after the deal is entered or up to 12 months later for forward contracts with clients.<br>The Group is also exposed to the interest rate risk embedded in forward contracts offered to its clients to lock in exchange rates up to 12 months in advance. | To manage the movement in foreign exchange rates, the Group aggregates transactions and nets out buy transactions against sell transactions.<br>The Group then enters into forward foreign exchange hedging contracts with counterparty banks once exposure to a single currency reaches or exceeds a defined threshold. |
| **Interest rate risk** – Exposure to non-traded interest rate risk results from cash and term deposits held in different currencies. | Settlement of client liabilities between 12 and 24 hours of receipt of client cash results in low exposure to non-traded interest rate risk. |
| **Credit risk** – The risk that creditors (clients and financial institutions) will not make payments on their receivables and derivatives respectively, when they fall due. | The Group typically does not payout client deals until associated funds have been received.<br>In exceptional circumstances, senior management have the discretion to authorise same day payments, which can result in funds being paid prior to clearance of client funds. These transactions would only be approved for clients with a low risk of default and are pro-actively monitored to ensure timely settlement.<br>For forward deals part payments are required to be made by clients. Active monitoring of client balances ensures that adequate collateral is held.<br>The Group sets credit limits and obtains collateral with well-rated banking couterparties as security (where appropriate). |
| **Liquidity risk** – The risk that the Group is unable to meet the obligations of its financial liabilities when they are due. | Regular forecasts of the Group's liquidity requirements. Surplus cash is maintained in highly liquid instruments.<br>Continuous review of currency requirements in operating jurisdictions. Active maintenance of cash balances in currencies and geographical locations necessary to fund these requirements. |

Risk is managed on a globally consolidated basis for the Group. Risks in subsidiaries are subject to the same risk acceptance policies as the parent entity.

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# Notes to the Financial Statements

## Financial Assets and Liabilities

For the year ended 31 March 2018

### Market risk

The main component of the Group's market risk is exposure to foreign exchange rate fluctuations.

The Group's sensitivity to foreign exchange fluctuations risk by major currency held on the Consolidated Statement of Financial Position is shown below:

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| **Movement in exchange rate (basis points)[1]** | **+/-500** | **+/-500** | **+/-500** | **+/-500** |
| | **Sensitivity of profit before tax** | **Sensitivity of equity after tax** | **Sensitivity of profit before tax** | **Sensitivity of equity after tax** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| CAD | **(15)** | **(11)** | – | 3 |
| EUR | **(15)** | **159** | 24 | 36 |
| GBP | **6** | **(14)** | 83 | 32 |
| NZD | **(51)** | **(43)** | (1) | 4 |
| SGD | **(1)** | **(4)** | 2 | (3) |
| USD | **72** | **(174)** | (58) | (113) |
| Other | **37** | **60** | 15 | 79 |
| Total | **33** | **(27)** | 65 | 38 |

### Interest rate risk

The Group's sensitivity to movements in interest rates is as follows.

| | 31 March 2018 | | 31 March 2017 | |
|---|---|---|---|---|
| **Movement in exchange rate (basis points)[1]** | **+/-500** | **+/-500** | **+/-500** | **+/-500** |
| | **Sensitivity of profit before tax** | **Sensitivity of equity after tax** | **Sensitivity of profit before tax** | **Sensitivity of equity after tax** |
| | **$'000** | **$'000** | **$'000** | **$'000** |
| AUD | **421** | **316** | 356 | 252 |
| CAD | **36** | **27** | 33 | 25 |
| EUR | **85** | **67** | 42 | 32 |
| GBP | **90** | **67** | 60 | 43 |
| NZD | **50** | **36** | 55 | 39 |
| SGD | **17** | **12** | 6 | 4 |
| USD | **278** | **184** | 141 | 91 |
| Other | **89** | **70** | 100 | 77 |
| Total | **1,066** | **779** | 793 | 563 |

*1 Impact of positive movement shown. The impact of a negative movement is the inverse.*

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# Notes to the Financial Statements

## Financial Assets and Liabilities

For the year ended 31 March 2018

### Credit risk

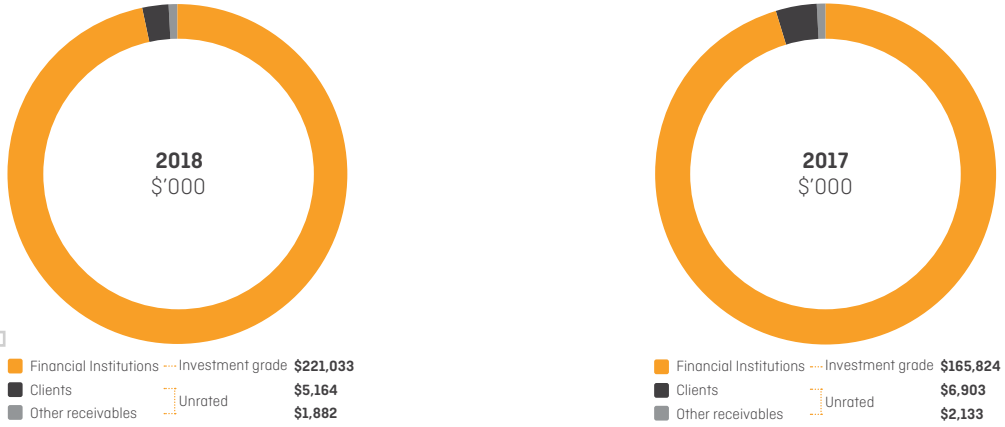
**Maximum exposure to credit risk and credit quality of financial assets**

The amounts shown represent the maximum exposure of the Group to credit risk at the end of the reporting period. This is equal to the carrying amount of each class of financial assets in the table below.

