



**annual**  
report  
**2020**





# About IOOF

**At IOOF, we have been helping Australians secure their financial independence for over 170 years.**

Today, IOOF is one of the largest financial services groups in Australia. As an ASX top 200 company, and with more than \$202.3 billion in funds under management, administration and advice, we currently service over one million customers around Australia.\*

Our broad range of products and services means that our ability to provide tailored solutions to help our clients achieve their financial goals is unparalleled.

## Our services

IOOF provides a range of wealth management solutions including:

### Financial advice

We believe in the value of financial advice. Whether provided through the organisations we partner with or our own extensive network, we believe financial advisers provide strong and enduring value to clients by helping them build, maintain and protect their wealth.

### Portfolio administration

We offer financial advisers, clients and thousands of employers around Australia leading superannuation and investment administration solutions. Our unique open architecture model means we not only offer our products but a selection of leading external products also to ensure advisers and their clients can choose the solutions that best suit their individual needs.

### Estate administration

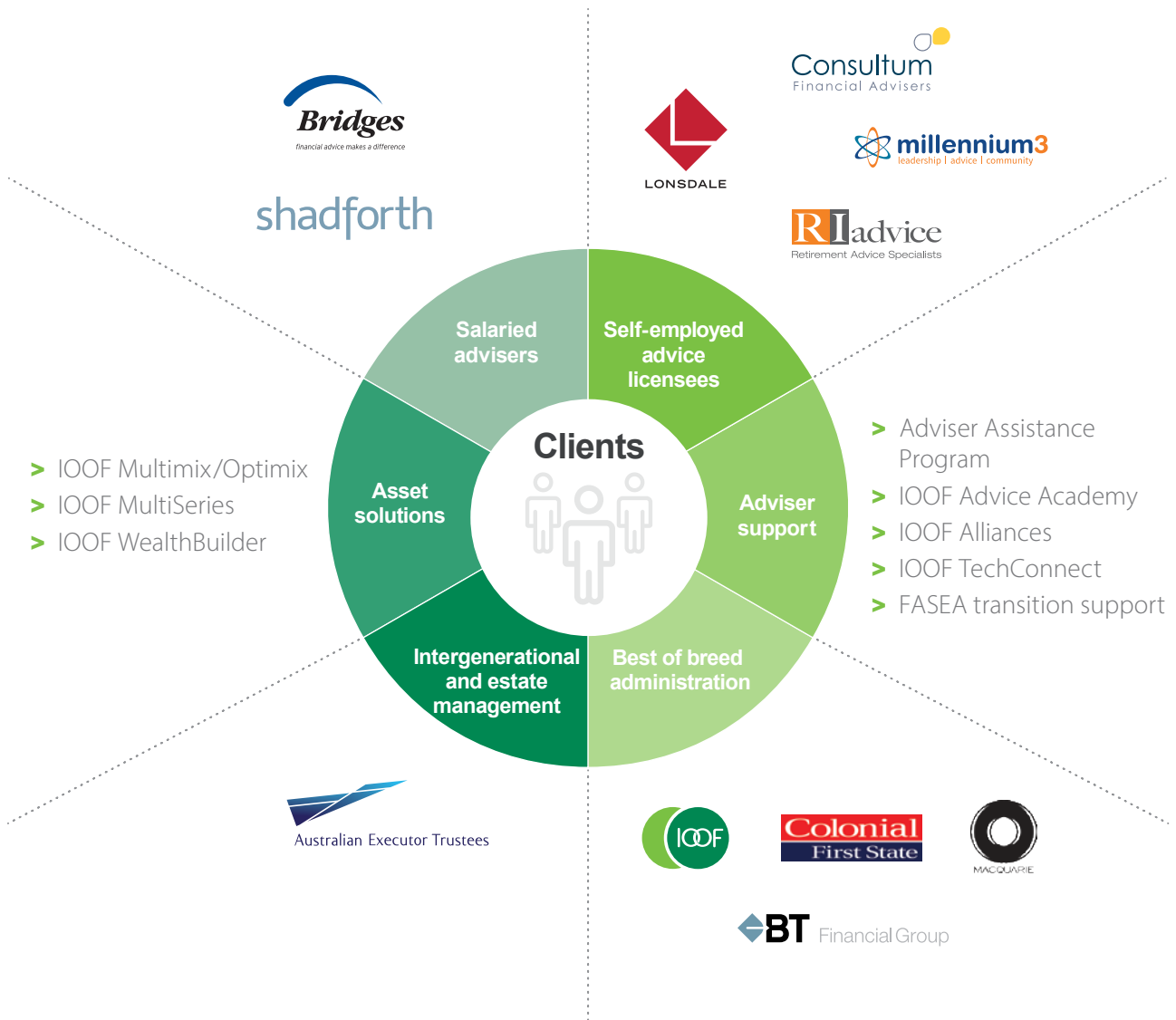
Australian Executor Trustees is part of the IOOF group and has been providing estate and trustee services to Australians for over 135 years. Trustee services offered by the Group include estate planning and administration, compensation trusts, personal trustee services, philanthropy, Small APRA Funds (SAFs) and self-managed super fund (SMSF) solutions.

### Investment Management

Our investment capabilities are driven by a highly skilled investment team, with a proven investment process that is focused on delivering strong, consistent returns. The team accesses world-leading investment managers across a broad range of highly rated single and multi-manager funds, combining them with other attractive investment opportunities to create carefully diversified portfolios.

\* 30 June 2020

# Our diversified business model



As at 30 September 2020

# Chairman's Commentary



Allan  
Griffiths

The 2020 Financial Year has been one of volatility, change and disruption. Not only the way we live our lives, but also the ongoing COVID-19 pandemic has had a significant impact on equity markets and the economy as whole. To all of our shareholders, thank you for your continued support over this challenging year.

## Our ClientFirst approach

IOOF was created 173 years ago with a clear mission – to serve the community, particularly those who are most vulnerable. During the COVID-19 pandemic, this mission to serve has only become more pertinent.

At IOOF we believe in the value of financial advice. It is important for not only our existing clients and members, but also for the 80% of Australians who currently do not have access to quality financial advice. In support of this commitment, in May 2020 we launched the IOOF Community Offer, which saw IOOF advisers offering at-no-cost financial guidance to those who needed it most in their local community, to assist them through the personal and financial challenges they face during COVID-19.

We also welcomed the Federal Government's Early Access to Super initiative, which was designed to support those in our community most impacted financially by COVID-19. IOOF was and remains well placed to support this initiative with minimal business impact given our high degree of liquidity and the diverse demographic of our members and clients.

## Adapting to change

A key priority for IOOF during the COVID-19 pandemic has been the health and wellbeing of our people.

I am incredibly proud of how all of our talented people - led by Renato and the Executive Team – have stepped up to support and guide our clients and members at this challenging time. As a Board, we have been deeply impressed by their commitment and flexibility, and I thank them for their efforts.

This includes our network of advisers, who have continued to offer their vital services to clients. We have provided them with the highest levels of support and service, as they experience increased workloads and intensified client interactions. This support includes access to our employee assistance program, and free access to a range of new technologies to assist in remote advice delivery.

Additionally, as announced previously, we as a Board and our Executive Team recognise that COVID-19 has had an impact on business outcomes and returns to shareholders. In this context, it is appropriate that no discretionary bonuses were paid to the Executive Team for the financial year. In addition, Renato and I took a 20% reduction in base pay for six months from 1 August 2020. All other Directors and our CFO took a 10% reduction in base pay for the same period.

## Transforming our business for the future

Despite the challenges IOOF has faced during the year, we have remained focused on our long-term strategy to reshape our business to be at the forefront of the wealth management industry of the future.

This has seen our business being transformed and streamlined considerably over the last 12 months. We completed the acquisition of ANZ Pensions & Investments (P&I) in February 2020 which bolsters our advice-led business. We have also made select divestments of businesses that are no longer core to our advice-led business model. We completed the divestment of Ord Minnett, AET Corporate Trust and IOOF's operations in New Zealand during the year.

Post year-end, we also divested our majority shareholding stake in Australian Ethical Fund. These divestments realised significant profits from sale and allow us to focus on our core strategic advice-led offerings.

This culminated in the announcement of the transformational acquisition of MLC Wealth, which will see IOOF become the largest provider of financial advice in Australia. This is an enviable position and gives us significant additional scale for our clients and ultimately, our shareholders.

The addition of MLC is a once in a generation opportunity which we believe will provide all of our shareholders – retail and institutional – with long term value creation. In determining the funding structure for this acquisition, we considered multiple options to ensure equivalency for all shareholders to participate equally. IOOF has a large retail shareholder base and we were determined to ensure loyal retail holders had the opportunity to participate in the capital raise at an equivalent price to large institutions, which I am pleased to say occurred.

## Board changes

In February 2020, Jane Harvey retired from the IOOF Holdings Ltd Board. She had served on the Board for 12 years with unwavering diligence and I would like to thank her for her support and dedication over those years. Fortunately, Jane has remained as a member of a number of IOOF subsidiary Boards so her immense experience and knowledge of IOOF will remain within the business.

## Future outlook

I am immensely proud of the progress we have made over the year and look forward to continuing the hard work to embed P&I and complete the MLC acquisition by June 2021.

We are building scale in our business for the benefit of the long term.

This includes two key strategic initiatives; Evolve 21 which is simplifying our platform suite down to one contemporary platform; and Advice 2.0 which will allow us to deliver more accessible and cost effective financial advice to more Australians in an economically viable way.

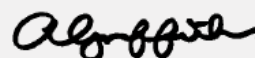
The completion of the acquisition of MLC in the coming year heralds a new era for IOOF providing scale, economic diversification and business strength to deliver better long-term outcomes for our clients, members, advisers and shareholders.

The new IOOF will have the ability to offer unmatched choice and accessibility of quality financial advisory and wealth management services to all Australians.

We are a business with diversified income streams and the scale and financial strength to endure the present crisis and be well positioned for the recovery. In the current interest rate environment, we recognise the importance of dividends to our shareholders and we will continue to prudently manage capital to keep dividend payments to shareholders front of mind.

We have a clear strategy in place to transform our business which will generate significant benefits for all stakeholders including you – our shareholders.

I thank you again for your ongoing support.



**Allan Griffiths**



## CEO's commentary



**Renato  
Mota**

2020 has been one of the most challenging and volatile years in recent history. In the first half of the financial year Australia experienced serious and prolonged drought conditions; the bush fires in early 2020 caused devastation along the eastern seaboard, and since then, the global COVID-19 pandemic has been causing unprecedented disruption and significant distress to many Australians.

Despite the significant challenges the business has faced, we remain in a strong position. We achieved the milestone of \$200 billion funds under management, advice and administration (FUMA) and made significant headway in our transformation program as we reshape IOOF to be Australia's leading advice-led wealth manager.

### Supporting our clients

As our Chairman has noted, 2020 has brought significant disruption, and it continues to be an unprecedented and concerning time for our clients, employees, advisers, the community and our country.

IOOF has always had a clear mission and purpose – to serve the community and those who are most in need – a purpose that is more important than ever at this time. It's pleasing to see our people providing guidance and support, and helping communities achieve peace of mind and confidence about their own futures. The value and importance of quality financial advice, for all Australians, has never been more evident.

I am extremely grateful for the hard work and dedication of our people at what has been a difficult time for them as well. Our ClientFirst philosophy gives us a competitive advantage, as we deliver service excellence through a simpler, more cost-effective business model.

At the height of the pandemic, our client service team experienced a 250% increase in call volume, yet call wait times peaked at just 10 minutes, before quickly returning to below just five minutes.

Payments made under the Federal Government's Early Release of Superannuation during the year totalled \$743 million across 99,174 requests. Our ClientFirst approach ensured that 97% of all IOOF platform payments were paid to clients within five business days. For the newly acquired P&I business, 83% of payments were made within five business days.

### Financial performance

Against the COVID-19 backdrop, IOOF's business performance has demonstrated strength and resilience in the face of volatile market conditions.

Statutory net profit after tax was \$147.0 million, and included substantial profit on sale of non-core businesses as noted by the Chair.

IOOF has delivered an Underlying Net Profit After Tax of \$128.8 million. A significant milestone for the business was reaching \$200 billion in total funds under management, administration and

advice (FUMA), which was \$202.3 billion on 30 June 2020. We also continued to see net inflows in platform of \$1.3 billion and advice net inflows of \$730 million which is a testament to the strength of our advice-led offerings.

### Transformation through focus

During the year we welcomed a number of new executives across Finance, Risk, Legal and Company Secretariat after the completion of my senior management review. Each one of them has brought with them a purpose-led mindset and a fresh perspective to our behaviours and practices. I believe we have the right team in place to continue on our transformation journey.

In 2020, we made significant progress on our long term strategic initiatives to transform the business to be at the forefront of the financial advice industry of the future.

We are at an inflection point of change for the Australian advice landscape. The value of quality financial advice has never been more apparent than it is today. Equally the need to create a professional business model has never been more apparent. Building an advice business model that is sustainable in its own right, without economic support from other segments of the business and supports ongoing investment in technology and processes is critical. While this industry-wide transformation will challenge some in the industry, IOOF is firmly of the view that it is critical for the long-term benefit of the clients we serve.

We announced the next phase in our Advice 2.0 transformation strategy – which is IOOF's long-term strategy to reshape the Australian advice landscape through the delivery of quality, goals-based advice that is accessible and affordable for all Australians. In 2019, we committed to undertaking a significant advice remediation program and we commenced payments to clients during the financial year.

In support of the transformation, we acquired Wealth Central, a proprietary financial advice and client engagement technology platform. Additionally, IOOF's self-employed aligned adviser brands have been reorganised into two core groups that will allow IOOF to better and more efficiently support the unique needs of each advice brand, and drive them to become self-sustaining by the end of 2022.

We also continued to make significant progress on Project Evolve. Evolve is a cross enterprise program of work to design, build and deliver a contemporary and flexible Platform technology capable of supporting our existing and future product suites.

The Evolve platform administered \$12.9 billion as at 30 June 2020 and continues to see significant inflows. This demonstrates we are delivering what advisers need from a platform to look after their clients' assets. We expect our current platform consolidation to be complete by the end of 2021.

## Transformational acquisitions

During FY20, we successfully completed the acquisition of the P&I business, which added significant scale. We have made significant strides to integrate the P&I business and we remain on track to deliver \$68 million in total synergies by FY22 on an annualised basis.

Consolidating IOOF's transformation agenda, in August 2020, we announced the acquisition of MLC for \$1.44 billion from the National Australia Bank (NAB). MLC is a highly complementary wealth management business which is a natural fit with IOOF. It presents a unique opportunity to create Australia's leading wealth manager along with significant opportunities for synergies realisation, for the benefit of clients and shareholders. The transaction is expected to complete before June 2021.

In order to ensure we deliver on our objectives with the integration of both P&I and MLC, I have appointed a Chief Transformation Officer who will sit on the Executive Team and report directly to me. The Executive team and I are committed to delivering on the value realisation opportunities these transformational acquisitions present, in a prudent and timely manner. This has meant ensuring we have the people, capabilities and accountabilities in the coming years to support the transformation of the business.

## Outlook

The Australian wealth management market is currently experiencing a period of industry disruption, with new industry structures forming over the coming 12-24 months. To acquire a highly complementary business of the quality and size of a company such as MLC was a once in a generation opportunity to create the leading wealth manager of the future.

IOOF has a strong track record in relation to integration of businesses. The acquisition of MLC will deliver significant future benefits for all of our stakeholders, including for you, our shareholders. We expect to deliver in excess of 20% earnings per share accretion in future years, underpinned by \$150 million p.a. of targeted pre-tax synergies by the third full year of ownership.

As the financial services industry reshapes, a much bigger and better IOOF will be at the forefront of industry transformation. In this new era the new IOOF will have the ability to offer unmatched choice and accessibility of quality financial advice and wealth management services to all Australians.

To our shareholders – Thank you for your continued support in what has been an extremely volatile year. I know we have the right strategy, people, governance and operational structures to continue to deliver financially for years to come.



**Renato Mota**



# 2020 results at a glance



**\$128.8 million**

**Underlying NPAT**



**\$147.0 million**

**Statutory NPAT**



**\$202.3 billion FUMA**

**Up +46%**  
from 30 June 2019



**\$743.0 million**

**Assisting clients during COVID-19**

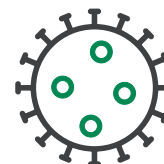
Total Early Access to  
Superannuation withdrawals



**27.5 cps**

**Fully franked**

dividends per share



**(\$10.1 billion)**

**Market declines**

primarily due to COVID-19



**\$77.1 billion FUMA**

**Growing the business**

Completion of ANZ  
Wealth Management  
Pensions & Investments



**Adviser NPS +14<sup>1</sup>**

**Delivering** for clients



**Attracting** net inflows

**Platform** \$1.3 billion  
**Advice** \$730 million

<sup>1</sup> Based on member NPS result June 2020.

# 2020 strategic priorities

Focusing on advice-led wealth management



## Simplify

Consolidating to one platform  
– Project Evolve on track for completion **by end 2021**

Proprietary technology developed in-house – ASIS technology platform already servicing **\$12.9 billion of FUMA**

Deliver service excellence via ClientFirst – **Adviser NPS +41<sup>1</sup>**



## Grow

Completion of P&I transaction in **February 2020** with P&I integration tracking to plan

Step-change in scale drives **benefits for clients** and accretion for shareholders

**Revised cost synergies** of \$68 million pre-tax pa (from \$65 million pre-tax pa) to be realised in full from 1 July 2023



## Focus

**Advice 2.0** will reshape the delivery of financial advice for the benefit of all Australians

Re-organisation of the operating structure for IOOF advice businesses – to meet the **changing needs of clients**

Significant opportunity to **reinvent the advice landscape** in Australia

## Creating strategic clarity

Net proceeds from divestments of non-core subsidiaries – **\$105 million** total consideration from sale of subsidiaries during FY2020.

Sale of 14.2 million shares in Australian Ethical for total cash consideration of **\$74.5 million** post year end.

<sup>1</sup> Based on member NPS result June 2020.

# Directors



**Allan  
Griffiths**



**Renato  
Mota**

## Qualifications and independence status

- B.Bus, DipLI.
  - Independent Non-Executive Director
  - Director since 2014
- BComm(Hons), B.Bus
  - Chief Executive Officer since 25 June 2019

## Experience, special responsibilities, listed and other significant directorships

More than 30 years' experience with a deep understanding of the financial services industry. Mr Griffiths has held a number of executive positions within the industry most notably as Chief Executive Officer, Aviva Australia and later, Managing Director South Asia, Aviva Asia Pty Ltd based in Singapore.

Prior to joining Aviva, Mr Griffiths held executive positions with Colonial Ltd and Norwich Union. Mr Griffiths is Chairman of the Westpac/BT Insurance Boards and the Chairman of Metrics Credit Partners. Mr Griffiths is also Chair of the Group Nomination Committee and member of the Group Audit, Group Risk and Compliance and Group Remuneration Committees.

With more than 20 years' experience in financial services prior to being appointed CEO, Mr Mota held a number of senior executive roles within IOOF. In December 2018, Mr Mota was appointed Acting CEO and prior to that was Group General Manager – Wealth Management since January 2016. During this time he was instrumental in leading IOOF through a series of forward-thinking, strategic initiatives including IOOF's advice-led strategy, the group's ClientFirst transformation and establishing the IOOF Advice Academy.

Previously, he held numerous executive roles as General Manager of Distribution, Investor Solutions and Corporate Strategy and Communications. Before joining IOOF in 2003, Mr Mota worked for Rothschild and NAB in corporate finance roles with a focus on mergers and acquisitions where he was involved in wealth management transactions including the demerger of Henderson Group plc from AMP in 2003 and NAB's acquisition of MLC and Deutsche Financial Planning.