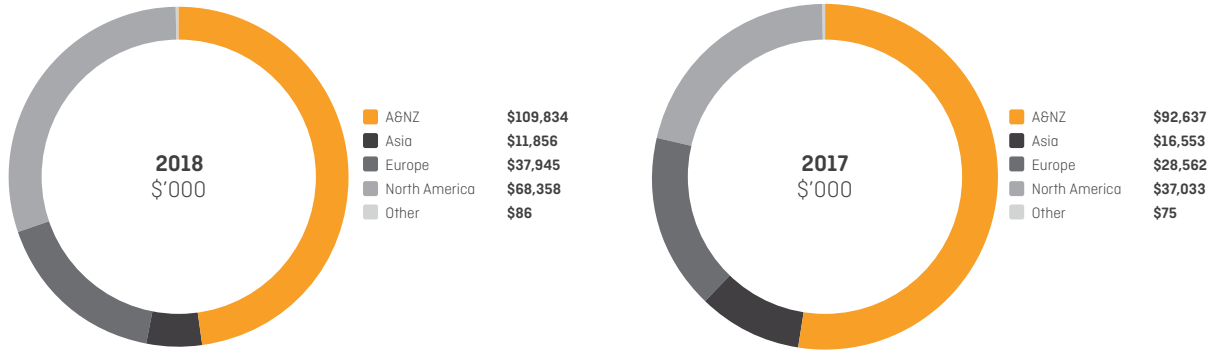
The Group uses internal credit ratings to manage the credit quality of its financial assets. The Group's financial assets held with financial institutions are investment grade (between Aaa-Baa3). There are no balances that are past due or impaired as at 31 March 2018 (2017: nil).

| | Rating | 2018 $'000 | 2017 $'000 |
|---|---|---|---|
| Cash and cash equivalents | Investment grade | **203,078** | 148,459 |
| Deposits due from financial institutions | Investment grade | **10,189** | 10,114 |
| Derivative assets – with financial institutions | Investment grade | **7,766** | 7,251 |
| Derivative assets – with clients | Unrated[1] | **5,164** | 6,903 |
| Other receivables[2] | Unrated[2] | **1,882** | 2,133 |
| **Total gross credit risk** | | **228,079** | 174,860 |

Credit risk exposure




Credit risk exposure by geography




*1 Unrated balances relate to amounts due from entities that are not graded by the Company or by a public ratings agency.*
*2 Comparative information has been restated to conform with presentation in the current year.*

# Notes to the Financial Statements

## Financial Assets and Liabilities

For the year ended 31 March 2018

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### Liquidity risk

**Maturity profile of obligations**

The table below summarises the maturity profile of the Group's financial liabilities as at 31 March 2018 based on contractual undiscounted repayment cash flows. Derivatives are included in the less than three months column at their fair value, as they are frequently settled in the short term. Liquidity risk on these items is not managed on the basis of contractual maturity, since they are not held for settlement according to such maturity and will frequently be settled in the short term at fair value. Derivatives designated in a hedging relationship are included according to their contractual maturity.

| | On demand $'000 | 3 months or less $'000 | 3 to 12 months $'000 | 1 to 5 years $'000 | Over 5 years $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| **2017** | | | | | | |
| Other liabilities[1] | (1,534) | (118,541) | – | (349) | – | (120,424) |
| Derivative financial instruments | | | | | | |
| Inflows | – | 802,641 | 352,402 | 6,344 | – | 1,161,387 |
| (Outflows) | – | (791,098) | (357,000) | (6,488) | – | (1,154,586) |
| Total | (1,534) | (106,998) | (4,595) | (493) | – | (113,623) |
| **2018** | | | | | | |
| Other liabilities[1] | **(1,618)** | **(160,013)** | **(944)** | **(388)** | **–** | **(162,963)** |
| Derivative financial instruments | | | | | | |
| Inflows | **–** | **860,691** | **290,924** | **45,810** | **–** | **1,197,425** |
| (Outflows) | **–** | **(860,348)** | **(289,247)** | **(45,590)** | **–** | **(1,195,185)** |
| Total | **(1,618)** | **(159,670)** | **733** | **(168)** | **–** | **(160,723)** |

*1 Excludes items that are not financial instruments and non-contractual accruals and provisions.*

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# Notes to the Financial Statements

## Other Assets and Liabilities

For the year ended 31 March 2018

## NOTE 12. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

Assets are depreciated on a straight-line basis over their estimated useful lives, as follows:

| Asset class | Useful life |
|---|---|
| Furniture and fittings | 5 years |
| Leasehold improvements | Up to 5 years |
| Computer equipment | 3 years |

| | Furniture, fittings and leasehold improvements | Computer equipment | Total |
|---|---|---|---|
| **Year ended 31 March 2017** | | | |
| Cost | 7,459 | 3,451 | 10,910 |
| Less accumulated depreciation | (3,063) | (2,374) | (5,437) |
| **Net carrying amount** | 4,396 | 1,077 | 5,473 |
| **Movement** | | | |
| Balance at 31 March 2016 | 5,581 | 931 | 6,512 |
| Additions | 140 | 681 | 821 |
| Depreciation | (1,325) | (535) | (1,860) |
| **Balance at 31 March 2017** | 4,396 | 1,077 | 5,473 |
| **Year ended 31 March 2018** | | | |
| Cost | **7,488** | **3,665** | **11,153** |
| Less accumulated depreciation | **(4,324)** | **(2,955)** | **(7,279)** |
| **Net carrying amount** | **3,164** | **710** | **3,874** |
| **Movement** | | | |
| Balance at 31 March 2017 | **4,396** | **1,077** | **5,473** |
| Additions | **29** | **214** | **243** |
| Depreciation | **(1,261)** | **(581)** | **(1,842)** |
| **Balance at 31 March 2018** | **3,164** | **710** | **3,874** |

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# Notes to the Financial Statements

## Other Assets and Liabilities

For the year ended 31 March 2018

## NOTE 13. INTANGIBLE ASSETS

Costs directly incurred in acquiring and developing certain software are capitalised and amortised on a straight-line basis over the estimated useful life, three years. Costs incurred on software maintenance are expensed as incurred.

| | Website and application $'000 | Software $'000 | Total $'000 |
|---|---|---|---|
| **Year ended 31 March 2017** | | | |
| Cost | 5,908 | 2,328 | 8,236 |
| Less accumulated amortisation | (1,748) | (1,032) | (2,780) |
| **Net carrying amount** | 4,160 | 1,296 | 5,456 |
| **Movement** | | | |
| Balance at 31 March 2016 | 2,307 | 453 | 2,760 |
| Additions | 3,389 | 1,212 | 4,601 |
| Amortisation | (1,536) | (369) | (1,905) |
| **Balance at 31 March 2017** | 4,160 | 1,296 | 5,456 |
| **Year ended 31 March 2018** | | | |
| Cost[1] | **8,090** | **5,013** | **13,103** |
| Less accumulated amortisation[2] | **(4,043)** | **(1,814)** | **(5,857)** |
| **Net carrying amount** | **4,047** | **3,199** | **7,246** |
| **Movement** | | | |
| Balance at 31 March 2017 | **4,160** | **1,296** | **5,456** |
| Additions[1] | **2,182** | **2,685** | **4,867** |
| Amortisation[2] | **(2,295)** | **(782)** | **(3,077)** |
| **Balance at 31 March 2018** | **4,047** | **3,199** | **7,246** |

## NOTE 14. OTHER CREDITORS AND ACCRUALS (CURRENT LIABILITIES)

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Accrued charges and sundry liabilities | **4,601** | 4,430 |
| Trade creditors | **181** | 1,130 |
| Other liabilities | **1,351** | 1,487 |
| **Total other liabilities** | **6,133** | 7,047 |

*1 Includes $2,424,000 internally generated intangible assets comprising $511,000 website and application, and $1,912,000 software.*
*2 Includes $167,000 amortisation of internally generated software.*

# Notes to the Financial Statements

## Other Assets and Liabilities

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## NOTE 15. PROVISIONS

### Employee provisions

The Group has two employee short term incentive plans which are accrued as a liability and expensed over the annual service period until they are paid:

- The short term incentive plan for Executives and selected employees, which is based on annual Key Performance Indicators (KPIs) and comprises 15% to 50% of their Total Reward Remuneration (TRR).
- The staff profit share scheme for all other staff, which is based on the Group's earnings before tax growth and the individual employee's performance.

When the long service leave is not expected to be settled within 12 months of year end, the liabilities are measured as the present value of expected future payments using the projected unit credit method.

### Leasehold makegood provision

The Group holds a provision for makegood costs anticipated to be incurred in respect of office leases in Australia, London, Hong Kong and Canada. The provision is being accrued on a straight-line basis over the lease term.

| | Employee provisions | | | | |
|---|---|---|---|---|---|
| | Annual leave | Short term incentives | Long service leave | Leasehold makegood | Total |
| Carrying amount at beginning of the period | 1,428 | – | 335 | – | **1,763** |
| Additional provisions made | 2,504 | 3,043 | 95 | 138 | **5,780** |
| Release of provisions | (2,514) | (388) | (79) | – | **(2,981)** |
| **Carrying amount at the end of the period** | **1,418** | **2,655** | **351** | **138** | **4,562** |

All employee provisions are current liabilities apart from $199,559 (2017: $229,000) of long service leave which is non-current. All leasehold makegood provisions are non-current.

## NOTE 16. OPERATING LEASE COMMITMENTS

The Group leases offices under non-cancellable operating leases with original terms expiring within one to seven years. The leases have various escalation and extension clauses. The Group has no other commitments.

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Within one year | **2,817** | 2,754 |
| Between one and five years | **6,284** | 7,665 |
| After more than five years | **–** | 1,407 |
| **Total operating lease commitments** | **9,101** | 11,826 |

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# Notes to the Financial Statements

## Capital Structure

For the year ended 31 March 2018

## NOTE 17. CAPITAL MANAGEMENT

The Group's capital management strategy is to maximise shareholder value by optimising the level and use of capital, defined as share capital plus reserves. The Group's capital management objectives are to:

- Support the Group's business and operational requirements.
- Meet externally imposed capital requirements.
- Safeguard the Group's ability to continue as a going concern.

The Group has continued to meet its internal and externally imposed capital requirements this year and no breaches have occurred.

## NOTE 18. ORDINARY SHARE CAPITAL

Ordinary shares are classified as equity and measured based on the proceeds from issuing the shares less the directly attributable incremental costs, net of tax.

There are 240,000,000 fully paid ordinary shares (2017: 240,000,000). Ordinary shares entitle the holder to vote and to receive dividends and the proceeds of the Company if it is liquidated in proportion to the number of shares held.

There are 3,303,088 (2017: 1,933,218) restricted ordinary shares issued to KMP in connection with the ESL Plan. Refer to Note 22 for further information.

## NOTE 19. DIVIDENDS

Dividends are recognised as a liability and a reduction to retained earnings when declared. All dividends recognised in the year were fully franked (2017: all).

| | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Final dividend from the preceding year $0.029 (2017: $0.031) per share | **(6,960)** | (7,440) |
| Interim dividend $0.024 (2017: $0.028) per share | **(5,755)** | (6,720) |
| Dividend withholding tax | **–** | (93) |
| **Total dividends recognised and paid** | **(12,715)** | (14,253) |

On 22 May 2018, the Board determined a dividend of $0.03 per share ($7,296,000) as the final dividend for 2018. This dividend was determined after 31 March 2018 and so is not reflected in this financial report. As the Company is a holding company with no trading profits, this dividend will be funded through the profits of the subsidiaries.

| | |
|---|---|
| Ex-dividend date | 7 June 2018 |
| Record date | 8 June 2018 |
| Payment date | 22 June 2018 |

| **Franked dividends** | 2018 $'000 | 2017 $'000 |
|---|---|---|
| Franking credits available for subsequent financial years based on a tax rate of 30% (2017: 30%) | **3,696** | 6,972 |

The above amounts represent the balance of the franking account as at the end of the financial period, adjusted for the franking credits that will arise from paying the current tax liability, but before taking account of the final declared dividend for 2018.

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# Notes to the Financial Statements

## Other Items

For the year ended 31 March 2018

## NOTE 20. EVENTS OCCURRING AFTER BALANCE SHEET DATE

Other than the dividends presented in Note 19, there were no other material post balance sheet events occurring after the reporting date requiring disclosure in these financial statements.