**Andrew Bloore**



**Elizabeth Flynn**

**Qualifications and independence status**

- Independent Non-Executive Director
- Director since 2 September 2019
- LLB, Grad Dip App Corp Gov, FAICD, FFin, FGIA, FCG
- Independent Non-Executive Director
- Director since 2015

**Experience, special responsibilities, listed and other significant directorships**

Andrew Bloore is an experienced Non-Executive Director, Entrepreneur and farmer. He has designed, built and sold a number of businesses focussed on the development of key disruptive technologies and distribution services in traditional markets, to create business efficiencies. Businesses Mr Bloore has been actively involved in, both as an Executive and/or as a Director and in the capacity of investment funding, development and leadership, include Smartsuper, SuperIQ and Class Super. Mr Bloore has worked on a range of Senate and Treasury Committees, and with the Australian Taxation Office Regulations Committee on regulation of the superannuation industry. In 2016, Mr Bloore sold his superannuation administration business to AMP, stepped down from the Senate and Treasury Committees and is now focussed on contributing to organisations as a non-executive director. Mr Bloore was a non-executive director of FBR Ltd until November 2019.

Mr Bloore is a member of the Group Audit, Group Risk and Compliance and Group Remuneration Committees.

Ms Flynn has more than 30 years' experience in the financial services industry, including roles within law and corporate governance as well as executive responsibilities. From 1998 to 2010, Ms Flynn was the Chief Legal Counsel, Group Compliance Manager and Group Company Secretary of financial services group Aviva Australia, and a director of Aviva Australia's superannuation trustee company. Prior to her time at Aviva, Ms Flynn spent 18 years as a commercial lawyer with Minter Ellison, including eight years as a Partner, specialising in managed funds, banking and securitisation and superannuation.

Ms Flynn was a non-executive director of Bennelong Funds Management from 2010 to 2015 and is a non-executive director of AIA Australia Limited, the Colonial Mutual Life Assurance Society and AIA Health Insurance Pty Ltd.

Ms Flynn is Chair of the Group Risk and Compliance Committee and a member of the Group Audit, Group Remuneration and Group Nomination Committees.



**John  
Selak**



**Michelle  
Somerville**

## Qualifications and independence status

- Dip Acc, FCA, FAICD
  - Independent Non-Executive Director
  - Director since 2016
- BBus (Accounting), MApp Finance, FCA, GAICD
  - Independent Non-Executive Director
  - Director since 1 October 2019

## Experience, special responsibilities, listed and other significant directorships

Mr Selak has over 40 years' experience in the financial and advisory services industry. From 2000 to 2016 Mr Selak was a Partner in the Corporate Finance Practice of Ernst & Young serving on their Global Corporate Finance Executive. From 2014 to 2017 Mr Selak was an advisory board member of Quest Apartment Hotels. From 2016 to 2020, Mr Selak was a non-executive director of National Tiles.

Mr Selak is currently Chairman of Corsair Capital and a non-executive director of Turosi Food Solutions and the IOOF Foundation.

Mr Selak is Chair of the Remuneration Committee and a member of the Group Audit, Group Nomination and the Group Risk and Compliance Committees.

Michelle Somerville is an experienced Non-Executive Director, bringing deep and relevant finance, risk and governance experience to the Board, having worked in the financial services industry in both her executive and non-executive roles.

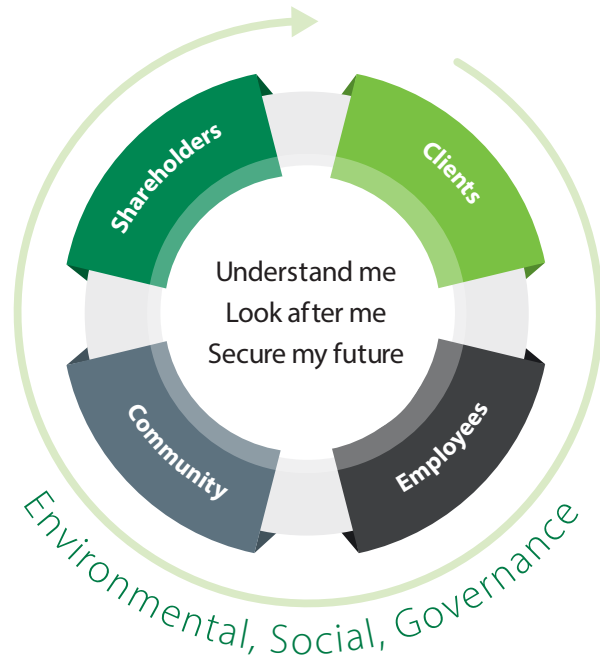
Previously she was an audit partner with KPMG Australia for nearly 14 years, with a focus on the financial services industry in both Australia and overseas. Ms Somerville is currently a non-executive director of The GPT Group (since 2015), Bank Australia, and ED Credit Services.

Ms Somerville is Chair of the Group Audit Committee and a member of the Group Risk and Compliance Committee.

# Environmental, Social and Governance report

## Strong ESG practices and performance are critical to our continued success

Maintaining strong Environmental, Social & Governance (ESG) practices enables us to manage risks and opportunities in a way that balances the long-term needs of stakeholders, including clients, employees, shareholders, suppliers, the community and the environment.



## Material exposure to Environmental, Social and Governance matters

Our reputation as a leading provider of quality financial services and ability to achieve our strategic aims could be damaged by failing to identify, monitor and report material ESG risk exposures.

In determining our exposure, the Board considers our business model, the industry in which we operate, current areas of focus of our regulators, media and public commentary and the interests of our stakeholders, including industry bodies, investors, clients, members and analysts.

Material ESG matters are outlined below.

| Governance  |  |  |  |
|-------------|--|--|--|
| Stakeholder |  |  |  |
|             | <b>Our business</b>  | <b>Our clients and community</b>   | <b>Our people</b>  |
| Culture     | <p><b>Material ESG matter</b></p> <ul style="list-style-type: none"> <li>Accelerating corporate governance</li> <li>Advice review</li> <li>Cyber security and privacy</li> <li>Responsible investment</li> <li>Our environmental impact</li> <li>Tax transparency</li> </ul> | <p><b>Material ESG matter</b></p> <ul style="list-style-type: none"> <li>Establishing trusted relationships with advisers</li> <li>Advocating for quality financial advice for all Australians</li> <li>Putting the best interests of our clients first</li> <li>Giving back to our communities</li> </ul> | <p><b>Material ESG matter</b></p> <ul style="list-style-type: none"> <li>Our culture</li> <li>Leadership and capability</li> <li>Supporting our people</li> <li>Diversity and inclusion</li> </ul> |



## Our business

ESG practices are embedded in our day-to-day business operations and the creation of long-term financial outcomes for our advisers, clients and shareholders.

### Accelerating corporate governance

IOOF remains committed to uplifting and strengthening our governance framework.

On 7 December 2018 APRA gave notice of additional licence conditions on IOOF's APRA regulated entities. These conditions required, inter-alia:

- separation of responsible entity and registrable superannuation entity duties to separate independent corporate entities
- the implementation and effective operation of an independent member outcomes driven function; the Office of the Superannuation Trustee (OST)
- monitoring and reporting on progress via an independent expert.

Effective 30 November 2019, IOOF met the requirement under the licence conditions to separate the responsible entity and registrable superannuation entities duties into separate independent corporate entities. The OST was implemented and continues to independently support IOOF's APRA regulated entities drive member outcomes.

In October 2019, ASIC varied the AFS licence conditions of IOOF's responsible entity and IDPS operator, IOOF Investment Services Limited (IISL). The licence conditions required IOOF to establish an Office of the Responsible Entity (ORE), which is the first of its kind in Australia. The ORE is an independent office appointed by the licensee board of directors to undertake specific tasks required by the licence and to help the licensee meet its fiduciary and statutory obligations.

The ORE's key strategic priorities are to uplift the monitoring and assessment of scheme service providers, implement strategies that advance investors' interests, review and assess the licensee's compliance and risk management frameworks and oversee all reporting to the IISL Board. Implementation of these requirements will be reviewed by an independent expert and reported to ASIC before the end of the 2020 calendar year.

### Advice review

We are holding ourselves to higher standards and ensuring that our obligations to clients are met.

IOOF is committed to completing a voluntary advice review to identify any instances of fees for no service, fees for inadequate documentation and inappropriate advice. IOOF continues to make progress in relation to its advice review and has commenced customer remediation payments. IOOF has arrangements with ANZ with regard to remediation relating to ex-ANZ Wealth Management Advice Licensees.

### Three lines of defence

We apply a 'three lines of defence' model to the identification and management of risk and compliance issues. Our first line of defence is the operational areas of the business that are responsible for identifying, assessing, mitigating, monitoring and reporting on risks within their area including the development and operation of internal controls.

Our second line of defence is the Enterprise Risk and Compliance Team, which provides oversight and challenge of risk management and practices by first line, and provides advice and support on the implementation of the risk and compliance frameworks.

Our third line of defence provides independent assurance on the effectiveness of governance and risk management practices and control environment across the whole organisation. We continue to invest resources dedicated to our three lines of defence and continue to see a maturing risk and compliance culture.

In addition, we continue to revisit our executive and business level forums established to improve accountability, transparency and oversight of risk and compliance across the organisation.

### Corporate governance statement

IOOF has adopted ASX Listing Rule 4.10.3 which allows companies to publish their corporate governance statement on their website rather than in their annual report. The Directors of IOOF have reviewed and approved the statement, which is available at: [www.ioof.com.au/about\\_us/corporate\\_governance](http://www.ioof.com.au/about_us/corporate_governance)

### Cyber security and privacy

In line with our purpose of **understand me, look after me, secure my future**, we are committed to keeping our clients' personal data secure, by ensuring we have robust and evolving cybersecurity and privacy controls in place.

### Cyber security

As with other participants in the financial services industry, cyber risk is one of the top operational risks faced by the IOOF Group.

Six years ago, we established a dedicated cyber security and technology risk team (Cyber Security Team) to ensure an enhanced focus on cyber security controls. Cyber security roles and responsibilities are clearly defined and documented. Our cyber security strategy, policies, tactical initiatives and operational controls are based on the National Institute of Standards and Technology (NIST) cyber security framework and comply with ISO27001 standard – an international standard for information security management.

IOOF has a Cyber Security Governance Forum that meets regularly to ensure a cross business functional overview of cyber risks and related controls. Our Cyber Security Team reports to the Board on cyber incidents, events, readiness and improvement projects.

The aim of our cyber security policies and frameworks is to ensure that:

- appropriate controls are implemented
- our cyber risk exposure is minimised
- our risk management processes are effective.

Like all business operations, cyber security relies on people, processes and technologies. We understand that the key to a holistic, effective and lasting cyber security program is the human element. Our people are our first line of defence and IOOF has a considerable focus on enabling and embedding a 'cyber security culture' throughout the business.

Our people undergo various levels of awareness training, including at induction, mandatory annual online training, as well as personal one-on-one training sessions where there is a high cyber risk. Training sessions include awareness of cyber risks and behaviours, privacy fundamentals and principles, fraud detection and reporting and AML/CTF obligations. We use positive reinforcement in our training programs to drive high levels of engagement. Each month we reward employees who have been successful in preventing cyber threats with enterprise-wide recognition of their vigilance as well as an award for their efforts.

Phishing email simulation testing is conducted regularly to test the effectiveness of training sessions. Results from the phishing tests are used to further fine tune training opportunities.

Job-specific security training is also embedded in our wider teams. The training programs are constantly reviewed to ensure relevance and to ensure latest concepts are covered. Our aim is to ensure that our staff have leading edge knowledge in areas of technology risk and cyber threats.

Third party risk management is of key importance for IOOF. All third-party relationships are established only after a rigorous due diligence process governed by our Vendor Management Policy. Security risk assessments are conducted at the initiation of the contract, as well as on a regular basis throughout the contract. This ensures that IOOF has adequate assurance over the conduct and controls that third parties have in place for the protection of information that is in custody of the third party.

IOOF collaborates with both Government bodies and the industry to keep abreast of cyber trends, emerging cyber threats and controls, as well as to discuss, collaborate and share new strategies and tactics relating to cyber controls.

IOOF is an active member of Joint Cyber Security Centre (JCSC) and a partner with Australia's national Computer Emergency Response Team (CERT). IOOF is also a founding member of the Australian Chapter of the Global Cybersecurity Alliance, which is an international, cross-sector effort designed to confront, address, and prevent malicious cyber activity. The Cyber Security Team at IOOF is also a member of industry groups such as the CISO Lens, ISACA and the Australian Information Security Association (AISA) which ensures that they are updated with relevant knowledge and intelligence into latest trends and threats impacting the Australian and Global cyber landscape.

With the onset of COVID-19 pandemic, IOOF's Business Continuity Plan was enacted and the workforce switched to work from home (WFH). A detailed threat risk assessment was conducted in view of the rapidly changing threat universe. Increase in COVID-19 related phishing emails and scams was anticipated, and users/staff were made aware of the increased threat level via multiple communications starting from 27 February 2020.

## Privacy

Our clients trust us to look after them by ensuring that their personal information is safe and secure. Any personal information we collect is handled in accordance with the IOOF Group Privacy Policy, which outlines how we manage personal information. We have a robust program in place to ensure privacy awareness remains at the forefront of our employees' minds.

Since 2015, IOOF has been an active participant in the Office of the Australian Information Commissioner's annual Privacy Awareness Week (PAW), during which employees engage in initiatives and activities to reinforce the importance of protecting information. This year, we held a widely attended Q&A session in which our Privacy Officer responded to on-the-spot privacy questions and concerns. With our employees working from home and an expectation that many will continue to do so after COVID-19 restrictions are lifted, extra information has been provided to keep our employees well informed and to ensure they are implementing additional measures to keep our clients protected.

Online privacy awareness training is provided to all employees annually and targeted training is delivered several times a year. We support a strong culture of privacy compliance, where reporting and responding to privacy breaches is second nature. We are continually looking for better ways to enhance our capabilities, to ensure our controls remain effective and to build privacy awareness.

## Responsible investment

### What we mean by ESG in the context of responsible investment?

Environmental, social, and governance (ESG) are a set of criteria that help constitute standards an investor can use to analyse a company's operations.

- *Environmental* refers to how conscious a company/investment is towards their direct environment and towards nature.
- *Social* refers to how a company/investment manages its impact on people. This encapsulates employees, suppliers, customers, and the communities it operates in.
- *Governance* focuses on the corporate structure of the company/investment. This includes leadership, internal controls, shareholder rights, executive pay, compliance with the law.

### IOOF Multi-Manager Investments and ESG

The management of IOOF's multi-manager investment offering ensures ESG factors are considered in the investment process in order to protect and manage investments for the long term. In 2018, IOOF's Investment Division developed a Responsible Investing Statement of Principles. Approval and the commencement of implementing the principles followed in 2019. The Statement defines the role that responsible investment plays in the assessment, selection and monitoring process of externally appointed managers in the multi-manager funds. Furthermore, it outlines the framework for identifying and managing ESG impacts, risks and opportunities across the various funds we manage.

ESG factors that form the basis of our statement are wide ranging and their impact on our products' risk and return may vary.

A number of approaches can be taken in relation to ESG issues including:

- **Integration:** Inclusion of ESG factors in the investment decision making process to improve investment outcomes.
- **Active ownership:** Engaging with companies (including via proxy voting) to improve investment outcomes.
- **Themed Investing:** Targeting investment areas which generate attractive returns with sustainability and social improvement themes.
- **Exclusions:** Screen out companies or industries assessed to represent a long-term risk to returns due to negative ESG factors that cannot be mitigated via Integration, Active Ownership, or Themed Investing.

Integration is considered the most appropriate approach to responsible investing given our objectives. All four approaches may be deployed and deemed appropriate. Exclusion is reserved for companies or industries where other approaches cannot reasonably be expected to achieve our objectives.

### IOOF Advice Research and ESG

IOOF consider ESG principles in both investment philosophy and in the construction of ESG Model Portfolios, looking at ethical and responsible investing to prioritise client choice. The Research team ESG Model Portfolios utilise investment strategies to effect change across ESG concerns.

**Exclusion Strategies** – this includes funds that negatively screen investments which are associated with specific industries. This includes such industries like tobacco, alcohol, weapons, pornography, gambling, animal testing, genetic engineering, deforestation, oil and gas, nuclear power, mining, and climate change (just to name a few).

**Impact investing** – this includes funds that look to generate positive returns while measuring an investment's environmental and social impact alongside its financial return. Funds in the category tend to be more active when voting and advising companies. They seek to positively reward firms which take a proactive approach to improving their ESG footprint.

IOOF has taken the approach of integrating ESG in the investment process holistically via tactical investing.

Over the investment horizon, we expect the ESG model to have a different journey than that of a non-ESG model. However, we anticipate that over the long term, the client in either portfolio will achieve a broadly similar investment outcome.

Our approach to ESG includes exclusion strategies, impact strategies, and non-ESG strategies (for diversification). ESG integration should not mean that an investor is prohibited from investing in specific sectors, countries and companies, or that portfolio returns are sacrificed to perform ESG integration. By taking this approach, we hope to meet the client's investment objectives.

## Model portfolio research and selection

IOOF applies a multi-manager approach to the construction of the ESG Model Portfolios. This is based on the notion that portfolio returns can be enhanced through considered and skilful selection of investment managers whose processes enable them to outperform the benchmark return of their respective asset classes over different market conditions.

IOOF will continue to follow the existing process employed when selecting managers and building its portfolio with the added ESG integration which includes how the managers conduct their:

- ESG scoring and approach
- Active engagement (voting) – including collaborative investor engagement
- Industries screened
- ESG profile and history
- ESG agenda when meeting with investment teams
- SWOT analysis on ESG factors
- ESG integrated research notes

## Our environmental impact

As a diversified financial services company, we seek to minimise our impact on the environment through a range of waste, energy and emission-reduction activities.

During 2017 we commenced a significant project to consolidate our property footprint, which has better enabled us to monitor and manage our environmental impact. We are always looking for new ways to improve our environmental impact, working with our landlords on waste, water and energy reduction.

## Tax transparency

The IOOF Group is committed to tax transparency and integrity. It has been a signatory to the Board of Taxation's Voluntary Tax Transparency Code (the Code), since January 2017. The Code is a set of principles and 'minimum standards' to guide disclosure of tax information by businesses, encourage those businesses to avoid aggressive tax planning, and to help educate the public about their compliance with Australia's tax laws.

The IOOF Group provides a reconciliation of accounting profit to tax expense, and to income tax paid/payable including identification of material temporary and non-temporary differences and accounting effective company tax rates for the IOOF Group's Australian and global operations.

## Information about international related party dealings

The IOOF Group conducts foreign activities in New Zealand, via IOOF New Zealand, and in Hong Kong, via share broking business, Ord Minnett (now a discontinued operation). Each of those entities is subject to the local tax regime and effective tax rates are disclosed with the IOOF Group's effective tax rate. Related party dealings between the IOOF Group's Australian and foreign jurisdictions are supported by transfer pricing documentation.

## Approach to tax strategy and governance.

Tax governance is part of the IOOF Group's overall risk management framework, as well as being part of an overall tax strategy. The overall tax strategy drives the IOOF Group's approach to tax risk management and is aimed at good corporate tax compliance and reporting, ability to meet and be prepared for regulatory changes, and in ensuring shareholder value. Tax governance is continuously monitored and in line with the IOOF Group's strategy. The IOOF Group regards its relationship with the ATO as effective and open thereby maintaining transparency and collaboration.

## Tax contribution analysis

The IOOF Group contributed a total of \$120.2m in taxes to Australian, New Zealand and Hong Kong governments (state and federal) in the 2020 tax year. \$119.9m or 99.75% of this amount was attributable to the Australian Government.