## NOTE 21. RELATED PARTY INFORMATION

### Subsidiaries

The following entities are wholly-owned subsidiaries of the Group and all have a 31 March year end:

| Entity | Country of Incorporation | Functional currency |
|---|---|---|
| CanadianForex Limited | Canada | CAD |
| OzForex (HK) Limited | Hong Kong | HKD |
| OzForex Limited | Australia | AUD |
| OFX Australia Pty Limited | Australia | AUD |
| OFX Group Pty Limited | Australia | AUD |
| OFX (SNG) PTE. Limited | Singapore | SGD |
| NZForex Limited | New Zealand | NZD |
| UKForex Limited | United Kingdom | GBP |
| USForex Incorporated | United States | USD |

## NOTE 22. SHARE-BASED PAYMENTS

The Group has two employee share based payment plans, the Legacy LTI Plan and the Executive Share Plan (ESP), which are both equity-settled. The nature of the issuances under the plans are listed below:

| Issuance | Description |
|---|---|
| **ESP – Share loan** | Executives are provided with an interest free, non-recourse loan from the Group for the sole purpose of acquiring shares in the Company. Executives may not deal with the shares while the loan remains outstanding and any dividends paid on the shares are applied (on an after-tax basis) towards repaying the loan. Executives are entitled to exercise the voting rights attached to the shares from the date of allocation. If the Executive leaves the Group within the vesting period the shares allocated are returned to the Group, subject to discretion retained by the Directors. |
| **Legacy LTI Plan** | |
| Performance rights | Performance rights are issued to reward employees, including Executives, based on the Group's performance. The performance rights vest based on performance hurdles as set by the Board at the time of issuance. Performance rights are granted for no cost and are settled in shares on a one-for-one basis. |
| Service rights | Service rights are issued to employees at the discretion of the Board. The service rights vesting condition is ongoing employment at the vesting date. There are no performance hurdles. Service rights are granted for no cost and are settled in shares on a one-for-one basis. |
| Share options | Share options are issued at the discretion of the Board. Share options vesting condition is ongoing employment at the vesting date. There are no performance hurdles. Share options are subject to an exercise price and are settled in shares on a one-for-one basis. |

For details on the vesting conditions of share issuances, refer to pages 40 to 42 in the Remuneration Report.

# Notes to the Financial Statements

## Other Items

For the year ended 31 March 2018

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The share-based payment expense/(income) within employee benefits expenses is as follows:

| | 2018 $ | 2017 $ |
|---|---|---|
| Legacy LTI Plan – Performance rights | **(731,642)** | (888,290) |
| Legacy LTI Plan – Service rights | **16,192** | 382,638 |
| Legacy LTI Plan - Share options | **30,936** | 18,484 |
| ESP – Share loan | **192,002** | 258,167 |
| STI – Performance rights | **291,008** | – |
| Total share-based payment expense | **(201,504)** | (229,001) |

### Accounting for share based payments

The fair value determined at the grant date of the award is recognised as a share-based payment expense in the income statement with an offsetting increase in equity within share based payments reserve over the relevant performance period. The expense recognised is reduced to take account of the expense attributable to participating employees who do not remain in the employment of the Group throughout the vesting period.

### ESP

The ESP was established to incentivise Executives to generate shareholder wealth. Detailed remuneration disclosures are provided in the Remuneration Report section of the Directors' Report.

Under the ESP, eligible Executives are provided with an interest free, non-recourse loan from the Group for the sole purpose of acquiring shares in the Company. Executives may not deal with the shares while the loan remains outstanding and any dividends paid on the shares are applied (on an after-tax basis) towards repaying the loan. Executives are entitled to exercise the voting rights attached to the shares from the date of allocation. If the Executive leaves the Group within the vesting period, the shares allocated are returned to the Group, subject to discretion retained by the Directors.

The Board has implemented a gateway level of minimum performance for the ESP below which no benefit accrues, being a Board determined EPS CAGR over a three, four and five-year period. Calculated from the 31 March preceding the grant date. The gateway for the unvested plans is 15% for the 2016 award. This gateway is the minimum level of acceptable performance for any of the ESP shares to vest.

Where the gateway EPS level of performance is met, there is a target measure for two performance hurdles, NOI CAGR (with a 50% weighting) and EPS CAGR (with a 50% weighting). The Board has discretion to forgive part of the loan repayment.

Shares issued/allocated under the ESP are accounted for as options and as such the amounts receivable from employees in relation to these loans are not recognised in the financial statements. Settlement of share loans upon vesting are recognised as contributed equity.

The options are externally measured at fair value at the date of grant using the Black-Scholes option pricing model. This valuation model generates possible future share prices based on similar assumptions that underpin relevant option pricing models to calculate the fair value (as at grant date) of options granted.

Executives have two years from the vesting date to repay the loan and therefore exercise the options.

The assumptions underlying the options' valuations issued during the year are outlined in the table below.

# Notes to the Financial Statements

## Other Items

For the year ended 31 March 2018

| Performance period (years) | Vesting date | Grant date share price | Fair value at grant date | Dividend yield | Risk free interest rate | Share price volatility |
|---|---|---|---|---|---|---|
| 3 | 7 June 2021 | $1.75 | $0.65 | – | 2.37% | 40% |

### Short Term Incentive performance rights

The fair value of the performance rights is determined using an option pricing model with the following inputs:

| Grant date | Vesting date | Grant date share price | Fair value at grant date | Expected future dividends | Discount for lack of marketability | Risk free interest rate | Share price volatility |
|---|---|---|---|---|---|---|---|
| To be determined | 1 year after grant date | $1.68 | $0.96 | $0.05 | 2.00% | 2.00% | 40% |

The fair value determined at the grant date of the award is recognised as a share based payment expense in the income statement with an offsetting increase in equity over the relevant performance period. The expense recognised is reduced to take account of the expense attributable to participating employees who do not remain in the employment of the Group throughout the vesting period.

### Legacy LTI Plan

#### Performance rights

There were no new issuances of performance rights under the Legacy LTI Plan during the year ended 31 March 2018.

There were no cancellations during the year ended 31 March 2018.

#### Service rights

There were no new issuances of service rights under the Legacy LTI Plan during the year ended 31 March 2018.

There were no cancellations during the year ended 31 March 2018.

#### Share options

There were no share options issued during the year ended 31 March 2018.

### Share-based payments outstanding

| | Balance at start of the year | Granted during the year | Exercised during the year | Forfeited during the year | Balance at end of the year |
|---|---|---|---|---|---|
| Legacy LTI Plan – Performance rights | 1,548,002 | – | – | (799,666) | **748,336** |
| Legacy LTI Plan – Service rights | 240,824 | – | (158,179) | (82,645) | **–** |
| Legacy LTI Plan – Share options | 205,193 | – | – | – | **205,193** |
| ESP – Share loan | 1,933,218 | 2,369,870 | – | (1,000,000) | **3,303,088** |
| STI – Performance rights | – | 409,796 | – | – | **409,796** |

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# Notes to the Financial Statements

Other Items

For the year ended 31 March 2018

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## NOTE 23. KEY MANAGEMENT PERSONNEL

In accordance with the requirements of AASB 124 *Related Party Disclosures*, the KMP include Non-Executive Directors and members of the Group Executive Team who have authority and responsibility for planning, directing and controlling the activities of OFX Group Limited. A summary of KMP compensation is set out in the table below.

### Key management personnel remuneration

| Remuneration | 2018 $ | 2017 $ |
|---|---|---|
| Short-term employee benefits | **2,858,126** | 2,194,078 |
| Post-employment benefits | **138,765** | 175,197 |
| Termination payments | **–** | 714,729 |
| Long-term employee benefits | **(34,793)** | 10,266 |
| Share-based payments | **286,488** | 296,014 |
| **Total remuneration paid to key management personnel** | **3,240,586** | 3,390,284 |

Detailed remuneration disclosures of individual KMP are provided in the Remuneration Report.

### Share holdings

The total number of shares in the Company held during the year by the Directors and other KMP, including their personal related parties, are set out below.

| | 2018 Number | 2017 Number |
|---|---|---|
| Number of options and rights for fully paid ordinary shares | **953,529** | 970,734 |
| Number of fully paid ordinary shares | **698,099** | 572,500 |
| Number of restricted ordinary shares | **3,303,088** | 1,933,218 |

### Outstanding loans

The total loan amount outstanding from KMP in relation to the ESP is $4,813,964.

### Other transactions with KMP

All transactions with KMP are made on normal commercial terms and conditions and in the ordinary course of business. There were no transactions during the financial year nor balances owing to or from KMP as at 31 March 2018.

In the normal course of business, the Group occasionally enters into transactions with various entities that have Directors in common with the Group. Transactions with these entities are made on commercial arm's length terms and conditions. The relevant Directors do not participate in any decisions regarding these transactions.

# Notes to the Financial Statements

## Other Items

For the year ended 31 March 2018

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## NOTE 24. REMUNERATION OF AUDITORS

| | 2018 $ | 2017 $ |
|---|---|---|
| **(a) PwC Australia** | | |
| Audit and review of financial statements | **411,500** | 364,353 |
| Taxation services | **263,674** | 135,318 |
| Other professional fees | **–** | 55,960 |
| **Total remuneration of PwC Australia** | **675,174** | 555,631 |
| **(b) Non-PwC auditors** | | |
| Audit and review of financial reports | **32,533** | 32,992 |
| **Total remuneration of non-PwC auditors** | **32,533** | 32,992 |

## NOTE 25. PARENT ENTITY FINANCIAL INFORMATION

Dividends are recognised as income when the Company becomes entitled to the dividend.

The ultimate parent entity is OFX Group Limited.

| **Summary financial information** | 2018 $ | 2017 $ |
|---|---|---|
| **Statement of Financial Position** | | |
| Investment in subsidiaries | **25,202** | 25,624 |
| **Total assets** | **25,202** | 25,624 |
| | | |
| Share based payments reserve | **842** | 1,264 |
| Ordinary share capital | **24,360** | 24,360 |
| **Total equity** | **25,202** | 25,624 |
| | | |
| **Profit or loss for the year (intercompany dividends received)** | **12,715** | 14,253 |
| | | |
| **Total comprehensive income** | **12,715** | 14,253 |
| | | |
| **Earnings per share attributable to ordinary shareholders:** | **Cents** | **Cents** |
| Basic earnings per share | **5.30** | 5.94 |
| Diluted earnings per share | **5.23** | 5.89 |

# Notes to the Financial Statements

Other Items

For the year ended 31 March 2018

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## NOTE 26. OTHER ACCOUNTING POLICIES

### New Accounting Standards

No new Accounting Standards or amendments to Accounting Standards became effective in the current year and had a material impact on the Group.

### Amendments to Accounting Standards and Interpretations that are not yet effective

The following standards, amendments to standards and interpretations are relevant to current operations.

The effects of the following standards are expected to be material:

| Reference | Description | Application of Standard |
|---|---|---|
| AASB 16 *Leases* | AASB 16 sets out the principles for leases for both lessees and lessors. For lessees, the distinction between operating and finance leases has been removed and so almost all leases will be brought on balance sheet.<br>Accordingly, from 1 April 2018, commitments for operating leases disclosed in Note 16 will be recognised on the Consolidated Statement of Financial Position. | 1 April 2019 |

Based on a preliminary analysis, the effects of the following standards are not expected to be material:

| Reference | Description | Application of Standard |
|---|---|---|
| AASB 15 *Revenue from Contracts with Clients* | AASB 15 is based on the principle that revenue is recognised when control transfers to a client – so the principle of control replaces the existing principle of risks and rewards.<br>OFX is continuing to assess the impact of AASB15 and currently does not anticipate a significant impact on the Group's financial statements on initial application. | 1 April 2018 |
| AASB 9 *Financial Instruments* | AASB 9 will replace AASB 139 *Financial Instruments* and primarily changes the accounting for:<br>• Classification and measurement: Determined based on the business model for holding, and the cash flows of, financial assets. Financial assets can only be held at amortised cost if there is a business model to collect the contractual cash flows of the asset and those cash flows represent payments which are solely principal and interest. All other financial assets are measured at fair value.<br>• Hedge accounting: More closely aligned with financial risk management, and may be applied to a greater variety of hedging instruments and risks.<br>• Impairment of financial assets: Expected credit losses are recognised, taking into account the weighted probability of forward-looking information, which includes macro-economic factors. | 1 April 2018 |

# Directors' Declaration

In the Directors' opinion:

a. the financial statements and notes for the year ended 31 March 2018 are in accordance with the *Corporations Act 2001*, including;

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

   ii. giving a true and fair view of the consolidated entity's financial position as at 31 March 2018 and of its performance for the financial year ended on that date, and

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

c. 'About this Report' on page 52 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 by the Chief Executive Officer and Chief Financial Officer required by section 295A of the *Corporations Act 2001*.