Further taxes paid by the IOOF Group on behalf of others, including employees and clients, are not directly borne by the Group. These include income tax, GST, pay-as-you-earn withholding taxes, and local duties, which total a further \$95m.

# Our clients and community

In today's complex and ever-changing financial world, it has never been more important for people to seek qualified and experienced guidance to secure their financial future. One of our major goals is to make it easier for all Australians to access and benefit from receiving the right advice for their individual needs and objectives.

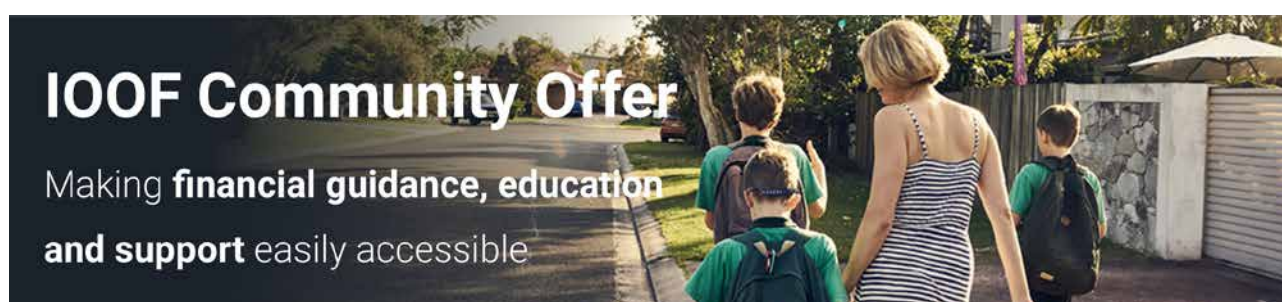
## Establishing trusted relationships with advisers

**At IOOF, we believe in the value of financial advice.**

We currently employ or licence approximately 1,500 advisers and also have trusted relationships with financial advisers who operate independently.

We also believe in setting the highest standards in advice. Advisers joining one of IOOF's advice groups are subject to meeting minimum adviser education standards and undergo rigorous compliance and on-boarding processes, to ensure that the quality of financial advice IOOF is offering our clients is uncompromised.

## IOOF Community Offer



At IOOF, we have a rich history of helping Australians secure their financial future. Living our purpose has meant looking after and delivering what matters to our clients, people and the wider community. That's why we are digging back to our roots, where the notion of helping Australians who have fallen on tough times get back on their feet began. As an Advice led company, we want to help those in need by making financial guidance and support accessible to the community, free of cost through the IOOF Community Offer.

Through the IOOF Community Offer we are helping everyday Australians by providing the following support and guidance:

- **Pro bono support** – practical financial guidance and support provided by a select group of IOOF aligned advisers (at no cost)
- **Educational videos and content** – a series of video education and support material.
- **Wealth Report** – online personal snapshot report will be available to everyone to complete and keep.

We want to make sure that all Australians can talk to an adviser, an expert that can help them through this difficult time, get them back on their feet and plan for their future. The type of help and support needed include simple conversations, education sessions or general guidance on particular issues – not always resulting in personal advice, that's why we are including this non-personal advice help and support into our pro bono offering.

We have created [www.ioof.com.au/community](http://www.ioof.com.au/community) as a resource for all Australians to access educational material or request for pro-bono support. Across our national footprint we have 426 Advisers who have offered to provide guidance and support to those who need it most within their communities from 1 July 2020 to 30 September 2020. Many of our advisers will continue to provide pro bono advice as part of their standard value proposition for their community.



## Advocating for quality financial advice for all Australians

Our unique advice-led wealth management strategy is differentiating us from our peers and is focused on delivering quality financial advice to all Australians.

As one of Australia's leading financial services businesses, we are pleased to be investing in the continued improvement in the quality of advice for the benefit of all Australians.

In July 2016, we launched the IOOF Advice Academy, which aims to be the pre-eminent training and coaching resource for the financial planning industry. Our vision for the IOOF Advice Academy is to create an environment where ongoing financial planning relationships deliver continued mutual value and enable our clients to live their ideal lives and be free of financial concern.

Four years on from its inception, our IOOF Advice Academy continues to lead the way in specialist coaching for financial advice businesses. Through bespoke workshops, in-practice specialist coaching and implementation, we address the challenges of providing quality advice through ever-changing technology, regulation and consumer expectations.

## Putting the best interests of our clients first

IOOF continues to invest in, and mature its ClientFirst strategy, under which we believe that focussing on client experiences that deliver what matters to our clients will give us a sustainable competitive advantage. We do this in the context of robust corporate governance.

ClientFirst is about understanding client needs, reframing client problems, and helping to rethink the entire client experience. We look forward to rolling this model out to clients of our recently acquired P&I business.

The strength of the ClientFirst operating model was highlighted through our response to the covid-19 pandemic. The pandemic brought twin challenges: prioritising the health and safety of our people and communities, and at the same time making sure there was minimal disruption to delivering what matters to our clients.

Our four-year investment in ClientFirst thinking, new ways of working, and supporting systems and processes, delivered scalable operations that allowed us to absorb wide variations in client demands, deliver personalised service tailored to individual client needs, and without location being a barrier.

As a result of this, we have a high level of confidence and trust in our ability to withstand and respond to disruption. This is very important given we are entrusted with the life savings and incomes of Australians, and even more so given that our clients reflect a higher proportion of older and more vulnerable Australians. We have been there when needed on phones, making pension payments, and delivering early release access quickly.

The speed and agility of our people, systems and processes was further highlighted by our response to early access to super. From 20 April to 28 June 2020, IOOF made 99,174 payments under the Early Release of Superannuation scheme to satisfy requests totalling \$743 million.

IOOF's ClientFirst approach ensured that 97% of all payments were made to clients within 5 business days. The P&I business made 83% of payments within 5 business days. This was important because Early Release requests were being made by clients with immediate and urgent needs. We also worked together with Government and Regulators to provide feedback on aspects of the Early Release of Superannuation scheme.

We continue to invest in growing robotics and artificial intelligence capabilities to create more capacity for ClientFirst specialists to speak to clients. Real people talking to real people is a foundation of ClientFirst thinking. At times call volumes were up by over 300% for sustained periods.





**Established as a not-for-profit organisation in June 2002, at the time of IOOF's demutualisation, the IOOF Foundation recognises the historical origins of IOOF and the important role it has played in the Australian community since 1846.**

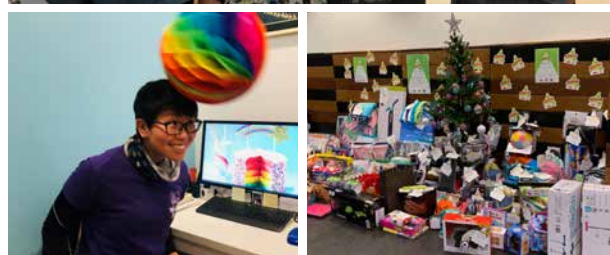
Since its formal establishment in 2002 the IOOF Foundation has donated more than \$15 million to community groups across Australia. The IOOF Foundation is funded by the income from a \$18 million plus corpus provided by IOOF. IOOF also funds running costs, ensuring that all of the investment income goes to supported community programs .

Our grants program offers long-term grants (up to three years) in areas important to the history of IOOF and the wider Australian community aligned to our focus areas.

To date these have been in the areas of:

- **Aged care** – The IOOF Foundation gives priority to programs that are committed to providing the quality of life for individuals and their families with progressive neurological and physical diseases.
- **Families** – Our basic needs program, supports community groups that are assisting families that are struggling to be self-sufficient and support long-term solutions that help families move out of poverty or avoid a crisis.
- **Children and youth** – The IOOF Foundation supports education projects that help break the cycle of disadvantage and empower young Australians to reach their potential. Priority is given to programs addressing prevention and early intervention and education, employment and training for young people.

- **Mental health** – All people, regardless of where they live or economic status should have access to quality mental health care. We have seen that impacts of mental health may have flow on effects with many experiencing poverty, homelessness and unemployment as a result. To make inroads into these issues, we need to address this. Integrated within our core programs is access to resources that focus on early intervention and prevention.



## 2020 Community Partners

The grants that are approved are innovative, yet sustainable, and are those that will provide value to the community. This helps ensure that grants provided make a real impact on the community and achieve a meaningful result.

- |                                  |                                    |                             |
|----------------------------------|------------------------------------|-----------------------------|
| • Aboriginal Literacy Foundation | • Life4Life                        | • Rural Aid                 |
| • Ardoch Youth Foundation        | • Mama Lana's Community Foundation | • Spinal Research Institute |
| • Blaze Aid                      | • Menzies Research Foundation      | • The Funding Network       |
| • Giant Steps Australia          | • Parkinsons Australia (WA)        | • The Reach Foundation      |
| • Girl from Oz                   | • Red Dust Role Models             | • The Smith Family          |
| • Kids Under Cover               | • Righteous Pups Australia         | • Very Special Kids         |
| • Let's Talk                     |                                    | • Youth Focus WA            |

# Our people

## Our culture

At IOOF, our people are critical to our success. We strive to create an environment where our employees are engaged, inspired and growing with us. An environment where we are living our purpose, ***understand me, look after me, secure my future***, and delivering what matters most to our clients and our people.

IOOF's culture is defined by putting at the centre of everything we do. It's why our organisational purpose is written in the first-person 'understand me, look after me, secure my future'. This unique ClientFirst approach is about everyone at IOOF putting themselves in the shoes of clients or 'outside-in thinking'. With this approach, we challenge everything we do with a mind-set of understanding 'what matters' and finding the best way to deliver this value to clients. It also means we empower our people to do what they do best: have an impact and truly make a difference. We innovate through finding different ways.

## Employee engagement and alignment

In May 2020, we held our annual Alignment and Engagement Survey (AES). We were pleased to see 83% of our people respond to the survey and our results significantly improved from 2019, with a 12-point uplift in our employee engagement score and four-point increase in our alignment score. We are now in the top quartile of the alignment industry benchmark.

There were significant increases in sentiment towards long-term direction of the organisation and investment in our people. People have clarity about where the organisation is headed and feel they are contributing towards this. They also feel well supported through the COVID-19 period and connected to the organisation despite the challenges of remote working.

Pleasingly, all governance and risk indicators measured through the survey also increased, reflecting our commitment to embedding a strong governance and risk culture.

Following the survey, the Executive Team and leaders across IOOF have committed to actions plans that will focus on addressing key opportunities identified in the results.

## Supporting our people through COVID-19

At IOOF we were an 'early mover' in response to COVID, moving most of our people to working from home in a matter of days, with minimal disruption to our business operations and clients. Since that time our people have been fluently working from home.

Supporting our people through this transition to remote working, as well as the challenges of the external COVID environment has been critically important for us since. We've been focusing on remaining connected through regular communications and events and giving our people the tools and information, they need, when they need it.

We created a well-being hub to support our people across physical, mental and emotional wellbeing. We've also run educational sessions on topics like balancing work and care, work health and safety from home, financial well-being and resilience in addition to supporting people to manage their energy through exercise programs that can be completed at home. Our people and their families also get access to confidential coaching 24/7 through our Employee Assistance Program (EAP). Our EAP program offers support on a broad range of topics including nutrition and financial wellbeing.

We are conducting regular pulse surveys to get feedback on how our people are feeling and what support they need during this period. Feedback from these pulse surveys indicates our people are feeling supported and are connected to what we are working to achieve. The sentiment around working from home has been extremely positive with 87% of respondents saying they have had a positive experience overall and most eager to continue balancing office and remote working in the future. IOOF has seen this period as an opportunity for reshaping the way we work and introducing more flexibility on an ongoing basis.

## Planning for the future of work

To help define and plan for our post-COVID work environment, we've launched a project called 'Our Work Life'.

The Our Work Life project is about rethinking the way we work longer term. Focusing on technology, home and office environments and ways of working, the Our Work Life project will enable continued flexible working and ensure collaboration and connection across teams and with clients wherever our people work.

## Diversity and Inclusion

IOOF is committed to creating an environment where everyone can bring their whole self to work and where diversity is celebrated across all areas of difference, including gender, age, cultural identity, ethnicity, disability, sexual orientation, religious beliefs, family/lifestyle needs, personal styles and backgrounds.

IOOF has a Diversity and Inclusion Action Plan to support this commitment. The plan sets out the diversity and inclusion initiatives for the IOOF Group to help drive progress against key focus areas.

We have a Diversity and Inclusion Advisory Committee in place made up of a cross-representation of our people, chaired by Renato Mota, our CEO. The Diversity and Inclusion Advisory Committee reviews and proposes initiatives through a consultation process, to help drive our Diversity and Inclusion agenda at IOOF and in the broader community.

Our current key areas of focus include gender diversity, creating a strong and diverse pipeline of talent for critical roles, financial wellbeing, flexible working, fostering a culture of belonging and leadership capability.

### Some of the key achievements over 2019/2020 include:

- Launch of the 'Our Leading Women' female development program.
- Campaign to educate and raise awareness on all forms of flexible working.
- Launch of the Growing Together mentoring program.
- Free financial advice offer for all employees, whatever their life stage.
- Signed a partnership with Financial Executive Women which provides education and support which all our employees can access.
- Refresh of the Diversity and Inclusion Advisory Committee who act as a representative body on behalf of all employees and a sounding board for matters related to the Diversity and Inclusion Action Plan.
- Capturing employee perceptions about Diversity and Inclusion and demographic data through the annual engagement survey.
- Creation of a wellbeing hub to support employees across physical, mental and emotional wellbeing.

The table below sets out the number of women in board, executive, senior management positions, and across the whole workforce:

| Category                     | Female Representation |
|------------------------------|-----------------------|
| Board (excluding CEO)        | 40.00%                |
| Executives (including CEO)   | 27.27%                |
| Senior Managers <sup>1</sup> | 36.27%                |
| Other Managers <sup>2</sup>  | 40.53%                |
| Other                        | 51.61%                |
| <b>Total</b>                 | <b>49.12%</b>         |

<sup>1</sup> Senior Managers includes all roles reporting to an Executive, excluding administrative support roles.

<sup>2</sup> Other Managers includes all other managers.

## Growth and development of our people and leaders

Ensuring our people, at all levels, are growing with us is critical to us achieving our strategic and cultural objectives.

We strive to create an environment where our people have the tools and support to own and drive their own growth. We adopt the 3E Framework – Experience, Education and Exposure and encourage our people to display learning behaviours to foster their own growth and contribute to the growth of others.

We encourage leaders and team members to have conversations about career development on an ongoing basis ensuring our people are actively working towards their goals. We contribute to the development of our people through structured mentoring relationships, a study support program and access to professional memberships.

At IOOF we know great leadership is fundamental to our success. Developing, aligning and empowering leaders has been a key focus of the last 12 months. IOOF is committed to developing our existing and future leaders and our Leading@IOOF and Leadership Foundation programs are designed to strengthen our leadership capability across the organisation.

We have also launched a targeted communications strategy for our people leaders to ensure they receive key messages, information and education that is specific to their role as a leader of others.

## Graduate program

We value the new ideas, skills and energy graduates bring to IOOF. In 2019 we launched a refreshed graduate program which aims to provide graduates with a structured 12-month learning path to accelerate their transition to the workforce and get an understanding of IOOF holistically.

## Volunteering and giving

For the last decade, we have supported employees who are interested in volunteering through the use of paid volunteer leave. This year we expanded our support to the community offering significant changes to the program:

- Support for emergency volunteers: To make it easier for you to support communities during emergencies, IOOF introduced crisis leave to assist our employees that are members of a volunteer organisation such as the Rural Fire Service (RFS), Country Fire Authority (CFA) or State Emergency Service (SES) and are called to assist during a declared emergency, or in other exceptional circumstances.
- Support for community volunteers: To acknowledge the need for volunteers in a range of areas, IOOF are now providing all eligible permanent staff the opportunity to increase their volunteer leave to any charitable organisation from the current one day to two days.

Our Workplace Giving program encourages our people to make a tax-effective donation that IOOF matches dollar for dollar. This is a simple and effective way for our people to make small regular donations. We have committed to invest further in this program, moving to a new online platform and expanding the number of organisations we will support. We have listened to our employees and understand that it is important to give them a choice in where they give their time and money, which encourages greater participation.



### Growth mindset

Having the belief that you are in control of your own ability and there is no end to how much you can learn and develop

### Curiosity

Curiosity is driven by the desire to learn and acquire information

### Feedback

Actively, confidently and continuously seeking feedback on performance and development to continue to grow

# financial report

for the year ended  
30 June 2020

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# Directors' report

The Directors present their report together with the financial report of IOOF Holdings Ltd (the "Company" or "Parent") and of the IOOF Group, being the Company and its subsidiaries and the consolidated Group's interest in associates ("IOOF Group" or the "Group") for the financial year ended 30 June 2020 and the auditor's report thereon.

## Directors

The Directors of the Company during or since the end of the financial year were:

| Name, qualifications and independence status  | Experience, special responsibilities, listed and other significant directorships   |
|---|--|
| <p><b>Mr Allan Griffiths</b><br/>B.Bus, DipLI.<br/>Independent Non-Executive Director and Chairman<br/>Director since 2014</p>                                    | <p>More than 30 years' experience with a deep understanding of the financial services industry. Mr Griffiths has held a number of executive positions within the industry most notably as Chief Executive Officer Aviva Australia and later, Managing Director South Asia, Aviva Asia Pte Ltd based in Singapore. Prior to joining Aviva Mr Griffiths held executive positions with Colonial Ltd and Norwich Union. Mr Griffiths is Chairman of the Westpac/ BT Insurance Boards and the Chairman of Metrics Credit Partners.</p> <p>Mr Griffiths is also Chair of the Group Nominations Committee and a member of the Group Audit, Group Risk and Compliance and Group Remuneration Committees.</p>   |
| <p><b>Mr Renato Mota</b><br/>BComm(Hons), B.Bus<br/>Chief Executive Officer and Managing Director</p>   | <p>With more than 20 years' experience in financial services, prior to being appointed CEO in June 2019, Mr Mota held a number of senior executive roles within IOOF. In December 2018, Mr Mota was appointed Acting CEO and prior to that was Group General Manager – Wealth Management since January 2016. During this time he was instrumental in leading IOOF through a series of forward-thinking, strategic initiatives including IOOF's advice-led strategy, the group's ClientFirst transformation and establishing the IOOF Advice Academy. Previously, he held numerous executive roles as General Manager of Distribution, Investor Solutions and Corporate Strategy and Communications. Before joining IOOF in 2003, Mr Mota worked for Rothschild and NAB in corporate finance roles with a focus on mergers and acquisitions where he was involved in wealth management transactions including the demerger of Henderson Group plc from AMP in 2003 and NAB's acquisition of MLC and Deutsche Financial Planning.</p>  |
| <p><b>Mr Andrew Bloore</b><br/>Independent Non-Executive Director<br/>Director since 2 September 2019</p>   | <p>Mr Bloore is an experienced Non-Executive Director, entrepreneur and farmer. He has designed, built and sold a number of businesses, focussed on the development of key disruptive technologies and distribution services in traditional markets, to create business efficiencies. Businesses Mr Bloore has been actively involved in, both as an Executive and/or as a Director and in the capacity of investment funding, development and leadership, include Smartsuper, SuperIQ, and Class Super. Mr Bloore has worked on a range of Senate and Treasury Committees, and with the Australian Taxation Office (ATO) Regulations Committee on regulation for the superannuation industry. In 2016, Andrew sold his superannuation administration business to AMP, stepped down from the Senate and Treasury Committees and is now focussed on contributing to organisations as a Non-Executive Director. Mr Bloore was a non-executive director of FBR Ltd until November 2019.</p> <p>Mr Bloore is a Board Member and a Member of the Group Risk and Compliance, Group Audit, and Group Remuneration Committees.</p> |
| <p><b>Ms Elizabeth Flynn</b><br/>LLB, Grad Dip App Corp Gov, FAICD, FFin, FGIA, FCIS.<br/>Independent Non-Executive Director<br/>Director since 2015</p>          | <p>Ms Flynn has more than 30 years' experience in the financial services industry, including roles within law and corporate governance as well as executive responsibilities. From 1998 to 2010, Ms Flynn was the Chief Legal Counsel, Group Compliance Manager and Group Company Secretary of financial services group Aviva Australia, and a director of Aviva Australia's superannuation trustee company. Prior to her time at Aviva, Ms Flynn spent 18 years as a commercial lawyer with Minter Ellison, including eight years as a Partner, specialising in managed funds, banking, securitisation and superannuation. Ms Flynn was a non-executive director of Bennelong Funds Management from 2010 to 2015 and is a non-executive director of AIA Australia Limited and The Colonial Mutual Life Assurance Society Limited.</p> <p>Ms Flynn is Chair of the Group Risk and Compliance Committee, and member of the Group Audit and Group Remuneration and Nomination Committees.</p>  |
| <p><b>Ms Jane Harvey</b><br/>B.Com, MBA, FCAANZ, FAICD<br/>Independent Non-Executive Director<br/>Director since 2005<br/>Resigned effective 18 February 2020</p> | <p>Ms Harvey has more than 30 years' experience in the financial and advisory services industry. Prior positions include as a Partner at PricewaterhouseCoopers, a Director of Dulux Group Limited from 2018 to 2019, a Director of UGL Limited from 2015 to 2017, and as a Director of DUET Finance Limited, a stapled entity within the ASX Listed DUET Group from 2013 to 2017. Ms Harvey is currently a Director of BUPA A&amp;NZ entities.</p> <p>Ms Harvey was the Chair of the Group Audit and Remuneration Committees and member of the Group Nominations and Group Risk and Compliance Committees until her resignation effective 18 February 2020.</p>   |



| Name, qualifications and independence status   | Experience, special responsibilities, listed and other significant directorships   |
|--|--|
| <p><b>Mr John Selak</b><br/>Dip Acc, FCA, FAICD<br/>Independent Non-Executive Director<br/>Director since 2016</p>   | <p>Mr Selak has over 40 years' experience in the financial and advisory services industry. From 2000 to 2016 Mr Selak was a Partner in the Corporate Finance Practice of Ernst &amp; Young serving on their Global Corporate Finance Executive. From 2014 to 2017 Mr Selak was an advisory board member of Quest Apartment Hotels. From 2016 to 2020 Mr Selak was a non-executive director of National Tiles. Mr Selak is currently Chair of Corsair Capital, a non-executive director of Turosi Food Solutions and the IOOF Foundation.</p> <p>Mr Selak is Chair of the Group Remuneration Committee and a member of Group Nominations, Group Audit and Group Risk and Compliance Committees.</p> |
| <p><b>Ms Michelle Somerville</b><br/>B Bus (Accounting), FCA, GAICD, Master Applied Finance<br/>Independent Non-Executive Director<br/>Director since 1 October 2019</p>   | <p>Ms Somerville is an experienced Non-Executive Director, bringing deep and relevant finance, risk and governance experience to the Board, having worked in the financial services industry in both her executive and non-executive roles. Previously she was an audit partner with KPMG Australia for nearly 14 years, with a focus on the financial services industry in both Australia and overseas. Ms Somerville is currently a non-executive director of The GPT Group (since 2015), Bank Australia, ED Credit Services, and Save the Children (Australia).</p> <p>Ms Somerville is the Chair of the Group Audit Committee and a member of Group Risk and Compliance Committee.</p>         |
| <p><b>Mr George Venardos</b><br/>BComm, FCA, FGIA, FAICD, FCIS.<br/>Independent Non-Executive Director<br/>Director since 2009<br/>Resigned effective 28 November 2019</p> | <p>An experienced Director with broad listed company experience across a range of different industries, including financial services, affordable leisure, oil and gas services and technology development. Over 30 years' experience in executive roles in financial services, insurance and funds management including 10 years as CFO of Insurance Australia Group and Chairman of the Insurance Council of Australia Finance and Accounting Committee. Former Director of Bluglass Ltd from 2008 to 2016 and Ardent Leisure Group from 2009 to 2017.</p> <p>Chair of the Nominations Committee and member of the Group Audit and Remuneration Committees until 10 December 2018.</p>            |

The Group Remuneration and Nominations Committees review the balance of skills, experience, independence, knowledge and diversity of Directors. This involves the creation of a board skills matrix setting out the mix of skills and diversity that the Board currently has or is looking to achieve in its membership.

During the year each Board member completed a skills matrix. The Board was satisfied that the skills matrix results demonstrate that the Board has the appropriate skills and experience necessary to oversee the operations and governance of the IOOF Group. The Board Skills Matrix is available as part of our Corporate Governance Statement which is available on the IOOF website.

## Principal Activities

The principal continuing activities of the IOOF Group during the financial year consisted of:

- Financial advice and distribution – financial advisers provide strong and enduring value to clients by helping clients build, maintain and protect their wealth, helping clients navigate their way through a range of financial products and services, and by educating clients, contributing to financial literacy in Australia and giving clients and their families peace of mind about their financial future;
- Portfolio and estate administration – IOOF Employer Super is one of Australia's leading superannuation solutions, offering a wide choice of investments, tailored insurance options, competitive fees, and personalised advice. The IOOF Pursuit platform offers multiple retail insurers, group insurance, tax effective features, and smart online trading and transacting capabilities;
- Investment management – through our investment management expertise, we offer a range of highly rated multi-manager funds that offer an easy and effective way to diversify investment portfolios;
- Ex-ANZ Advice Licensees (Ex-ANZ AL) – Acquired from ANZ in October 2018, they provide financial planning advice services to clients. As part of the Advice 2.0 strategy, these businesses are in the process of being integrated with heritage IOOF Advice division with a focus of embedding IOOF's ClientFirst methodology throughout; and
- Ex-ANZ pensions and investments (Ex-ANZ P&I or P&I)– Acquired from ANZ in January 2020, the P&I business provides platform services across retail and corporate, and an in-house multi-asset management team with OptiMix as flagship product. The P&I integration strategy is focussed on ensuring efficient integration of the P&I business with IOOF's existing Portfolio and Investment management businesses.

# Directors' report (cont'd)

## Operating and financial review

In accordance with current Australian Accounting Standards, the audited financial results of the benefit funds<sup>1</sup> of IOOF Ltd are included in the consolidated results of the IOOF Group. The inclusion of the benefit funds has no impact on the profit after tax for the year (2019: \$nil) but results in offsetting pre-tax profit and income tax amounts not available to shareholders.

The following table provides a reconciliation between the reported results of the IOOF Group and underlying net profit

after tax pre-amortisation (UNPAT), with the results of the benefit funds excluded. In calculating its UNPAT, the IOOF Group reverses the impact on profit of certain, predominantly non-cash and non-recurring, items to enable a better understanding of its operational result. It is the UNPAT result which will be analysed in detail in this section of the Directors' Report. The items reversed, and the rationale for that reversal, is also addressed in detail.

Shareholders can review the more detailed results presentation by visiting the Company website at [www.ioof.com.au](http://www.ioof.com.au)

|   | Note | 2020           | 2019            |
|---|------|----------------|-----------------|
|   |      | \$'000         | \$'000          |
| <b>Profit attributable to Owners of the Company</b>                                   |      | <b>146,964</b> | <b>28,560</b>   |
| Discontinued operations   | 2-2  | (88,166)       | (58,374)        |
| <b>Profit/(Loss) from continuing operations attributable to Owners of the Company</b> |      | <b>58,798</b>  | <b>(29,814)</b> |
| <i>Underlying net profit after tax pre-amortisation (UNPAT) adjustments:</i>          |      |                |                 |
| Amortisation of intangible assets   | 2-4  | 36,749         | 37,651          |
| Unwind of deferred tax liability recorded on intangible assets                        |      | (9,717)        | (9,881)         |
| Acquisition costs – Acquisition advisory  | 2-4  | 6,010          | 2,488           |
| Acquisition costs – Integration preparation   | 2-4  | 24,955         | 20,766          |
| Acquisition costs – Finance costs   | 2-4  | 65             | 416             |
| Termination payments  | 2-4  | 2,865          | 2,043           |
| Profit on divestment of assets  | 2-3  | (1,528)        | (368)           |
| Non-recurring professional fees paid  | 2-4  | 6,426          | 2,027           |
| Impairment of goodwill  | 2-4  | 4,344          | –               |
| Remediation costs   | 2-4  | 1,511          | 235,278         |
| Governance uplift costs   | 2-4  | 4,461          | –               |
| Other   |      | 1,444          | 875             |
| Income tax attributable   |      | (12,337)       | (78,180)        |
| <b>UNPAT from continuing operations</b>   |      | <b>124,046</b> | <b>183,301</b>  |
| UNPAT from discontinued operations  |      | 4,788          | 14,688          |
| <b>UNPAT</b>  |      | <b>128,834</b> | <b>197,989</b>  |

Further detail on UNPAT is provided in Notes 2-1 to 2-4 of the financial statements.

<sup>1</sup> A subsidiary of the Company, IOOF Ltd, is a friendly society in accordance with the Life Insurance Act 1995. The funds operated by IOOF Ltd, and any trusts controlled by those funds, are treated as statutory funds in accordance with the Life Insurance Act 1995. These statutory funds are required to be consolidated in accordance with accounting standards.

## UNPAT adjustments:

**Amortisation of intangible assets (excluding software development):** Non-cash entry reflective of the value of intangible assets diminishing over their useful lives. While intangible assets are continuously generated within the IOOF Group they are only able to be recognised when acquired, such as brand names and customer relationships. The absence of a corresponding entry for intangible asset creation results in a one-sided decrement to profit as the acquired intangible assets are amortised. The amortisation of software development costs is not excluded from UNPAT as it represents the utilisation of these assets within the business.

**Unwind of deferred tax liability recorded on intangible assets:** Acquired intangible asset valuations for AASB 3 Business Combinations accounting are higher than the required cost base as set under tax consolidation rules implemented during 2012. A deferred tax liability (DTL) is required to be recognised as there is an embedded capital gain should the assets be divested at their accounting values. This DTL reduces in future years at 30% of the amortisation applicable to those assets which have different accounting values and tax cost bases. The recognition of DTL and subsequent reductions are not reflective of conventional recurring operations and are regarded as highly unlikely to be realised due to the IOOF Group's intention to hold these assets long term.

**Acquisition costs – Acquisition advisory:** One off payments to external advisers assisting in corporate transactions, such as the acquisition of the ANZ OnePath Pensions and Investments (ANZ P&I) business (prior comparative period (pcp): ANZ Advice Licensees (ANZ ALs)), which were not reflective of conventional recurring operations.

**Acquisition costs – Integration preparation:** Staff and specialist contractor costs related to integration preparation for the acquisition the ANZ P&I business (pcp: ANZ ALs). Costs include project labour costs, IT and other consultancy fees, outsourced hosting services, and Advisor recognition accruals

**Acquisition costs – Finance costs:** Costs of securing finance for the acquisition of the ANZ P&I business.

**Termination payments:** Represents termination payments to staff which facilitates restructuring to ensure long term efficiency gains.

**Profit on divestment of assets:** Divestments of non-core businesses, client lists and associates.

**Non-recurring professional fees (recovered)/paid:** Payment of specific legal costs that are not reflective of conventional recurring operations. Includes costs associated with assistance with APRA and ASIC related matters

**Impairment of goodwill: A non-cash impairment of \$4.3m has been recognised in** relation to goodwill allocated to the Consultum business. Reduced profitability from lower revenue led to its expected fair value less costs to sell declining to below the carrying value of the goodwill. Revenue decline has arisen due to changes in the regulatory landscape and the impacts of COVID-19.

**Remediation costs:** Remediation costs that arose predominantly as a result of fees for no service and quality of advice remediation programs.

**Governance uplift costs:** Costs incurred in undertaking projects that are outside the ordinary course of business. Activities undertaken during the year that have resulted in governance uplift can be found in the Governance Uplift section on the following page. Costs predominantly relate to project labour costs and consultancy fees in relation to APRA MAP costs and RE/RSE separation costs.

**Other:** Impairment of customer related intangibles and losses on divestment of non-current assets.

**Income tax attributable:** This represents the income tax applicable to certain adjustment items outlined above.

## Review of strategy

The IOOF Group currently has a transformational strategic focus. The key pillars to this are Advice 2.0, Evolve21 and P&I integration. These pillars are designed to focus, simplify and grow the business to deliver on the strategy of 'advice-led wealth management' with IOOF's ClientFirst methodology underpinning every aspect of the business.

### Advice 2.0

The Advice 2.0 project is focussed on the long-term sustainability of the Advice division, an initiative that focusses on redesigning the advice experience. The core benefits of this project are to deliver more accessible and cost-effective financial advice, improve adviser efficiency and ensure a profitable division that is independent from product.

Changes in 2020 that have been building the foundation for Advice 2.0 are:

- acquisition of advice businesses to seed the expansion of the employed channel, such as Buyer of Last Resort Acquisitions in Bridges as well as embedding the purchases of Bendigo and financial arm of IMB Bank.
- Critical governance harmonisation work across each of the Licensees has been completed to ensure a consistent operating model, across multiple brands.
- Critical optimisation work across the self-employed Australian Financial Service Licensees has been rolled out that underpins the sustainability and future state of advice.

# Directors' report (cont'd)

## Evolve21

Evolve21 is a key enabler to IOOF's group strategy supporting the three business pillars, being our clients, our business, and our people. It is a programme of work that will simplify the platform suite to one contemporary and simplified platform offering by the end of the 2021 calendar year.

Evolve21 will enable significant simplification of our business, support the ClientFirst methodology and deliver for our people by reducing waste and complexity, allowing greater focus on service excellence. Evolve21 is critical to IOOF's ability to deliver improved client outcomes through efficiency, sustainability and our ability to innovate.

In 2020, the delivery of enhanced features has continued with the release of IDPS SMSF account structures, online corporate actions and Managed Discretionary Accounts functionality. These enhancements are important milestones to enable the ultimate consolidation. A dedicated Steering Committee made up of members of the IOOF Executive Team has been established. Several work streams are in operation to support the project and a dedicated project manager and engagement and communications manager have been recruited to help lead and support the project as activities ramp up.

## P&I Integration

In January 2020 IOOF completed the purchase of ANZ's OnePath Pensions and Investments business. In doing so, IOOF has now moved to the next phase of separating the business from ANZ and realising the expected benefits via meaningful operating cost synergies. The Integration Program is responsible for managing and overseeing the delivery of these activities.

The separation from ANZ is primarily reliant on system separation, which is currently forecast to be delivered in early 2022. Until this time ANZ is supporting IOOF by providing transitional services under a Transitional Services Agreement (TSA). Key functions and staff under this TSA will be progressively transitioned on an as ready basis. This will ensure functions are both bedded down as early as possible and IOOF's reliance on the TSA services is reduced as soon as possible.

In parallel, IOOF are working towards realising the benefits of joining the businesses. Key areas of focus include rationalisation of products and services, optimisation of organisational structure, elimination of duplicate back office functions and leveraging the benefits of increased scale.

Governance and executive oversight have been implemented, with the key forums including (a) Executive Transformation and Integration Steering Committee and (b) Design Integration Group.

## Operating and financial review (cont'd)

Right sized stream delivery teams have been, or are in the process of being, mobilised, with key milestones such as finalisation of the Joint Project Separation Planning and Phase 1 of an organisational redesign, system separation, transition of additional ANZ staff to IOOF, phase 2-3 of organisational redesign, product rationalisation roadmap and the entity rationalisation strategy. Underlying this is ensuring that IOOF's ClientFirst strategy is embedded in all aspects of integration.

## Governance uplift

On 7 December 2018, APRA gave notice of additional licence conditions on IOOF's APRA regulated entities. These conditions required, inter-alia:

- separation of responsible entity and registrable superannuation entity duties to separate independent corporate entities;
- implementation and effective operation of an independent member outcomes driven function (the Office of the Superannuation Trustee or "OST"); and
- monitoring and reporting on progress via an independent expert.

Effective 30 November 2019, IOOF met the requirement under the licence conditions to separate the Responsible Entity and Registrable Superannuation Entities duties into separate independent corporate entities. The OST was implemented and continues to independently support IOOF's APRA regulated entities and advance member outcomes, supporting SPSS15.

The Australian Financial Services Licence of the newly appointed IOOF Responsible Entity and Service Operator contains additional conditions imposed by ASIC. These conditions included the establishment of the Office of Responsible Entity (ORE) and monitoring and reporting on progress on the conditions via an independent expert. The newly established ORE is an independent function focused on assessing service providers to IOOF's investment schemes, uplifting the investment governance framework and ensuring that IOOF's investment schemes are operated in the best interests of investors. IOOF is tracking well towards meeting all of its licensing conditions as required by ASIC and under the independent review process.

## Response to COVID-19 pandemic

The IOOF Group Crisis Management Team (CMT) was convened in February 2020 to manage the Group's response to the COVID-19 global pandemic. The CMT undertook a review of critical processes, systems, third party providers and capital management to ensure continuity of business operations.

The CMT facilitated communication with IOOF Group staff to, among other things, impose restrictions on staff attending work premises, highlight increased risks of cybercrime during the pandemic, suspend work travel, and implement working from home arrangements as the Australian Federal and State Government responses to the pandemic progressed.

The IOOF Group quickly responded to the requirement to work from home and successfully maintained client service standards in line with the ClientFirst methodology while moving to and maintaining work from home arrangements.

While the IOOF Group has seen reduced revenues flowing from market volatility and Federal Government initiatives related to the pandemic, the Group has been able to manage operations without impacting debt covenants or longer-term viability. The Group has assessed sensitivities of key assumptions considering the impacts of market volatility and disclosed these where appropriate.

IOOF welcomed the Federal Government's initiatives to support those in our community most impacted by the current environment. This includes the ability to withdraw up to \$20,000 from superannuation over two financial years. IOOF was well placed to support this initiative given high levels of investment liquidity as well as the diversified demographic nature of our members and clients.

Payments made under the Early Release of Superannuation scheme from 20 April to 28 June 2020 have impacted Q4 2020 net flows. IOOF (including P&I) has paid 99,174 requests totalling approximately \$743 million in relation to the Early Access to Superannuation scheme:

- IOOF (excluding P&I) has paid 21,818 requests totalling \$170 million.
- The P&I business has paid 77,356 requests totalling \$573 million.

IOOF's ClientFirst approach ensured that 97% of all payments were paid to clients within 5 business days. For P&I, 83% of payments were made within 5 business days.

## Remediation Provisions

Work has been progressing throughout the year as IOOF reviews advice remediation provisions and remediates clients. Information available to date indicates that:

- The current provisions around the IOOF advice remediation have not changed materially from the prior year, however, have reduced as a result of payment of program costs and customer remediation payments during the financial year.

- An increase in the ex-ANZ AL remediation provision of \$80m is required, in addition, the provision has been drawn down by client remediation payments and program costs paid throughout the year. This increase is driven by a change in methodology relating to adviser categorisation, now aligning to that used by IOOF, and this is offset by a corresponding increase in the equivalent receivable from ANZ. The provision remains under the financial cap of the remediation program arrangements with ANZ.

As part of the acquisition of the ex-ANZ P&I business, additional remediation provisions have been taken on.