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

On behalf of the Board:



Steven Sargent
Chairman



Skander Malcolm
Chief Executive Officer and Managing Director

22 May 2018

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# Independent Auditor's Report
To the members of OFX Group Limited



## *Independent auditor's report*

To the members of OFX Group Limited

### *Report on the audit of the financial report*

#### *Our opinion*

In our opinion:

The accompanying financial report of OFX Group 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 31 March 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 financial report comprises:

- the Consolidated Statement of Financial Position as at 31 March 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.




### *Materiality*

- For the purpose of our audit we used overall Group materiality of $1.245 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 key financial statement metric used in assessing the performance of the Group.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

### *Audit Scope*

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.
- The Group comprises multiple legal entities globally including OzForex Limited, NZForex Limited, UKForex Limited, USForex Incorporated, CanadianForex Limited and OzForex (HK) Limited. Most of the Group's accounting systems are centralised in the corporate head office located in Sydney, where our audit was predominately carried out.
- Our overall audit approach considered each legal entity's contribution to the Group's financial report balances.

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## *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. We communicated the key audit matters to the Group's Audit, Risk and Compliance Committee.

| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| ***Recognition of fee and trading income*** | |
| Fee and trading income consists of the margin generated from foreign currency spreads, fees charged on low-value transactions and changes in exchange rates between the time when a client rate is agreed and a subsequent hedge transaction is entered into by the Group. Fee and trading income is presented inclusive of realised and unrealised income earned from sale of foreign currency contracts to customers.<br><br>This was a key audit matter because it represents the most significant element of revenue in the Consolidated Statement of Comprehensive Income.<br><br>See Note 2 of the financial report for further information. | Our audit procedures included, among others, evaluating the design and performing tests over the operating effectiveness of relevant key revenue controls, including reconciliation controls between the transaction recording system, general ledger and bank statements.<br><br>In addition, we:<br>• Performed data analytic techniques to recalculate realised margin on foreign exchange contracts recognised within fee and trading income;<br>• Compared a sample of foreign exchange rates utilised within the Group's transaction recording system to independently obtained foreign exchange rates;<br>• Agreed a sample of individual foreign exchange transactions recorded by the Group throughout the financial year to underlying deal tickets and bank statements;<br>• Scanned for material reconciling items in cash account reconciliations at 31 March 2018;<br>• Agreed the dates of a sample of foreign exchange transactions to the corresponding deal ticket and bank statements to determine whether the relevant transactions were recorded in the correct period;<br>• Compared the valuations of approximately 99% of the derivative balances at balance date to our own independently derived valuations. This involved sourcing independent inputs from market data providers;<br>• Examined supporting documentation for a sample of manual journals related to fee and trading income. |
| ***Existence and presentation of cash and cash equivalents*** | |
| Cash and cash equivalents include cash held for own use, cash held for settlement of client liabilities, and deposits held at short call with financial institutions with an original maturity of less than 3 months. | Our testing of the cash and cash equivalents balance included assessing the design and performing tests over the operating effectiveness of key reconciliation controls between the transaction recording system, bank statements and the general ledger. |

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| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| As at 31 March 2018, approximately 64% of this balance represented cash held for settlement of client liabilities where cash from clients had been received, but corresponding cash payments to nominated accounts had not yet occurred.<br><br>During the year, the Group changed the way in which cash and cash equivalents are presented in the Consolidated Statement of Financial Position to reflect the nature of cash held. The Group also changed the presentation of the Consolidated Statement of Cash Flows from the direct method to the indirect method.<br><br>This was a key audit matter due to the size of the cash balance which represents 84% of the Group's total assets, the significance of the change in presentation, and the inherent importance of cash to a business involved in money transfer.<br><br>See Notes 2 and 7 of the financial report and the Consolidated Statement of Cash Flows for further information. | In relation to the balance as at 31 March 2018, we performed the following procedures amongst others:<br><br>• Compared the bank balances recorded by the Group at year-end to confirmations received directly from the relevant banks. Where we were unable to obtain a bank confirmation, we performed alternative procedures such as confirming the recorded balances to bank statements;<br>• Tested all bank reconciliations with a focus on material reconciling items, if any;<br>• Compared the foreign exchange rates used for the translation of foreign-currency denominated cash accounts at year-end to independently sourced exchange rates.<br><br>Together with our financial reporting specialists, we considered the reasons for the change in presentation of cash and cash equivalents in the Consolidated Statement of Financial Position and the Consolidated Statement of Cash Flows. We also assessed the relevant disclosures in light of the requirements of Australian Accounting Standards. |
| ***Client liabilities*** | |
| The client liabilities balance consists of cash received from customers in relation to foreign exchange transactions which await settlement. There are amounts within the balance that have been static for an extended period of time and they comprise part payments awaiting full payment prior to remittance and cash received where the client has not yet been identified. During the 2018 financial year the Group introduced a policy to derecognise certain longstanding unallocated client liabilities in circumstances where there is a remote chance of the liability ever being settled.<br><br>This was a key audit matter due to the size of client liabilities balance which represents 87% of the Group's total liabilities and the inherent uncertainties associated with the static transactions.<br><br>See Notes 2 and 7 of the financial report for further information. | Our testing of client liabilities included an assessment of the design and testing of the operating effectiveness of key reconciliation controls between the transaction recording system, general ledger and bank statements.<br><br>In addition, we performed the following procedures amongst others:<br><br>• Agreed a sample of client liabilities to individual deal tickets and cash receipts;<br>• Considered the post year-end settlement rates of the total balance between 1 April 2018 and 30 April 2018;<br>• Inspected the customer complaints log to identify significant matters raised concerning client liabilities;<br>• Analysed the breakdown of client liabilities at 31 March 2018 to consider the age profile of unallocated client liabilities;<br>• Considered the appropriateness of the Group's policy to derecognise certain unidentified client liabilities. |
| ***Valuation of derivatives*** | |
| Derivative instruments entered into by the Group include spot and forward foreign exchange transactions | Our procedures in relation to the valuations as at 31 March 2018 included amongst others:<br><br>• Checking whether the valuation methodology |