## Acquisitions and divestments

The IOOF Group has a long-term strategy of pursuing growth through acquisitions and has completed several acquisitions in recent years. The IOOF Group will continue to pursue acquisitions within the Wealth Management sector on an opportunistic basis. Acquisitions will only be considered where they present a logical strategic fit with existing operations and are priced reasonably.

The following are material acquisitions and divestments in the 2019/20 financial year.

### ANZ P&I acquisition

Final completion of the acquisition of the ANZ P&I business occurred on 31 January 2020. A renegotiated sale price of \$850m (subject to net asset adjustment), down \$125m (14.7%) from the original \$975m, was announced on 17 October 2019.

Since completion on 31 January 2020, the P&I business has been impacted by the market volatility and government policy decisions in relation to the COVID-19 pandemic. Market volatility is highly correlated to revenue volatility in the P&I business, with market shocks causing equivalent percentage movements in net operating revenue in this business.

Estimated cost synergies were revised to \$68m pre-tax per annum (from \$65m pre-tax per annum) in January 2020, with \$13m of those savings having been achieved prior to completion. The Group has committed to achieving these synergies and delivering on them in full from 1 July 2023.

### Ord Minnett divestment

On 24 September 2019, IOOF completed the divestment of its 70% holding in the Ord Minnett business for a total purchase consideration of \$115.0m, \$10.0m of which was received in the previous financial year as a non-refundable deposit. The Group recognised a post-tax profit on divestment of \$83.7m.

Further detail on these divestments is provided at Note 2-2 of the financial statements.

# Directors' report (cont'd)

## Operating and financial review (cont'd)

### Analysis of financial results – IOOF Group

On a continuing operations basis, the IOOF Group's UNPAT of \$124.0m represented a \$59.3m (32%) decrease on prior year. Inclusive of discontinued operations – Ord Minnett and AET Corporate Trust – UNPAT decreased by \$69.2m (35%) to \$128.8m. The variances below compare only the continuing operations of the IOOF Group.

|   | 2020           | 2019           | Movement        |                |
|---|----------------|----------------|-----------------|----------------|
|   | \$'000         | \$'000         | \$'000          | %              |
| Gross margin  | 577,597        | 496,780        | 80,817          | 16.3%          |
| Other net operating revenue                         | 2,063          | 3,268          | 1,205           | (36.9%)        |
| Other revenue (incl share of profits of associates) | 7,417          | 11,079         | (3,662)         | (33.1%)        |
| Operating expenditure                               | (384,382)      | (307,223)      | (77,159)        | (25.1%)        |
| Net financing                                       | (1,621)        | 65,558         | (67,179)        | (102.5%)       |
| Net non-cash items                                  | (26,931)       | (13,874)       | (13,057)        | (94.1%)        |
| Income tax expense and non-controlling interest     | (50,097)       | (72,287)       | 22,190          | (30.7%)        |
| <b>Underlying Profit after Tax</b>                  | <b>124,046</b> | <b>183,301</b> | <b>(59,255)</b> | <b>(32.3%)</b> |

#### Gross margin increased by \$80.8m

Excluding the \$118.5m gross margin contribution from the ex-ANZ P&I business, gross margin declined by \$37.7m. The following analysis discusses gross margin ex-ANZ P&I.

During the current year, average Funds Under Management, Administration and Advice (FUMA) were \$136.7b, an increase of 21.3% on prior year. This increase was derived largely from the inclusion of the ex-ANZ AL average FUMA of \$16.2b, excluded in the prior year due to its acquisition in October 2018 skewing the average. Equity market performance, driven by market volatility as a result of the COVID-19 pandemic has resulted in FUM outflows of \$2.6b in the current year offsetting organic growth in advice and platform funds. Platform flows of \$1.3b were broadly equivalent to \$1.4b in the prior year. Financial advice flows of \$0.7b were slightly up on the prior year (\$0.5b). Investment management outflows of \$0.4b were largely derived from pension payment based redemptions.

The higher level of market volatility impacted revenues across the entire business through lower FUMA. Within platform, the lower rates also reflected the continuing trend for funds to be directed towards more contemporary platforms with lower fees, but commensurately lower attributable overheads. Investment management margins were relatively stable which is reflective of the steady state maturity and complementary nature of that segment. In financial advice, price competition and the need to re-set fees in response had a negative impact on segment margin overall.

#### Other revenue decreased by \$3.7m

The reduction in other revenue relates predominantly to lower conference revenue received as a result of the cancellation of conferences due to COVID-19 restrictions. Lower conference revenue is predominantly offset by lower conference costs included in operating expenditure.

#### Operating expenditure increased by \$77.1m

ANZ P&I contributed an additional \$64.0m in operating expenditure since completion on 31 January 2020. In addition to this, the full year impact of the ex-ANZ AL business contributed an additional \$8.2m of costs compared to 9 months in the prior year. Outside the impact of the ex-ANZ P&I and ALs, operating expenditure increased \$4.9m or 2% on prior year. The modest increase in operating expenditure excludes the impact of expenditure items reversed when calculating UNPAT. The introduction of AASB 16 meant there was a \$13.9m favourable reclassification of occupancy expenses to interest (\$2.8m) and depreciation (\$15.8m) charges. Labour costs are the IOOF Group's most material at 73% of operating expenditure overall. These costs, ex-ANZ P&I and ALs, have increased by \$9.2m chiefly due to an increased number of high salary employees required to uplift our governance activity in the Office of the Superannuation Trustee as well as a higher cohort of risk, compliance and governance professionals added. IT expenditure increased \$3.0m due to the implementation of new systems in preparation for the acquisition of ANZ P&I and enhanced governance monitoring. Administration costs increased \$1.4m principally due to increased licence fees and subscriptions. Professional fees increased \$5.0m driven by increases in consultants and legal costs as a result of activity to uplift governance.



### Net interest income decreased by \$67.2m

Net interest income decreased largely in line with the 11 May 2019 12.4% step down of the coupon rate on the debt note of \$800m issued to ANZ and an additional \$2.8m in interest charges under AASB16.

### Other impacts decreased UNPAT by \$13.1m

Depreciation expenses have increased by \$14.8m, predominantly reflecting the impact of adoption of AASB16.

Share-based payments expense was \$1.9m lower due to non-vesting of previously expensed grants.

### Income tax expense decreased by \$22.2m

Income tax expense relative to prior year principally reflects the decline in the IOOF Group's profitability driven in large part due to the reduction in interest revenue on the \$800m debt note and the market volatility as a result of COVID-19. IOOF's effective tax rate is 32.5% (pcp 34.5%).

## Analysis of financial results – Segments (excl Ex-ANZ wealth management and discontinued operations)

| Financial advice and distribution                   | 2020          | 2019          | Movement        |                |
|---|---------------|---------------|-----------------|----------------|
|   | \$'000        | \$'000        | \$'000          | %              |
| Net operating revenue                               | 179,514       | 191,522       | (12,008)        | (6.3%)         |
| Other revenue (incl share of profits of associates) | 2,884         | 4,009         | (1,125)         | (28.1%)        |
| Operating expenditure                               | (103,572)     | (106,863)     | 3,291           | (3.1%)         |
| Net financing                                       | (534)         | 130           | (664)           | (510.8%)       |
| Net non-cash items                                  | (9,690)       | (4,320)       | (5,370)         | 124.3%         |
| Income tax expense and non-controlling interest     | (20,175)      | (25,117)      | 4,942           | (19.7%)        |
| <b>Underlying Profit after Tax</b>                  | <b>48,427</b> | <b>59,361</b> | <b>(10,934)</b> | <b>(18.4%)</b> |

- Average funds growth through net inflows have been more than offset by the impact of market volatility through the COVID-19 pandemic and compounded by competitive pricing from third party administrators which IOOF has since matched with an equivalent offer. In addition, Shadforth advisers have increased their clients' weighting to IOOF administration. This results in the portfolio administration fee being increasingly apportioned to that segment whereas margin revenue from third party administration platforms was previously recognised in the advice segment.
- Operating expenditure has decreased slightly in line with an increasing share of managerial and compliance oversight occurring within the ex-ANZ segment.
- Net non-cash items increased in line with group share based payment and depreciation impacts noted above.

| Portfolio and estate administration                 | 2020          | 2019          | Movement        |                |
|---|---------------|---------------|-----------------|----------------|
|   | \$'000        | \$'000        | \$'000          | %              |
| Net operating revenue                               | 211,430       | 231,952       | (20,522)        | (8.8%)         |
| Other revenue (incl share of profits of associates) | –             | –             | –               | n/a            |
| Operating expenditure                               | (115,005)     | (108,932)     | (6,073)         | 5.6%           |
| Net financing                                       | (34)          | –             | (34)            | (100.0%)       |
| Net non-cash items                                  | (11,385)      | (7,700)       | (3,685)         | 47.9%          |
| Income tax expense and non-controlling interest     | (26,918)      | (35,932)      | 9,014           | (25.1%)        |
| <b>Underlying Profit after Tax</b>                  | <b>58,088</b> | <b>79,388</b> | <b>(21,300)</b> | <b>(26.8%)</b> |

- Net operating revenue decreased as a result of net funds diminution as a result of market volatility through the COVID-19 pandemic, in addition to funds movement from higher priced legacy and transition platforms to contemporary platforms with competitive fees.
- Increased operating expenditure resulted primarily from increased governance via implementation of the Office of the Superannuation Trustee and additional Risk and Compliance FTE.
- Net non-cash items increased in line with depreciation impacts noted above.



# Directors' report (cont'd)

## Operating and financial review (cont'd)

| Investment management                               | 2020          | 2019          | Movement     |             |
|---|---------------|---------------|--------------|-------------|
|   | \$'000        | \$'000        | \$'000       | %           |
| Net operating revenue                               | 66,451        | 63,144        | 3,307        | 5.2%        |
| Other revenue (incl share of profits of associates) | –             | –             | –            | n/a         |
| Operating expenditure                               | (10,537)      | (10,698)      | 161          | (1.5%)      |
| Net financing                                       | –             | –             | –            | n/a         |
| Net non-cash items                                  | (1,863)       | (1,799)       | (64)         | 3.6%        |
| Income tax expense and non-controlling interest     | (16,396)      | (15,538)      | (858)        | 5.5%        |
| <b>Underlying Profit after Tax</b>                  | <b>37,655</b> | <b>35,109</b> | <b>2,546</b> | <b>7.3%</b> |

- Net operating revenue improved in line with higher average FUMA for the year. Volatility due to COVID-19 in Q4 did not offset the impact of higher FUMA for the majority of the year.
- Net non-cash items increased in line with depreciation impacts noted above.

### Financial Position

The IOOF Group held cash and cash equivalents of \$374.7m at 30 June 2020 (30 June 2019: \$97.4m). Cash is held to satisfy regulatory net asset requirements and also to ensure adequate liquidity given management fee receipts are less frequent than payroll and service fee cash outflows. Restricted cash of \$145.6m, relating to the Operating Risk Financial Reserve (ORFR) cash reserves, acquired as part of the net assets of the ex-ANZ P&I acquisition included on the corporate balance sheet and \$3.7m cash held by the Group's statutory benefit funds at 30 June 2020 (30 June 2019: \$5.8m) both of which are not available to shareholders.

On 27 October 2019, IOOF Group amended the syndicated facility agreement (SFA) with lenders to reduce the available facilities to reflect the reduced consideration for the ANZ P&I business. The amended SFA consists of the following facilities with the repayment term effective from 27 September 2018:

- \$240m revolving cash advance facility with a 3-year repayment term, amended to 4 years post 30 June 2020.
- \$375m revolving cash advance facility with a 5-year repayment term.
- \$60m multi-option facility with a 3-year repayment term.

Proceeds from SFA borrowings were initially applied towards the subscription of a debt note with face value \$800m from ANZ. The debt note was redeemed on 31 January 2020 and applied against the consideration owing for the ANZ P&I business.

The overall net debt to equity ratio stood at 25% at 30 June 2020 (30 June 2019: 0%) reflecting a net \$430.9m in borrowings (including lease liabilities), principally \$460m under the SFA.

Cash flow forecasting and monitoring of lending covenants is conducted monthly. This is principally to ensure sufficient liquidity for future needs and to monitor adherence to licence conditions.

### Risks

The IOOF Group manages exposure to risks in the course of conducting our everyday operations and implementing our strategy. The material risks faced by the IOOF Group include, but may not be limited to:

#### Strategic and Tactical

##### (i) Competition

In the markets in which the IOOF Group operates a variety of participants compete for investments from clients and for the provision of wealth management services. Competitive market conditions may limit the level of assets managed and earnings available to us. We manage this risk by continuously investing in client service, product design and stakeholder relationships, among other improvements.

##### (ii) Dependence on key personnel

The IOOF Group's continued ability to compete effectively depends on our capacity to attract, retain and motivate our employees. The loss of key executives or staff without suitable replacements could cause material disruption to our operations in the short to medium term. We undertake succession planning and offer competitive employment conditions and benefits to manage this risk.

##### (iii) Dependence on financial advisers

The success of the IOOF Group's advice and platform business is dependent on the quality of our relationships with financial advisers and, in turn, the quality of their relationships with their clients. Our ability to maintain productive adviser relationships is managed by monitoring and, where necessary, enhancing our service levels, technological capability, product offerings and professional training.

**(iv) Acquisitions**

Acquisitions involve inherent risks which could negatively impact the potential benefits of a new business and could have a material effect on the IOOF Group's financial position. Our prior experience with acquisitions means that we have a significant complement of experienced staff and relationships with specialist advisers to support the assessment of acquisition opportunities. This ensures the Board is fully informed of the risks and opportunities associated with any potential individual acquisition.

**(v) Environmental, social and governance (ESG)**

ESG risks can have a material impact on our ability to deliver good long-term outcomes for our clients, investors and the community. To ensure we fulfil our purpose, we consider a broad range of ESG risks and opportunities, including climate change, human capital management, modern slavery, diversity and inclusion and tax transparency, among others. Our ESG activities are discussed in the ESG section of the annual report.

**Governance****(vi) Governance**

IOOF applies the Three Lines of Defence governance model to govern risk management and compliance activities across the Group. All IOOF entities, including IOOF Holdings Ltd and its controlled entities are supported by a number of committees, including their respective designated Risk and Compliance and Audit Committees. These committees provide the required structure to manage governance issues such as conflicts of interest, board independence, appropriate audit and review, among others. If these are inadequate, we may not meet our legal, compliance and regulatory responsibilities, and the expectations the community has of a listed company.

In addition, IOOF has strengthened governance activities through the establishment of the OST and the ORE. As independent functions, they are focussed on uplifting governance and ensuring member and investor driven outcomes.

**Reputation****(vii) Brand and reputation**

Actions which damage the IOOF Group's brand and reputation may impact our ability to attract and retain the support of clients, employees, financial advisers, and employers, as well as our future profitability and financial position. We actively monitor media and other public domain commentary on our affairs, proactively promote the value of our services, products and community initiatives and focus on building a ClientFirst culture.

**Conduct****(viii) Conduct risk**

Conduct risk is the risk of intentionally or unintentionally delivering poor outcomes for stakeholders (including clients, staff and shareholders) as a result of improper conduct (including conduct that is not consistent with our values, Code of Conduct and ClientFirst philosophy) or inadequate systems (including complexity). Conduct risk goes beyond our legal and regulatory obligations. It is about how we treat our stakeholders (includes fairness of outcomes) and whether our products and services meet our stakeholders' needs and expectations. Our management of conduct risk is supported by the IOOF Group Code of Conduct, which sets out the tenets of professional and personal conduct which apply to all our people. These include acting at all times within the law and in the best interests of our members, clients, shareholders and the IOOF Group.

**(ix) Provision of investment advice**

The IOOF Group's financial advisers and authorised representatives provide advice to clients and may be exposed to regulatory action or litigation if the advice is judged to be incorrect, if the authorised representative otherwise becomes liable for client losses, and in certain other circumstances. This risk is managed by having high professional, educational, compliance, assurance and training standards for our advisers. The potential financial impact is mitigated by taking out appropriate insurance cover.

The assurance and governance framework, used to monitor and supervise advisers, has been enhanced to ensure compliance with ASIC's 515 Report. It has also been assured by an external independent expert.

**Financial and Liquidity****(x) Credit**

Credit risk refers to the risk that a counterparty will fail to meet its contractual obligations, resulting in financial loss that arises from loans and other receivables. Our counterparties generally do not have an independent credit rating except for ANZ. The IOOF Group assesses the credit quality of each debtor considering its financial position, past experience with the debtor, and other available credit risk information.

**(xi) Interest rate and cash flow**

Interest rate risk is the risk to the IOOF Group's earnings and capital arising from changes in market interest rates. Financial instruments that may be impacted by interest rate risk consist of cash and cash equivalents, certificates of deposit, loans and borrowings. Short and long-term investment mixes and loans to related entities are influenced by liquidity policy requirements. Interest rates (both charged and received) are based on market rates and are closely monitored by management. They are primarily at variable rates of interest and may expose the Group to cash flow interest rate risk.

# Directors' report (cont'd)

## (xii) Liquidity

Liquidity risk relates to the IOOF Group having insufficient liquid assets to cover cash flow requirements. We manage liquidity risk by maintaining sufficient liquid assets and an ability to access a committed line of credit. The liquidity requirements for our licensed entities are regularly reviewed and carefully monitored in accordance with their licence requirements.

## (xiii) Dilution

The IOOF Group's need to raise additional capital in the future in order to meet its operating or financing requirements, including by way of additional borrowings or increases in the equity of any of the consolidated entity's companies, may change over time. Future capital raisings or equity funded acquisitions may dilute the holdings of particular shareholders to the extent that such shareholders do not subscribe to additional equity or are otherwise not invited to subscribe in additional equity. This risk will be managed by examining the relevant factors and circumstances prevailing at that time.

## (xiv) Financing

Financing risk refers to the IOOF Group's inability to refinance debt facilities or to secure new financing on satisfactory terms which could adversely affect our financial performance and prospects. To the extent that this occurs, we may not be able to take advantage of acquisition and other growth opportunities, develop new ideas or respond to competitive pressures, which may have an adverse impact on our financial position and performance. This risk is minimised through oversight by a dedicated Treasury function with established policies and procedures which are subject to continuous monitoring and review. Banking covenants are regularly reviewed to ensure any potential issues are identified well in advance.

## Investment Governance

### (xv) Changes in investment markets

The IOOF Group derives a significant proportion of its earnings from fees and charges based on the level of funds under management, administration, advice, and supervision (FUMAS). Among other factors, the level of FUMAS reflects the performance of investment markets. Changes in domestic or global investment market conditions could lead to a decline in FUMAS, adversely impacting the amount we earn in fees and charges, as well as reduced client interest in our financial products and services. To manage this risk, we offer a range of products and services suitable for different investment markets and establish comprehensive investment governance committees, policies and procedures that are subject to continuous monitoring and oversight.

# Operating and financial review (cont'd)

## Operational

### (xvi) Operational

Operational risks may arise in the daily functioning of the IOOF Group's businesses, in connection with, investment management, tax and financial advice, legal and regulatory compliance, product commitments, process error, system failure, failure of security and unit pricing errors, among other functions. These risks are managed through IOOF's Risk Management Framework which includes systems, structures, policies, procedures and staff to identify, measure, evaluate, monitor, report, control and mitigate internal and external risks.

IOOF's response to the COVID-19 crisis resulted in the execution of the organisation's Crisis Management Plan, including pandemic planning process, which resulted in the deployment of the organisation's work from home strategy and has now become part of 'Our Work Life'.

### (xvii) Unit pricing errors

A unit pricing error by the IOOF Group or its service providers could cause financial or reputation loss. This risk affects the broader funds management industry and may result in significant financial losses and brand damage to several financial services organisations. We minimise this risk through controls, procedures and contractual enforcement which are subject to continuous monitoring and oversight. We maintain a significant complement of experienced staff and utilise specialist service providers to maintain robust systems and accurate inputs.

### (xviii) Information technology

The IOOF Group relies heavily on information technology (IT). A significant or sustained failure in the core technology systems could materially affect our operations, which could impact our future profitability and financial position. We have implemented a next-generation firewall, pursue continuous improvements to protect user devices and impose segregation of duties between technology environments. More broadly, we apply controls (including disaster recovery testing) and procedures which are subject to continuous monitoring and oversight, maintain a significant complement of experienced staff and employ specialist IT advisers. Our IT controls are aligned with our management of cyber security risks (below).

### (xix) Cyber security

There is a risk of significant failure in the IOOF Group's operations or material financial loss as a result of cyber-attacks. We have implemented measures and controls that cover identification, detection, monitoring and response in relation to cyber threats. Cyber security controls are aligned with those employed to minimise IT risks.

**(xx) COVID-19**

The existence of COVID-19 was confirmed in early 2020 and in March 2020 was declared a pandemic by the World Health Organisation. This has resulted in significant volatility in global and domestic financial markets.

There is still significant uncertainty on the likely duration and the ultimate impact COVID-19 will have on world economies. Given the high degree of correlation between IOOF's revenue and movements in the stock markets, there are potential unpredictable short or longer term financial impacts on the Company.

**Insurance****(xxi) Insurance**

If the IOOF Group incurs uninsured losses or liabilities, its assets, profits and prospects may be adversely affected. To protect against this risk, we hold insurance policies, including professional indemnity and directors' and officers' insurance, which are commensurate with industry standards and adequate having regard to our business activities. These policies provide a degree of protection for our assets, liabilities, officers and employees. However, there are some risks that are uninsurable (e.g. nuclear, chemical or biological incidents) and risk incidents where the insurance coverage is reduced (e.g. cyclone, earthquake, flood, fire). In addition, we face risks associated with the financial strength of our insurers to meet indemnity obligations when called on which could have an adverse effect on earnings.

**Legal and Compliance****(xxii) Reliance on licences and authorities**

A number of the IOOF Group's controlled entities are required to hold a number of licences, most notably Australian Financial Services (AFS) or Registrable Superannuation Entity (RSE) licences. Failure to comply with the general obligations and conditions of a licence could result in the suspension or cancellation of a licence, which would have a material adverse effect on our business and financial performance. AFS and RSE licences also require the licence holder to maintain certain levels of capital. These capital requirements may change from time to time. Earnings dilution may occur where a higher capital base is required to be held. Policies and procedures are in place across the organisation to ensure compliance with licences is monitored closely.

**(xxiii) Regulatory and legislative reform**

The financial services sector in which the IOOF Group operates is subject to extensive legislation, regulation and supervision by regulatory bodies across multiple jurisdictions. The regulatory regimes governing our business activities are complex and subject to change. If the amount and complexity of new regulation increases, so too may the costs of compliance and risks of non-compliance. We maintain an appropriately skilled and experienced staff and relationships with specialist advisers to minimise this risk.

**Shareholder returns**

The IOOF Group dividend is calibrated to provide shareholders with a benefit which reflects performance and offers an attractive yield when assessed against a range of other external economic factors and investment options. The Board also understands that dividend payments should not hinder future organisational plans. The Board has therefore determined that a pay-out ratio range of 60% – 90% of UNPAT is generally appropriate, but not binding. The Board has determined that a dividend of 11.5 cents per share, resulting in a total payout ratio of 75% for the financial year, is appropriate. Current year profits support the payout.

Total Shareholder Return (TSR) measures the change in share value over a specified period together with the return by way of dividends received. The IOOF Group's TSR for the 12 months to 30 June 2020 was 1.8%, with a dividend yield of 6.7% (based on the financial year volume weighted average price) which was partially offset by share price decline of 4.8%. The market valuation of the IOOF Group remains reflective of uncertainty over the impacts of COVID-19 in addition to the long term effects of adoption of Royal Commission recommendations for wealth management, the acceleration of margin compression in administration and the yet to be realised potential for institutions to unlock a profitable business model in non-salaried advice businesses. TSR in the 5 year period from 1 July 2015 was -4.2% on a compounding annualised basis. The IOOF Group is in a strong financial position with borrowings within covenants, a low interest rate environment which reduces borrowing costs and significant free cash. TSR figures for 2020 include the special dividend paid on 27 September 2019.

# Directors' report (cont'd)

## Operating and financial review (cont'd)

|   | 2020    | 2019     | 2018    | 2017    | 2016    |
|---|---------|----------|---------|---------|---------|
| Profit attributable to owners of the Company (\$'000s) <sup>(1)</sup> | 146,964 | 28,560   | 88,301  | 115,990 | 196,846 |
| Profit for the year for continuing operations (\$'000s)               | 58,629  | (29,993) | 105,358 | 119,851 | 140,542 |
| Basic EPS (cents per share)   | 42.0    | 8.1      | 26.4    | 38.7    | 65.7    |
| Diluted EPS (cents per share)   | 41.9    | 8.1      | 26.4    | 38.6    | 65.4    |
| Basic EPS (continuing operations) (cents per share)                   | 16.8    | (8.5)    | 31.6    | 38.7    | 46      |
| UNPAT (\$'000s)   | 128,834 | 197,989  | 191,417 | 169,357 | 173,367 |
| UNPAT EPS (cents per share)   | 36.8    | 56.5     | 57.3    | 56.5    | 57.8    |
| UNPAT EPS (continuing operations) (cents per share)                   | 36.7    | 56.3     | 52.6    | 56.5    | 57.1    |
| Dividends declared (\$'000s) <sup>(2)</sup>                           | 121,121 | 131,653  | 189,582 | 159,071 | 163,573 |
| Dividends per share (cents per share) <sup>(2)</sup>                  | 34.5    | 37.5     | 54      | 53      | 54.5    |
| Opening share price   | \$5.17  | \$8.99   | \$9.80  | \$7.83  | \$8.99  |
| Closing share price at 30 June  | \$4.92  | \$5.17   | \$8.99  | \$9.80  | \$7.83  |
| Return on equity (non-statutory measure) <sup>(3)</sup>               | 7.59%   | 10.90%   | 11.30%  | 12.10%  | 12.30%  |

(1) Profit attributable to owners of the Company has been calculated in accordance with Australian Accounting Standards.

(2) Dividends declared and dividends per share are on an accruals basis.

(3) Return on equity is calculated by dividing UNPAT by average equity during the year.

Returns to shareholders increase/decrease through both dividends and capital growth/decline. Dividends for 2020 and prior years were fully franked.

## Dividends

In respect of the financial year ended 30 June 2020, the Directors declared the payment of a final dividend of 11.5 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares to be paid on 22 September 2020. This dividend will be paid to all shareholders recorded on the Register of Members on 8 September 2020.

The Directors declared the payment of an interim dividend of 16.0 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares paid on 16 March 2020 and a special dividend of 7.0 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares, which was paid on 27 September 2019.

In respect of the financial year ended 30 June 2019, the Directors declared the payment of a final dividend of 12.0 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares, which was paid on 27 September 2019.

## Environmental regulation

The IOOF Group is not subject to significant environmental regulation.

## Events occurring after balance date

The Directors have declared the payment of a final dividend of 11.5 cents per share franked to 100% at 30% corporate income tax rate to the holders of fully paid ordinary shares to be paid on 22 September 2020.

On 31 August 2020 the IOOF Group announced that it has entered into transaction agreements with National Australia Bank (NAB) to acquire 100% of NAB's wealth management business (MLC) for \$1,440 million, (subject to completion adjustments) and upfront integration and transaction costs (approximately \$90 million). The acquisition is expected to be completed before 30 June 2021 and is subject to a number of conditions precedent including regulatory approvals from APRA and ACCC. This acquisition will be funded through a combination of:

- \$1,040 million fully underwritten institutional placement and accelerated non-renounceable entitlement offer, launched on 31 August 2020;
- \$250 million of incremental senior debt via an underwritten syndicated debt facility;
- \$200 million in a subordinated loan note issued to NAB; and
- \$40 million of existing IOOF cash.

The existing \$670 million syndicated facility is expected to remain in place and IOOF will seek consent from its lender group in relation to the acquisition. As part of the transaction, IOOF will expand its total debt facilities by \$250 million in total facility limits. IOOF is confident of receiving lender group support for this transaction. To ensure funding certainty, IOOF has engaged Citi and NAB to underwrite \$920 million of total debt facilities as a backstop to the syndicated facility.

The \$200 million of subordinated loan note issued to NAB has the following key components:

- Coupon of 1% per annum. Steps up to 4% p.a. if the subordinated loan note is not redeemed prior to 42 months post completion
- Five year maturity date with an early redemption start period of the later of three years from Completion and 30 September 2024
- Redemption amount equal to principal plus accrued interest plus additional amount equal to any uplift in notional securities over a reference price (being a 15% premium to the theoretical ex-rights price for the Equity Offer) and subject to adjustment
- Structurally subordinated to senior secured creditors

On 7 August 2020, the IOOF Group sold approximately 14.2 million shares of its total minority holding of 19.7 million shares in Australian Ethical Investment Ltd (ASX:AEF) for total cash consideration of \$74.5 million (purchase cost \$5.2 million). This sale has reduced IOOF's stake to approximately 5.5 million shares (4.9%) of AEF. The proceeds from the divestment will be used to reduce debt and provide strategic flexibility for growth opportunities. The impact on underlying net profit after tax is immaterial.

Subsequent to the end of the financial year, the IOOF Group has renegotiated the terms of its borrowings. This has extended the repayment term of its 3 year facility to be a 4 year repayment term from 27 September 2018, which is the SFA effective date.

On 21 August 2020, ASIC commenced proceedings against RI Advice Group Pty Limited (RI Advice), a wholly-owned subsidiary of IOOF. ASIC makes complaints relating to RI Advice's management of cybersecurity and cyber resilience risk, some of which relate back to events from 2016. No provision has been recorded at this point as ultimately the quantum of penalty (if any) is not reliably estimable at this point.

As part of the Advice 2.0 strategy, it is estimated that the Group will acquire practices through Buyer of Last Resort agreements due to the conversion of Bridges to a fully salaried network. The estimated spend is \$15 million to \$20 million for the 2021 financial year. In addition, on 28 August 2020, the Board approved the 100% acquisition of Wealth Central for \$30 million, an online client engagement tool that creates a better and more transparent advice experience as well as delivering practitioners a more streamlined exchange of client data.

IOOF evaluates potential opportunities for investments or divestments on a regular basis. IOOF has received an approach from a third party (who has commenced due diligence), relating to the potential divestment of its professional trustee services business, Australian Executor Trustees Limited. While discussions are on-going, there is no assurance that any divestment will occur, or if so, on what terms.

The existence of COVID-19 was confirmed in early 2020 and in March 2020 was declared a pandemic by the World Health Organisation. This has resulted in significant volatility in global and domestic financial markets. Refer to note 1-1 for the sensitivity analysis of risks.

At the date of signing of the financial statements, there is still significant uncertainty on the likely duration and the ultimate impact COVID-19 will have on world economies. Given the high degree of estimation uncertainty, management cannot reasonably assess or quantify the potential short or longer term financial impact on the Company.

The Directors are not aware of any other matter or circumstance not otherwise dealt with in this report, or the accompanying financial statements and notes thereto, that has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- the IOOF Group's operations in future financial years;
- the results of those operations in future financial years; or
- the IOOF Group's state of affairs in future financial years.

## Lead auditor's independence declaration

The lead auditor's independence declaration is included on page 59 of the annual financial report and forms part of the Directors' Report for the year ended 30 June 2020.

## Company secretary

The Company Secretary is Ms Adrianna Bisogni LLB (Hons) BA GAICD. Ms Bisogni was appointed to the position in November 2019. She is a lawyer with over 25 years' experience in corporate law.

Prior to Ms Bisogni's appointment, the Company Secretary was Mr A Paul M Vine LLB FGIA FCIS GAICD. Mr Vine held the position from December 2015 until March 2020.



# Directors' report (cont'd)

## Directors' meetings

The number of Directors' meetings (including meetings of committees of Directors) and number of meetings attended by each of the Directors of the Company during the financial year are:

| Director                  | Directors' Meetings      |                   |               |
|---------------------------|--------------------------|-------------------|---------------|
|                           | Status                   | Meetings attended | Meetings held |
| A Griffiths               | Chair                    | 19                | 19            |
| R Mota                    | Managing Director        | 19                | 19            |
| G Venardos <sup>(1)</sup> | Director                 | 1                 | 8             |
| J Harvey                  | Director to 18 Feb 2020  | 11                | 11            |
| E Flynn                   | Director                 | 19                | 19            |
| J Selak                   | Director                 | 19                | 19            |
| A Bloore                  | Director from 2 Sep 2019 | 15                | 16            |
| M Somerville              | Director from 1 Oct 2019 | 14                | 14            |

| Director                  | Committee Meetings      |                   |               |
|---------------------------|-------------------------|-------------------|---------------|
|                           | Nominations Committee   |                   |               |
|                           | Status                  | Meetings attended | Meetings held |
| A Griffiths               | Chair                   | 5                 | 5             |
| J Harvey                  | Member to 18 Feb 2020   | 4                 | 4             |
| E Flynn                   | Member from 14 Feb 2020 | 1                 | 1             |
| J Selak                   | Member                  | 5                 | 5             |
| G Venardos <sup>(1)</sup> | Member to 28 Nov 2019   | 0                 | 3             |

| Director                  | Committee Meetings                                 |                   |               |
|---------------------------|--|-------------------|---------------|
|                           | Group Audit Committee                              |                   |               |
|                           | Status   | Meetings attended | Meetings held |
| A Griffiths               | Member   | 8                 | 8             |
| J Harvey                  | Chair to 18 Feb 2020                               | 6                 | 6             |
| E Flynn                   | Member from 26 May 2020                            | 1                 | 1             |
| J Selak                   | Member   | 8                 | 8             |
| A Bloore                  | Member from 16 Oct 2019                            | 4                 | 5             |
| M Somerville              | Member from 16 Oct 2019;<br>Chair from 30 Apr 2020 | 5                 | 5             |
| G Venardos <sup>(1)</sup> | Member to 28 Nov 2019                              | 0                 | 5             |

| Director                  | Committee Meetings                                 |                   |               |
|---------------------------|--|-------------------|---------------|
|                           | Remuneration Committee                             |                   |               |
|                           | Status   | Meetings attended | Meetings held |
| A Griffiths               | Member   | 4                 | 4             |
| J Harvey                  | Chair to 18 Feb 2020                               | 3                 | 3             |
| E Flynn                   | Member   | 4                 | 4             |
| J Selak                   | Member from 16 Oct 2019;<br>Chair from 18 Feb 2020 | 2                 | 2             |
| A Bloore                  | Member from 16 Oct 2019                            | 2                 | 2             |
| G Venardos <sup>(1)</sup> | Member to 28 Nov 2019                              | 0                 | 2             |

| Director     | Committee Meetings            |                   |               |
|--------------|-------------------------------|-------------------|---------------|
|              | Risk and Compliance Committee |                   |               |
|              | Status                        | Meetings attended | Meetings held |
| J Harvey     | Member to 18 Feb 2020         | 4                 | 4             |
| E Flynn      | Chair                         | 5                 | 5             |
| J Selak      | Member                        | 5                 | 5             |
| A Bloore     | Member from 16 Oct 2019       | 3                 | 3             |
| M Somerville | Member from 16 Oct 2019       | 3                 | 3             |

Meetings held represents the number of meetings held during the time the Director held office.

The Directors meetings are those held for IOOF Holdings Ltd. This does not include the meetings held and attended by Directors for the various subsidiary companies. Major subsidiaries averaged a further 8 meetings each during the year.

In addition to the meetings attended during the year, a number of matters were considered and addressed separately via circular resolution.

## Shares issued on exercise of options

During the financial year, the IOOF Group did not issue any ordinary shares of the Company as a result of the exercise of options. All plans were satisfied from the purchase of shares.



## Unexercised options over shares, performance rights and deferred shares

At the date of this report, performance rights on issue are:

| Performance rights |                  |
|--------------------|------------------|
| Vesting date       | Number of rights |
| 30-Jun-21          | 351,617          |
| 30-Jun-22          | 367,757          |
|                    | <b>719,374</b>   |

| Deferred shares |                  |
|-----------------|------------------|
| Vesting date    | Number of shares |
| 24-Apr-19       | 42,020           |
| 8-Apr-20        | 57,592           |
|                 | <b>99,612</b>    |

Shares allocated on vesting will rank equally with all other ordinary shares on issue.

These performance rights do not entitle the holder to participate in any share issue or receive dividends of the Company.

## Indemnification and insurance

Rule 84 of the IOOF Holdings Ltd Constitution requires the Company to indemnify to the extent permitted by law, each Director and Secretary against liability incurred in, or arising out of the conduct of the business of the Company or the discharge of the duties of the Director or Secretary. The Directors and Secretary named in this Directors' Report have the benefit of this requirement, as do individuals who formerly held one of those positions.

In accordance with this requirement the Company has entered into Deeds of Access, Indemnity and Insurance (Deeds of Indemnity) with each Director and Secretary. During the financial year, the IOOF Group paid insurance premiums to insure against amounts that the IOOF Group may be liable to pay the Directors and Secretary pursuant to Rule 84. The insurance policy also insures the Directors and Secretary of the Company and its controlled entities, and the general officers of each of the companies in the IOOF Group. Details of the amount of the premium paid in respect of the insurance contract have not been disclosed as such disclosure is prohibited under the terms of the contract.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the IOOF Group and any other payments arising from liabilities incurred by the officers in connection with such proceedings, other than where such liabilities arise out of conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage to themselves or someone else or to cause detriment to the Company.

## Rounding off of amounts

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument amounts in the financial report are rounded off to the nearest thousand dollars, narrative disclosures are expressed in whole dollars or as otherwise indicated.

## Non-audit services

The Directors are satisfied that the provision of non-audit services during the year of \$1,476,265 by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. Non-audit services are managed as follows:

- fees earned from non-audit work undertaken by KPMG are capped at 0.5 times the total audit fee;
- services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- services do not undermine the general principles relating to auditor independence as set out in the Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the IOOF Group, acting as advocate for the IOOF Group or jointly sharing economic risks and rewards.

## Proceedings on behalf of the Company

- No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party, for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.
- No proceedings have been brought or intervened in on behalf of the Company with leave of the Court under section 237 of the Corporations Act 2001.

# Remuneration report

## Letter from the Remuneration Committee Chair

Dear Shareholder

On behalf on the IOOF Board, I am pleased to present our Remuneration Report for 2020.

The IOOF Group strives to have a remuneration philosophy and practices which evolve with the market. In the current environment, this means ensuring we continue to meet shareholder, community, and regulatory expectations. In doing so, we can attract and retain the best talent and drive strong alignment between business purpose and strategy and individual behaviours and outcomes. In 2020, I am pleased to say we have taken significant steps in transforming our framework to better achieve these goals.

### A year of significant change

The 2020 financial year has been one of significant change, adaptation and consolidation for IOOF.

As a result of the CEO's management review, there was transition in five executive team roles, including Chief Financial Officer, Chief Legal Officer, Chief Risk Officer, Company Secretary and Chief People Officer. This has resulted in changes to our KMP as outlined in section 1 of this Report. The reshaping of the executive team and changes in Board compositions across the Group has provided strong business and cultural foundations and the impetus for the organisation to move forward.

The ANZ P&I acquisition was completed at the end of January with the transition of hundreds of employees from ANZ to IOOF. This has resulted in significant change and new challenges as we integrate these businesses together.