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| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| in the foreign exchange markets.<br><br>This was a key audit matter due to the inherent judgment and estimation involved in the valuation of these derivatives.<br><br>See Notes 9, 10 and 11 of the financial report for further information. | applied by the Group was consistent with the prior year;<br>• Comparing the valuations of approximately 99% of the derivative balances at balance date to our own independently derived valuations. This involved sourcing independent inputs from market data providers. |
| ***Taxation***<br><br>The Group is liable for tax in a number of jurisdictions, and in some cases, the final tax treatment is uncertain until resolved with the relevant tax authority. Consequently, the Group has made judgements about the incidence and quantum of tax exposures and liabilities which are subject to the future outcome of assessments by relevant tax authorities and potentially associated legal processes.<br><br>In addition, OzForex Limited, a subsidiary of OFX Group Limited, is deemed an Offshore Banking Unit (OBU) meaning that eligible transactions recorded in the OBU are subject to a concessional tax rate of 10%. The subsidiary is also eligible for Research and Development tax credits (R&D Credits) on eligible expenditure which further reduces the tax expense. The Group made adjustments during the financial year to estimate the amount of concessional credits, however, because the relevant self-assessment tax claims are filed with the Australian Tax Office in arrears, the exact amount of the claims are not known with certainty at year-end.<br><br>See Note 4 of the financial report for further information. | Together with our tax specialists, our procedures over taxation related balances included, amongst others, evaluating the analysis conducted by the Group for judgements made in respect of the ultimate amounts expected to be paid to tax authorities. This was made in the context of our understanding of the business, and assessing the appropriateness of the tax provisions in light of the requirements of Australian Accounting Standards.<br><br>We also considered the Group's OBU arrangements, tested the classification of OBU and non-OBU transactions on a sample basis against guidance provided in relevant tax legislation, and reviewed and assessed the projects and expenses that are eligible for concessional treatment together with our tax specialists. |
| ***Capitalisation of internally generated intangible assets***<br><br>During the year, the Group capitalised internal software development project costs of $2.4m. These projects were predominantly in relation to three applications, of which the largest is the Online Sellers ("OLS") Platform. The amounts capitalised for all three projects mainly relate to employment expenses.<br><br>The capitalisation of internally generated costs was a key audit matter due to the size of the internal costs capitalised and the judgement required by the Group in assessing whether the criteria set out in Australian Accounting Standards for capitalisation of such costs had been met, particularly the technical feasibility of the project and the likelihood of the project delivering | Our testing of capitalised internally generated intangible assets included, amongst others:<br><br>• Discussing project plans with management and project leaders to develop an understanding of the nature and feasibility of key projects and activities performed;<br>• Inspecting business cases of key projects and analysing the assumptions applied to determine the feasibility of the projects and assumed future economic benefits;<br>• On a sample basis, agreeing payroll costs to supporting payroll records and assessing the Group's determination of these costs as capitalised |

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| *Key audit matter* | *How our audit addressed the key audit matter* |
|---|---|
| sufficient future economic benefits.<br><br>The Group's judgements also included determining whether capitalised costs were of a developmental nature rather than research nature (which would result in the costs being expensed rather than capitalised) and whether costs, including payroll costs, were directly attributable to relevant projects.<br><br>See Note 13 of the financial report for further information. | or expensed with reference to the requirements of Australian Accounting Standards;<br>• Assessing key metrics that support the future income stream of key projects. This included inspecting the revenue generated from newly released products to examine whether the initial assumptions applied in determining project feasibility continue to hold true. |

## *Other information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 31 March 2018, including Our Story, Our Global Footprint, Setting the Benchmark in Client Care, How Our People Demonstrate Our Beliefs, Where We're Focussing Our Efforts, Financial Highlights, Chairman's Letter, CEO's Letter, Executive Team, Directors' Report, Shareholder Information and Corporate Information, but does not include the financial report and our auditor's report thereon.

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, 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.

## *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 *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.

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### *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 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 30 to 46 of the Directors' Report for the year ended 31 March 2018.

In our opinion, the remuneration report of OFX Group Limited for the year ended 31 March 2018 complies with section 300A of the *Corporations Act 2001*.

### *Responsibilities*

The directors of the Company 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

CPG Cooper
Partner

Sydney
22 May 2018

# Shareholder Information

The shareholder information set out below is current as at 19 April 2018.

## Corporate Governance Statement

In accordance with ASX Listing Rule 4.10.3 and the 3rd edition ASX Corporate Governance Council's Principles and Recommendations, the 2018 Corporate Governance Statement, as approved by the Board, is available on the Company's website at: https://www.ofx.com/en-au/investors/corporate-governance/. The Corporate Governance Statement sets out the extent to which OFX has followed the ASX Corporate Governance Council's 29 Recommendations during the 2018 financial year.