IOOF was impacted by the COVID-19 pandemic, as were many organisations. The workforce transitioned seamlessly to a remote working environment and continued to support our customers at a challenging time for them. The uncertain environment coupled with the early release of super scheme saw high demand on our teams, to which they responded strongly.

### Reshaping of the Executive Remuneration Framework

As foreshadowed in last year's remuneration report, the executive remuneration framework was redesigned in 2020. The Group Remuneration Committee, with independent recommendations provided by KPMG 3dc (executive remuneration and performance advisory), have designed a framework that supports IOOF's cultural and remuneration principles.

The following considerations were central to the design of the new framework:

- supporting IOOF's strategic, cultural and talent agendas including the "advice-led" strategy and ClientFirst culture;
- aligning with best practice and stakeholder expectations post the Royal Commission; and
- considering pending regulatory developments.

The new framework, known as the Executive Equity Plan (EEP), removed STI and LTI for the CEO and Executive Team. The new incentive framework balances financial and non-financial priorities and is delivered wholly in equity, vesting over a four-year performance period to encourage long term, sustainable decision making.

The measures underpinning the framework are aligned with key strategic value drivers of the business, both short and long term, to enable enduring performance.

### Executive Remuneration Outcomes

With the redesign of the framework, the 2020 financial year has been a transitional one for the CEO and Executive Team. No STIs were awarded to the current executive team for the second year in succession. This is with the exception of the Chief Investment Officer who maintains a portion of his remuneration as STI (as explained in section 1 of this Report). The EEP commenced on 1 July 2021 and is relevant for the 2021 performance year. It is a prospective plan, with equity applied at the commencement of the four-year period.

Testing of the 2018 LTI saw the Total Shareholder Return (TSR) hurdles not meeting target performance levels and accordingly, the executive performance rights subject to this hurdle have not vested.

In relation to Non-Executive Director (NED) remuneration, no increases were made to NED fees for the fifth year in a row. In addition, to reflect the current economic environment, the Chairman and CEO took a 20% reduction in pay for 6 months from 1 August 2020. All other IOOF Holdings Ltd Directors and the CFO took a 10% reduction in pay for the same period.

We are proud of our people and the progress we have made in 2020 and we will continue to monitor our remuneration arrangements to ensure they are meeting the standards we have set.

On behalf of the Board, I thank you for your support and feedback, and commend this report to you.

Yours sincerely



John Selak  
Remuneration Committee Chair

31 August 2020

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# Remuneration report (cont'd)

## 1. Year to 30 June 2020 remuneration key features

### Changes to the 2020 remuneration framework

Following a full review of the remuneration framework by the Group Remuneration Committee, with independent recommendations provided by KPMG 3dc (executive remuneration and performance advisory), in February 2020, the Remuneration Committee approved the redesign of the executive remuneration framework. This included a review and benchmarking of fixed salaries and a new incentive framework called the Executive Equity Plan (EEP).

The EEP framework has replaced the LTI and STI programs for the CEO, Key Management Personnel (KMP) and the remaining Executive Team. The STI is removed under the framework except for the Chief Investment Officer who will retain a short term incentive which will closely tie a portion of his variable remuneration to the performance of IOOF's investment portfolio.

The EEP is delivered wholly in equity to closely align Executives with shareholders and encourage long-term sustainable decision making in the interests of shareholders.

The changes were implemented from 1 July 2019 for KMP and the current Executive Team, with STI and LTI removed for the 2020 performance year. The EEP commenced from 1 July 2020.

The framework encompasses financial and non-financial measures. All amounts under the EEP are provided in equity (there are no cash components) and the EEP comprises:

- **A four year performance measure (40%)** This will be based on Relative Total Shareholder Return (TSR), assessed at the end of the four year performance period.
- **Annual performance measures with no vesting of any amounts until the end of the four year performance period (60%)** Targets will be set and assessed annually against five key areas, one of which is financial and four non-financial metrics.

However vesting does not occur until the end of the four-year performance period.

- The areas assessed, which align with the key strategic drivers of the business, are:
  - **Financial (10%)**
  - **Non-financial measures (50%)** comprised of:
    - Environment, Social & Governance (ESG) (10%)
    - Client (10%)
    - People (10%)
    - Individual, role specific measures (20%)

The first allocation of EEP rights relating to the 2020 financial year (to be assessed against the above measures) will be granted post the release of IOOF's full-year results (expected to be in September 2020) and will be eligible to vest on 30 June 2024.

**Further details of remuneration framework changes are included in section 3 of this report.**

### Changes in Key Management Personnel (KMP)

Post the appointment of R Mota in June 2019, the Executive Team has been restructured resulting in the following additions to KMP.

|                   |   |
|-------------------|---|
| <b>D Chalmers</b> | Chief Financial Officer<br>Appointed 16 March 2020      |
| <b>D Whereat</b>  | Chief Advice Officer<br>Appointed 1 February 2020       |
| <b>M Oliver</b>   | Chief Distribution Officer<br>Appointed 1 February 2020 |
| <b>A Noble</b>    | Chief Risk Officer<br>26 July 2019 to 12 November 2019  |
| <b>L Stewart</b>  | Chief Risk Officer<br>Appointed 15 June 2020            |

The following ceased to be KMP during 2020:

|                  |   |
|------------------|---|
| <b>D Coulter</b> | Chief Financial Officer<br>Ceased 28 February 2020 <sup>(1)</sup> |
| <b>G Riordan</b> | Group General Counsel<br>Ceased 28 February 2020                  |

(1) Following his cessation as KMP, D Coulter was on gardening leave which ceased 28 August 2020.

### Key features of the year to 30 June 2020 KMP remuneration

#### Short term incentive (STI)

There were no STIs awarded to KMP during 2020 with the exception of D Farmer of \$173,036 under the specific terms of his contract as Chief Investment Officer, and G Riordan of \$75,000. There will be no STIs for KMP as part of the EEP. The first tranche of the 2018 deferred STI component was tested during the period and 52,847 shares were transferred to KMP.

**Full details of STIs vested during the year are included in section 4 of this report.**

## Long term incentive (LTI)

The 2017 performance rights – D Farmer were tested during the year. 50% did not vest and lapsed for all KMP due to the TSR hurdle relative to the ASX 200 not being met. 50% vested based on the three year tenure hurdle being met.

The 2018 LTI performance rights hurdles were tested during the year. 50% did not vest and lapsed for all KMP due to the TSR hurdle relative to the ASX 200 not being met. 50% vested based on the three year tenure hurdle being met for R Mota, F Lombardo, D Coulter and G Riordan.

D Coulter remained employed during the three year period. G Riordan is considered a “good leaver” and remained eligible for the 2018 LTI performance rights.

**Full details of LTIs vested during the year are included in section 4 of this report.**

## Non-Executive Director (NED) remuneration

**Full details of NED remuneration arrangements are included in section 6 of this report.**

## Summary of KMP remuneration received in 2020

Taking into account the above changes to KMP and remuneration arrangements, this table shows a summarised year-on-year comparison of the value of remuneration received by KMP.

| Name                             | Financial year | Total Fixed Remuneration | Variable |                    | Total value of remuneration received |
|----------------------------------|----------------|--------------------------|----------|--------------------|--------------------------------------|
|                                  |                |                          | TFR      | STI <sup>(1)</sup> |                                      |
| R Mota                           | 2020           | 1,206,778                | –        | 152,594            | 1,359,372                            |
|                                  | 2019           | 788,644                  | –        | 68,475             | 857,119                              |
| D Farmer                         | 2020           | 433,218                  | 173,036  | 90,163             | 696,417                              |
|                                  | 2019           | 341,668                  | 142,713  | –                  | 484,381                              |
| F Lombardo <sup>(3)</sup>        | 2020           | 550,000                  | –        | 102,502            | 652,502                              |
|                                  | 2019           | 295,192                  | –        | –                  | 295,192                              |
| <b>KMP appointed during 2020</b> |                |                          |          |                    |                                      |
| D Chalmers <sup>(4)</sup>        | 2020           | 215,385                  | –        | –                  | 215,385                              |
| D Whereat <sup>(5)</sup>         | 2020           | 211,541                  | –        | –                  | 211,541                              |
| M Oliver <sup>(5)</sup>          | 2020           | 219,286                  | –        | –                  | 219,286                              |
| A Noble <sup>(6)</sup>           | 2020           | 143,147                  | –        | –                  | 143,147                              |
| L Stewart <sup>(7)</sup>         | 2020           | 23,846                   | –        | –                  | 23,846                               |
| <b>Former KMP</b>                |                |                          |          |                    |                                      |
| D Coulter <sup>(8)</sup>         | 2020           | 320,773                  | –        | 185,636            | 506,409                              |
|                                  | 2019           | 474,868                  | –        | 68,475             | 543,343                              |
| G Riordan <sup>(8)</sup>         | 2020           | 336,565                  | 75,000   | 148,386            | 559,951                              |
|                                  | 2019           | 485,958                  | –        | 68,475             | 554,433                              |
| C Kelaher                        | 2019           | 1,330,403                | –        | –                  | 1,330,403                            |

(1) Cash STI awarded during the year.

(2) Tenure-based LTI value calculated using closing share price at date of issue of shares.

(3) Appointed as KMP from 10 December 2018.

(4) Appointed as KMP from 16 March 2020.

(5) Appointed as KMP from 1 February 2020.

(6) Appointed as KMP from 26 July 2019 to 12 November 2019.

(7) Appointed as KMP from 15 June 2020.

(8) Operated as KMP to 28 February 2020.

This table supplements, and is different to, the Statutory Remuneration table which presents the accounting expense for both vested and unvested awards in accordance with the Australian Accounting Standards. Outside of remuneration, there were no other transactions with key management personnel of the IOOF Group during the 2020 and 2019 financial years.

# Remuneration report (cont'd)

## 2. Key Management Personnel covered by this report

The KMP whose remuneration is disclosed in this year's report are:

| Name         | Role  | Term as KMP                |
|--------------|---|----------------------------|
| R Mota       | Chief Executive Officer and Managing Director (CEO) | Full year                  |
| D Coulter    | Chief Financial Officer                             | 1 Jul 2019 to 28 Feb 2020  |
| D Chalmers   | Chief Financial Officer                             | 16 Mar 2020 to present     |
| G Riordan    | Group General Counsel                               | 1 Jul 2019 to 28 Feb 2020  |
| D Farmer     | Chief Investment Officer                            | Full year                  |
| F Lombardo   | Chief Operating Officer                             | Full year                  |
| D Whereat    | Chief Advice Officer                                | 1 Feb 2020 to present      |
| M Oliver     | Chief Distribution Officer                          | 1 Feb 2020 to present      |
| A Noble      | Chief Risk Officer                                  | 26 Jul 2019 to 12 Nov 2019 |
| L Stewart    | Chief Risk Officer                                  | 15 Jun 2020 to present     |
| <b>NEDs</b>  |   |                            |
| A Griffiths  | Independent Non-Executive Director & Chairman       | Full year                  |
| E Flynn      | Independent Non-Executive Director                  | Full year                  |
| J Selak      | Independent Non-Executive Director                  | Full year                  |
| A Bloore     | Independent Non-Executive Director                  | 2 Sep 2019 to present      |
| M Somerville | Independent Non-Executive Director                  | 1 Oct 2019 to present      |
| J Harvey     | Independent Non-Executive Director                  | To 18 Feb 2020             |
| G Venardos   | Independent Non-Executive Director                  | To 28 Nov 2019             |

Disclosures of remuneration and other transactions with KMP who were appointed or ceased during the year are limited to those transactions occurring in the period of appointment as KMP.

The Remuneration Report is prepared, and audited, in accordance with the requirements of the Corporations Act 2001. It forms part of the Directors' Report.

The Remuneration Report is designed to provide shareholders with an understanding of the Group's remuneration principles, policies, and programs, and their link with the Group's strategy and financial performance.

### 3. Year to 30 June 2021 Key Management Personnel remuneration

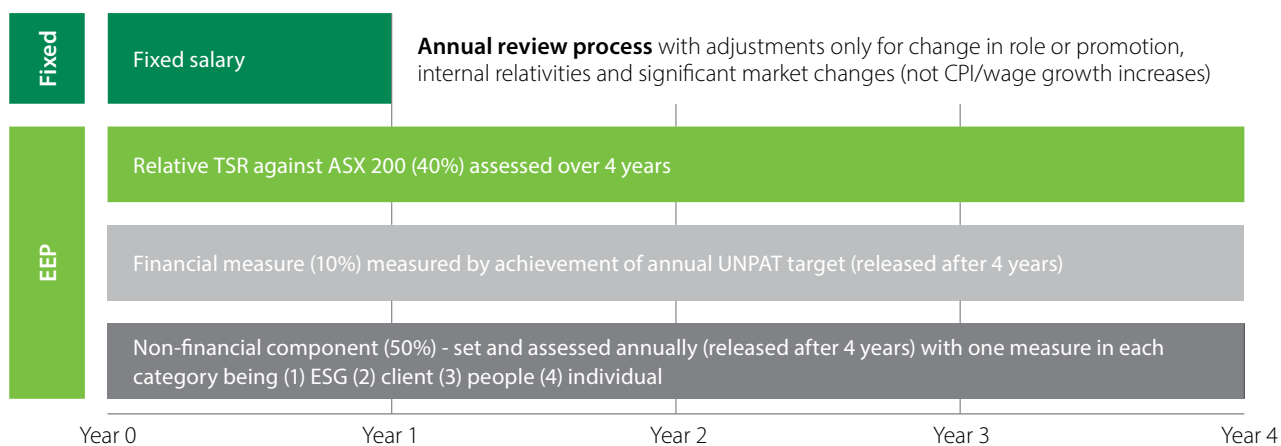
In determining the key objectives of the KMP and Executive reward framework, the Remuneration Committee gave consideration to the following objectives:

|   |  |
|---|--|
| <b>Attraction and retention of the best talent</b>                                | Attract, motivate and retain world-class talent to drive the performance of the Company  |
| <b>Strategy-led and supporting IOOF's purpose</b>                                 | Support our advice-led approach to delivering customer outcomes<br>Emphasis on delivering quality advice<br>Support IOOF's ClientFirst philosophy to deliver a sustainable competitive advantage                                 |
| <b>Promote a sound risk management culture</b>                                    | Sound management of non-financial and financial risk and individual and collective accountability<br>Meet the expectations of stakeholders in a fast-paced regulatory environment and upholding the highest governance standards |
| <b>Shareholder alignment</b>  | Align outcomes with the shareholder experience through allocation of equity and delivery of shareholder returns<br>Facilitate an 'ownership mindset' and long-term focus among participants                                      |
| <b>Meeting regulatory and governance expectations and impacts on remuneration</b> | Consider the draft Financial Accountability Regime ("FAR") proposals and APRA's draft Prudential Standards CPS 511 standards and their potential impact on remuneration  |

In recognition of the impact that COVID-19 has had on business outcomes and returns to shareholders, the Chief Executive Officer will take a 20% reduction in base pay for 6 months from 1 August 2020. The Chief Financial Officer will take a 10% reduction in base pay for the same period.

#### Year to 30 June 2021 remuneration framework performance periods

A summary of the Executive team remuneration framework is as follows:



Further detail on each measure is included on the following page.



# Remuneration report (cont'd)

|   | Area   | Measure & Description  |  |
|---|--|--|--|
| <b>FIXED</b>  | Fixed salary   | Base salary plus super<br><b>Determined annually</b><br>Adjustments only made for changes in role or promotion, internal relativities and significant market changes.            |  |
| <b>EXECUTIVE EQUITY PLAN</b>  | 4 year performance measures  | Financial (40%)<br><b>Delivering to shareholders</b><br>Long-term shareholder return as measured by TSR percentile ranking >50%  |  |
|   | Annual Performance Measures<br>Set and assessed annually<br>– released after 4 years | Financial (10%)<br><b>Achieving the Annual Financial Plan</b><br>Measured by achievement of an annual UNPAT target   |  |
|   |  | <b>Non-financial performance measures</b>  |  |
|   |  | Environment, Social & Governance (ESG) (10%)<br><b>Strengthening sustainability</b><br>Delivery against board endorsed ESG scorecard   |  |
|   |  | Client (10%)<br><b>Delivering what matters to Clients</b><br>Improving service delivery to members and advisors as measured through advisor and member Net Promoter Scores (NPS) |  |
| People (10%)<br><b>Connecting with employees</b><br>Uplift in employee engagement and experience to achieve top quartile engagement score   |  |  |  |
| Individual (20%)<br><b>Transforming the Organisation</b><br>Measures to be set on an individual basis. Will predominantly link to the successful delivery of key transformation programs against FY21 milestones, namely: Evolve 21, P&I Integration, and Advice 2.0. |  |  |  |

Consistent with best practice and to further strengthen the alignment between executives and shareholders, a minimum shareholding requirement will be in place for participants of the EEP. Participants will be required to accumulate shares in IOOF equal to 100% of TFR for the CEO and 50% of TFR for other participants. Participants will need to meet this requirement by 30 June 2024.

For comparative purposes and for the LTI issued in December 2019, the previous variable remuneration framework is outlined below. The 2019 remuneration framework for KMP comprised STI and LTI components.

| Component  | Performance Conditions   | Remuneration Principle  |
|--|--|---|
| <b>Variable</b>  |  |   |
| <b>STI</b>   |  |   |
| 50% cash.<br>50% deferred shares, vesting over 2 years, subject to 'look back'.<br>Maximum is 100% of TFR. | STIs are discretionary and determined for each individual KMP based on a balanced scorecard which includes:<br><b>Customer:</b> Net Promoter Score, Wealth Insights rankings<br><b>Financial:</b> Total Shareholder Return (TSR), Return on Equity (RoE), underlying profitability<br><b>Business Excellence:</b> Balance sheet and liquidity initiatives, expense management<br><b>Strategy:</b> Regulatory adherence, acquisitions, divestment of non-core assets<br><b>Governance:</b> Risk management, regulatory compliance<br><b>People and Culture:</b> Action plans from employee Engagement and Alignment survey.<br><b>Chief Investment Officer – D Farmer only</b><br>50% determined based on investment performance relative to relevant composite benchmarks<br>50% discretionary based on balanced scorecard | Support the financial and strategic direction of the Group, and in turn, translate to shareholder return.<br>Targets for each measure are set by the Board to provide a challenging but purposeful incentive.<br>Individual performance measures are specific to the KMP's role.                      |
| <b>LTI</b>   |  |   |
| 100% share-based arrangements.<br>Maximum is 100% of TFR.  | 50% performance rights – relative TSR against ASX 200 – 3 year vesting period subject to retesting if some or all of the rights do not vest<br>50% tenure-based – 3 year vesting period subject to an additional 1 year holding lock   | TSR focuses on the delivery of shareholder value.<br>The tenure based LTI element assists the Group to attract and retain quality people and aligns future performance with shareholders' expectations.<br>Incentives to remain with the Group to enhance sustainable performance over the long term. |

## 4. Year to 30 June 2020 Key Management Personnel variable remuneration targets and outcomes

Remuneration of KMP is proposed by the CEO, recommended by the Remuneration Committee and approved by the Board.

As noted, the first allocation of EEP will be granted post the release of IOOF's full-year results (expected to be in September 2020) and will be eligible to vest after a 4 year period on 30 June 2024.

As 2020 was a transitional period while the final EEP was being determined, LTIs relating to the 2019 financial year were allocated on 17 December 2019 to R Mota, F Lombardo, and D Farmer. This was the final grant of LTIs to KMP before implementation of the EEP.

Full details of all outstanding LTI performance rights for each KMP are set out in section 8 of this report.

### STIs

#### STI: targets and outcomes

No discretionary STIs were awarded to any KMP or certain other senior management personnel. An STI of \$75,000 was paid to G Riordan at the time of his exit.