## Substantial shareholders

The number of securities held by substantial shareholders (holding not less than 5%) and their associates as shown in substantial shareholder notices as disclosed to the ASX as at 19 April 2018 are shown below.

| Name | Number held | % of issued capital |
|---|---|---|
| Microequities | 20,931,883 | 8.72 |
| Northcape Capital Pty Ltd | 17,452,746 | 7.27 |
| Renaissance Smaller Companies Pty Ltd | 15,710,057 | 6.55 |
| BT Investment Management Limited | 23,941,627 | 9.98 |
| Ellerston Capital Limited | 12,594,871 | 5.12 |
| Selector Funds Management Limited | 12,681,180 | 5.28 |

## Distribution of security holders

| Number of shares | Total holders of ordinary shares | Number of ordinary shares | % of issued capital |
|---|---|---|---|
| 1 – 1,000 | 1,100 | 643,296 | 0.26 |
| 1,001 – 5,000 | 2,536 | 7,537,895 | 3.07 |
| 5,001 – 10,000 | 1,348 | 10,655,037 | 4.33 |
| 10,001 – 100,000 | 1,593 | 40,523,623 | 16.49 |
| 100,001 – 999,999,999 | 84 | 186,465,914 | 75.85 |
| **Total** | **6,661** | **245,825,765** | **100.00** |

| Number of performance rights | Total holders of performance rights | Number of performance rights | % |
|---|---|---|---|
| 1 – 1,000 | – | – | – |
| 1,001 – 5,000 | 1 | 4,992 | 0.67 |
| 5,001 – 10,000 | – | – | – |
| 10,001 – 100,000 | 5 | 187,285 | 25.03 |
| 100,001 – 999,999,999 | 3 | 556,059 | 74.31 |
| **Total** | **9** | **748,336** | **100.00** |

There were 278 holders of less than a marketable parcel of ordinary shares, based on the Company's closing market price of $1.80 on 19 April 2018.

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## Twenty largest security holders of ordinary shares

| Rank | Name | Units | % of units |
|---|---|---|---|
| 1. | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 50,954,591 | 20.73 |
| 2. | J P MORGAN NOMINEES AUSTRALIA LIMITED | 48,987,166 | 19.93 |
| 3. | NATIONAL NOMINEES LIMITED | 15,025,185 | 6.11 |
| 4. | G AND A LORD PTY LTD <THE LORD FAMILY A/C> | 9,300,000 | 3.78 |
| 5. | MR MATTHEW GILMOUR | 9,245,200 | 3.76 |
| 6. | MICROEQUITIES ASSET MANAGEMENT PTY LTD | 8,563,641 | 3.48 |
| 7. | CITICORP NOMINEES PTY LIMITED | 6,718,199 | 2.73 |
| 8. | BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C> | 6,576,750 | 2.68 |
| 9. | BNP PARIBAS NOMS PTY LTD <DRP> | 3,272,213 | 1.33 |
| 10. | BOND STREET CUSTODIANS LIMITED <RSALTE - D44396 A/C> | 2,900,000 | 1.18 |
| 11. | BOND STREET CUSTODIANS LIMITED <RSALTE - D64848 A/C> | 2,588,411 | 1.05 |
| 12. | RICHARD KIMBER | 1,955,895 | 0.80 |
| 13. | MR JOHN ALEXANDER MALCOLM | 1,904,136 | 0.77 |
| 14. | M & J GILMOUR PTY LTD | 1,610,000 | 0.65 |
| 15. | ECAPITAL NOMINEES PTY LIMITED <ACCUMULATION A/C> | 1,054,492 | 0.43 |
| 16. | MERRILL LYNCH (AUSTRALIA) NOMINEES PTY LIMITED | 837,021 | 0.34 |
| 17. | ADAM MICHAEL SMITH | 592,829 | 0.24 |
| 18. | BOND STREET CUSTODIANS LIMITED <RSALTE - D62375 A/C> | 550,000 | 0.22 |
| 19. | S M & R W BROWN PTY LTD <ROBERT & SALLY BROWN SF A/C> | 550,000 | 0.22 |
| 20. | MR MARK STEPHEN LEDSHAM | 500,000 | 0.20 |
| | **Totals: top 20 holders of fully paid ordinary shares** | **173,685,729** | **70.65** |
| | **Total remaining holders balance** | **72,140,036** | **29.35** |

## Unquoted equity securities

Securities issued under OFX's Long Term Incentive Plan and/or Executive Share Plan are subject to vesting conditions which, if met, entitle the holder to ordinary fully paid shares in the Company.

| | Number held | Number of holders |
|---|---|---|
| Fully paid ordinary shares (unquoted) | 5,825,765 | 8 |
| Performance rights | 748,336 | 9 |

## Voting Rights

### Ordinary fully paid shares

The voting rights are governed by clause 37 of the Company's Constitution, which provides that every member present personally or by proxy, attorney or representative at a general meeting of the Company shall, on a show of hands have one vote, and on a poll shall have one vote for every share held.

### Performance rights

Performance right holders do not have any voting rights attached to the performance rights issued under the Company's Long Term Incentive Plan.

## Buyback

There is no current on-market buyback.

## Review of operations and activities

A review of the Company's operations and activities during the reporting period is available within the Directors' Report.

# Corporate Information

| | |
|---|---|
| Directors | Mr Steven Sargent (Chairman)<br>Mr John ('Skander') Malcolm (Chief Executive Officer and Managing Director)<br>Ms Melinda Conrad<br>Mr Grant Murdoch<br>Mr Douglas Snedden<br>Ms Lisa Frazier |
| Company Secretaries | Ms Freya Smith<br>Ms Naomi Dolmatoff |
| Date of Annual General Meeting | 7 August 2018 (subject to change) |
| Registered Office and Principal Place of Business in Australia | Level 19<br>60 Margaret Street<br>Sydney NSW 2000 Australia<br>Ph: +61 2 8667 8000<br>Fax: +61 2 8667 8080<br>Email: investors@ofx.com.au |
| Share Register | Link Market Services Limited<br>Level 12, 680 George Street<br>Sydney NSW 2000 Australia<br>Ph: 1300 554 474<br>Email: registrars@linkmarketservices.com.au |
| Auditor | PricewaterhouseCoopers<br>One International Towers Sydney<br>Watermans Quay<br>Barangaroo NSW 2000 Australia |
| Stock Exchange Listing | OFX Group Limited shares are listed on the Australian Securities Exchange: OFX |
| Website | www.ofx.com |

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