#### 'Look back' events

In 2018, the Board implemented a two year 'look back' on a portion of STIs to ensure events that are found to have occurred after determination of incentives are appropriately factored into the allocation of those awards. 'Look back' events include:

- the KMP engages or has engaged in fraud, dishonesty or gross misconduct;
- the financial results that led to the KMP's reward being provided are subsequently shown to be materially misstated;
- the KMP behaves or has behaved in a manner which brings the IOOF Group into disrepute; or
- the Board determines, in its absolute discretion, that the KMP's reward is an inappropriate benefit.

The 'look back' on STI deferred shares granted in 2018 was performed, and a summary of deferred shares allocated to KMP is included in section 9 of this report.

### LTIs

#### LTI: targets and outcomes

The Board considers a long-term performance-related incentive component to be an important element of the KMP reward framework.

#### Year ended 30 June 2020

Vesting of 50% of performance rights is subject to serving a three year employment period commencing on the date of grant.

50% of the grant is then subject to a TSR progressive vesting scale over three years. TSR was chosen as the most appropriate comparative measure as it focuses on the delivery of shareholder value. TSR represents the change in the value of a share plus the value of dividends paid.

The tenure based element for KMP was determined to assist the IOOF Group to attract and retain quality people and aligns future performance with shareholders' expectations.

Early vesting may occur in certain circumstances, subject to the performance hurdle being achieved and Board approval:

- on a person/entity acquiring more than 20% of the voting shares in the Company pursuant to a takeover bid that has become unconditional;
- on the termination of employment due to death or permanent disability; or
- in other exceptional circumstances where the Board determines appropriate.

The Committee engaged the services of an independent external organisation (Deloitte) to calculate the IOOF Group's performance against the TSR performance hurdles.

# Remuneration report (cont'd)

The below LTI performance rights are in place at the date of this report:

| Year                                   | Performance period | Grant date | IOOF TSR for the period %       | Ranking relative to ASX200 | Vesting status at 30 June 2020 | Vesting date |
|--|--------------------|------------|---------------------------------|----------------------------|--------------------------------|--------------|
| 2020 LTI performance rights            | 2020-2022          | 17 Dec 19  | Performance period not complete |                            |                                | 30 Jun 22    |
| 2019 LTI performance rights            | 2019-2021          | 17 Aug 18  | Performance period not complete |                            |                                | 30 Jun 21    |
| 2018 LTI performance rights            | 2018-2020          | 21 Aug 17  | -37.86%                         | 150th                      | 0% vested                      | 30 Jun 20    |
| 2017 LTI performance rights – D Farmer | 2018-2020          | 01 Mar 17  | 7.02%                           | 124th                      | 0% vested                      | 31 Dec 19    |

The performance period for the 2017 performance rights – D Farmer was completed in 2020. With a TSR ranking of 124th relative to the ASX 200, no performance rights vested under the TSR performance hurdle. D Farmer remained employed during the three year period.

The performance period for the 2018 LTI performance rights was completed in 2020. With a TSR ranking of 150th relative to the ASX 200, no performance rights vested under the TSR performance hurdle for any KMP. R Mota, F Lombardo, and D Coulter remained employed during the three year period. G Riordan is considered a “good leaver” and remained eligible for the 2018 LTI performance rights.

Accordingly, the following shares vested for KMP under 2017 and 2018 LTI performance rights:

| Name       | Type of instrument                     | Employment condition - 50% | TSR Performance hurdle - 50% | % vested in year | % forfeited in year |
|------------|--|----------------------------|------------------------------|------------------|---------------------|
|            |  | Number of shares vested    |                              |                  |                     |
| R Mota     | 2018 LTI performance rights            | 15,000                     | –                            | 50.0%            | 50.0%               |
| F Lombardo | 2018 LTI performance rights            | 15,000                     | –                            | 50.0%            | 50.0%               |
| D Farmer   | 2017 LTI performance rights – D Farmer | 7,500                      | –                            | 50.0%            | 50.0%               |
| Former KMP |  |                            |                              |                  |                     |
| D Coulter  | 2018 LTI performance rights            | 15,000                     | –                            | 50.0%            | 50.0%               |
| G Riordan  | 2018 LTI performance rights            | 10,000                     | –                            | 50.0%            | 50.0%               |

## Change of control and cessation of employment

The Board has determined that, if there is a change of control, any unvested LTIs may vest subject to the approval of the Board. If the Board so determines, any unvested performance rights may become exercisable. On cessation of employment, unvested LTIs will be dealt with as follows:

| Reason for termination                      | Treatment of unvested LTIs  |
|---|---|
| Termination of employment by IOOF by notice | The Board has discretion to waive the performance hurdles or determine that the proportion (if any) of unvested LTIs that will vest |
| Termination of employment by IOOF for cause | Unvested performance rights and share options are forfeited   |
| Dismissal for serious misconduct (eg fraud) | Unvested performance rights and share options are forfeited   |

## Hedging of unvested securities

The IOOF Group Policy – Personal Trading in IOOF Holdings Limited Securities contains a restriction on KMP and other employees entering into a hedging transaction to remove the ‘at risk’ aspect of securities that have been granted to them as part of their remuneration package and which have not vested subject to performance conditions and/or which are still subject to forfeiture conditions. Employees are provided with a copy of this policy and are required to provide annual certification that they have complied with the policy. Failure to comply with the policy may result in disciplinary action, including forfeiture of the securities, suspension or termination of employment.

## 5. Remuneration governance

### Remuneration Framework

The Board oversees the IOOF Group's remuneration policies on recommendation from the Committee. The Committee reviews the remuneration policies of the IOOF Group annually to ensure that they support the IOOF Group's objectives.

The IOOF Group's Remuneration Framework, established by the Committee, considers the adequacy of remuneration policies and practices within the IOOF Group on an annual basis, including:

- ensuring remuneration practices enable realisation of IOOF's purpose;
- determination of CEO and other KMP remuneration arrangements;
- on-going review and monitoring of the total Executive award framework;
- setting key performance indicators and assessment of the Managing Director and the IOOF Group's performance against those key performance indicators;
- overall compensation arrangements of the IOOF Group;
- ongoing review of the composition, skill base and performance of NEDs;

- compliance with regulatory requirements including the ASX Listing Rules and the associated ASX Corporate Governance Principles and meeting both ASIC and APRA requirements relating to remuneration; and
- ensuring remuneration practices support the sound management of financial as well as non-financial risk.

### The Group Remuneration Committee

The Committee reviews and makes recommendations to the Board on the remuneration structure and policies applicable to the KMP and NEDs of the IOOF Group, as well as the wider IOOF employee population.

The Committee's charter is available on the Corporate Governance page of the Company's website at [www.ioof.com.au](http://www.ioof.com.au)

The Committee is comprised solely of NEDs, all of whom are independent. The members of the Committee for the year ended 30 June 2020 were J Harvey (Chair) to 18 February 2020, J Selak member from 16 October 2019 and Chair from 18 February 2020, A Griffiths (full year), E Flynn (full year), A Bloore member from 16 October 2019, and G Venardos (member until 28 November 2019).

The Board considers that the members of the Committee provide an appropriate mix of skills to undertake its terms of reference, having regard to their qualifications, knowledge of the financial services industry and experience in business management.



In order to ensure that it is fully informed when making remuneration decisions, the Committee receives regular reports and updates from the Company Secretary, Chief Risk Officer, and Chief People Officer and other members of management invited by the Committee to attend meetings when appropriate. The Committee can also draw on services from a range of external sources, including access to benchmarking material and remuneration consultants. This enables the IOOF Group to remain competitive with relevant competitors in the financial services sector and the broader spectrum of public companies of similar size, revenue and profitability.

The Committee seeks and considers advice from independent, external remuneration consultants where appropriate. KPMG 3dc was engaged during the year to provide remuneration-related advice in respect of senior executives. The advice did not constitute a remuneration recommendation for the purposes of the Corporations Act 2001.

The Committee's charter is available on the Corporate Governance page of the Company's website at [www.ioof.com.au](http://www.ioof.com.au)

# Remuneration report (cont'd)

## 6. Non-Executive Director remuneration

NEDs receive a fixed fee including superannuation for being a Director of the Board, with an additional fee for the Chairman of the Board. No additional fees are paid for service on Board Committees or subsidiary company Boards.

In setting fees, the Board considers general industry practice; best principles of corporate governance; the responsibilities and risks attached to the NED role; the time commitment expected of NEDs on Group and Company matters; and fees paid to NEDs of comparable companies.

In order to ensure NED independence and impartiality, fees are not linked to Company performance and NEDs are not eligible to participate in any of the Group's incentive arrangements

The Board has reviewed NED fees for 2021 and, for the fifth year, has determined not to increase their fees. In recognition of the impact that COVID-19 has had on business outcomes and returns to shareholders, the Group Chairman will take a 20% reduction in base pay for 6 months from 1 August 2020. All other NEDs will take a 10% reduction in base pay for the same period.

### NED fees

| Elements                        | Details  |
|---------------------------------|--|
| NED fees<br>(no change to 2019) | <p>2019/20 Fees per annum were:</p> <p>IOOF Holdings Board Chair fee \$285,000</p> <p>IOOF Holdings Board NED fee \$170,000</p>                          |
| Post-employment benefits        | Superannuation contributions are made at a rate of 9.5% (up to the Government's prescribed maximum contributions limit) and are included in the NED fee. |

The current aggregate fee pool for NEDs of \$1.25 million was approved by shareholders at the 2013 Annual General Meeting. The annual total of NEDs' fees, including superannuation contributions, is within this agreed limit.

### 2020 Statutory Remuneration – NEDs

| NED                         |      | Short-term benefits            | Post-employment | Total     |
|-----------------------------|------|--------------------------------|-----------------|-----------|
|                             |      | Directors' fees <sup>(5)</sup> | Superannuation  |           |
|                             |      | \$                             | \$              | \$        |
| A Griffiths <sup>(1)</sup>  | 2020 | 274,499                        | 10,501          | 285,000   |
|                             | 2019 | 216,272                        | 17,863          | 234,135   |
| G Venardos <sup>(1)</sup>   | 2020 | 65,086                         | 7,597           | 72,683    |
|                             | 2019 | 239,265                        | 20,531          | 259,796   |
| J Harvey <sup>(2)</sup>     | 2020 | 99,259                         | 9,430           | 108,689   |
|                             | 2019 | 155,251                        | 14,749          | 170,000   |
| E Flynn                     | 2020 | 162,626                        | 7,374           | 170,000   |
|                             | 2019 | 155,251                        | 14,749          | 170,000   |
| J Selak                     | 2020 | 155,251                        | 14,749          | 170,000   |
|                             | 2019 | 155,251                        | 14,749          | 170,000   |
| A Bloore <sup>(3)</sup>     | 2020 | 152,185                        | 14,458          | 166,643   |
| M Somerville <sup>(4)</sup> | 2020 | 113,453                        | 10,778          | 124,231   |
| Total                       | 2020 | 1,022,359                      | 74,887          | 1,097,246 |
|                             | 2019 | 921,290                        | 82,641          | 1,003,931 |

(1) A Griffiths was appointed Acting Chairman on 10 December 2018 and Chairman on 4 April 2019. G Venardos was on leave from the Board from 10 December 2018. He resigned as Chairman effective 4 April 2019 and resigned as a Non-Executive Director on 28 November 2019. The variation in fees year-on-year reflects these changes.

(2) Resigned as a Non-Executive Director on 19 February 2020.

(3) Appointed 2 September 2019.

(4) Appointed 1 October 2019.

(5) Directors' fees include any fees sacrificed into superannuation funds.

## Equity holdings of NEDs

| Name         | Balance as at 1 July 2019 <sup>(1)</sup> | Changes during the year | Balance as at 30 June 2020 <sup>(2)</sup> | Balance as at report sign-off date <sup>(2)</sup> |
|--------------|--|-------------------------|---|---|
| A Griffiths  | 41,428                                   | –                       | 41,428                                    | 41,428  |
| G Venardos   | 91,429                                   | –                       | 91,429                                    | n/a   |
| J Harvey     | 35,256                                   | –                       | 35,256                                    | n/a   |
| E Flynn      | 26,428                                   | 6,729                   | 33,157                                    | 33,157  |
| J Selak      | 55,000                                   | –                       | 55,000                                    | 55,000  |
| A Bloore     | –  | 5,830                   | 5,830                                     | 5,830   |
| M Somerville | –  | –                       | –   | –   |

(1) Balance at date of appointment for NEDs appointed during the year.

(2) Balance at date of cessation for NEDs resigning during the year.

## Terms of appointment

All NEDs have letters of appointment detailing the terms under which they are engaged. The term of appointment for each is open-ended, subject to the provisions of the Corporations Act and the Company's Constitution. Under the Constitution, one-third of Directors must retire from office each year and may seek re-election by shareholders at the Annual General Meeting of the Company.

## 7. Company performance and remuneration impacts

In considering the IOOF Group's financial performance and impacts on shareholder wealth for STI, for LTI (excluding for the 2020 financial year as no LTI is being awarded in respect of the year ended 30 June 2020), and in future for EEP determination, the Committee has regard to the following financial metrics in respect of the current financial year and the previous four financial years.

### 5 year Group performance

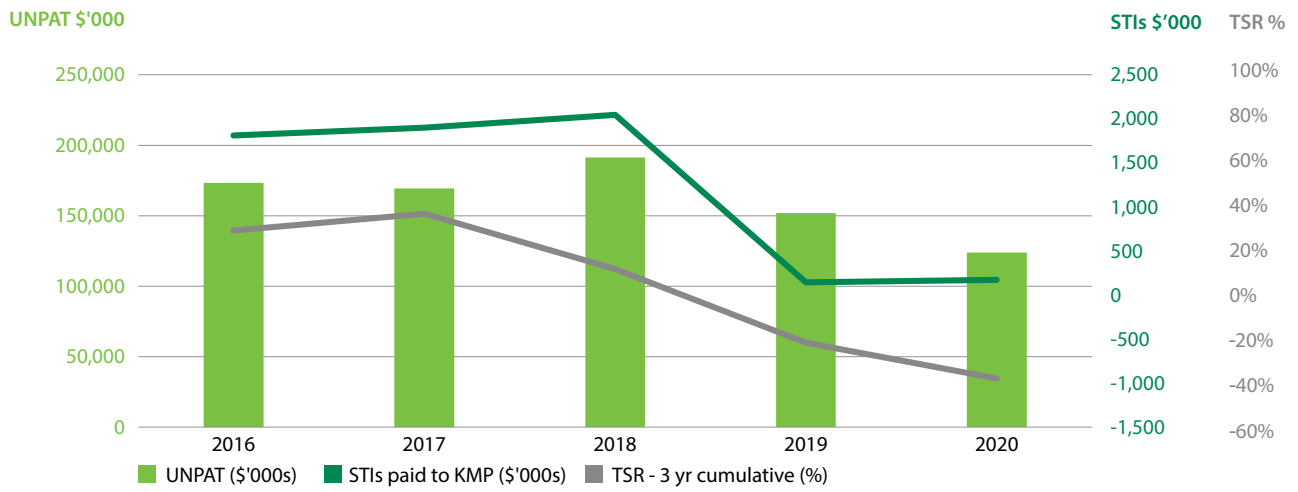
|   | 2020    | 2019    | 2018    | 2017    | 2016    |
|---|---------|---------|---------|---------|---------|
| <b>Profitability measures</b>                           |         |         |         |         |         |
| Profit attributable to owners of the Company (\$'000s)  | 146,964 | 28,560  | 88,301  | 115,990 | 196,846 |
| UNPAT (\$'000s) <sup>(1)</sup>                          | 128,834 | 197,989 | 191,417 | 169,357 | 173,367 |
| UNPAT EPS (cents per share)                             | 36.8    | 56.5    | 57.3    | 56.5    | 57.8    |
| <b>Share information</b>                                |         |         |         |         |         |
| Basic EPS (cents per share)                             | 42.0    | 8.1     | 26.4    | 38.7    | 65.7    |
| Basic EPS (continuing operations) (cents per share)     | 16.8    | (8.5)   | 31.6    | 38.7    | 46.0    |
| Share price at start of year                            | 5.17    | 8.99    | 9.80    | 7.83    | 8.99    |
| Share price at end of year                              | 4.92    | 5.17    | 8.99    | 9.80    | 7.83    |
| Change in share price                                   | (0.25)  | (3.82)  | (0.81)  | 1.97    | (1.16)  |
| Dividends per share (cents per share)                   | 34.5    | 37.5    | 54.0    | 53.0    | 54.5    |
| <b>Ratios</b>   |         |         |         |         |         |
| Return on equity (non-statutory measure) <sup>(2)</sup> | 7.6%    | 10.9%   | 11.3%   | 12.1%   | 12.3%   |
| Total shareholder return                                | 1.8%    | (36.8)% | (2.8)%  | 31.9%   | (6.8)%  |
| Total shareholder return – three year cumulative        | (37.9)% | (21.6)% | 11.8%   | 36.9%   | 29.3%   |
| <b>STIs paid to KMP</b>                                 |         |         |         |         |         |
| Total STIs paid to KMP (\$'000s)                        | 173     | 143     | 2,046   | 1,900   | 1,813   |

(1) UNPAT is reconciled to profit attributable to owners of the Company in the Operating and Financial Review at page 28 of the Directors' Report.

(2) RoE is calculated by dividing UNPAT by average capital on issue during the year.

# Remuneration report (cont'd)

## UNPAT vs STI vs TSR (cumulative)



### Impact of Group performance on LTIs

As discussed in section 4, TSR performance over the three years to 30 June 2020 was -37.9%, placing it at the 150th position relative to the ASX 200. As a result, none of the TSR hurdle based 2018 performance rights vested in July 2020.



## 8. Key Management Personnel remuneration – Additional statutory disclosure

### Additional statutory disclosure

The following table sets out the remuneration received by KMP for the year ended 30 June 2020. The share-based payments shown below are not amounts actually received by KMP during the year, as they include accounting values for unvested share awards.

Actual share-based payment amounts received are shown as cash remuneration.

| Element of Remuneration          |      | Short-term benefits |              |                             | Post-employment | Share-based payments <sup>(2)</sup> |                         | Termination benefits | Total     | Component as a % of total remuneration |                         |
|----------------------------------|------|---------------------|--------------|-----------------------------|-----------------|-------------------------------------|-------------------------|----------------------|-----------|--|-------------------------|
|                                  |      | Salary              | Bonus - cash | Non-monetary <sup>(1)</sup> | Super-annuation | Performance rights                  | Bonus - deferred shares |                      |           | Fixed                                  | Variable <sup>(3)</sup> |
| Component of Remuneration        |      | Fixed               | Variable     | Fixed                       | Fixed           | Variable                            | Variable                | Fixed                |           | Fixed                                  | Variable                |
|                                  |      | \$                  | \$           | \$                          | \$              | \$                                  | \$                      | \$                   | \$        | %                                      | %                       |
| R Mota                           | 2020 | 1,182,459           | –            | 3,316                       | 21,003          | 280,677                             | –                       | –                    | 1,487,455 | 81                                     | 19                      |
|                                  | 2019 | 762,065             | –            | 6,048                       | 20,531          | 446,166                             | –                       | –                    | 1,234,810 | 64                                     | 36                      |
| D Farmer                         | 2020 | 403,997             | 173,036      | 8,218                       | 21,003          | 93,908                              | –                       | –                    | 700,162   | 62                                     | 38                      |
|                                  | 2019 | 317,919             | 142,713      | 3,218                       | 20,531          | 179,479                             | –                       | –                    | 663,860   | 51                                     | 49                      |
| F Lombardo <sup>(4)</sup>        | 2020 | 528,997             | –            | –                           | 21,003          | 227,484                             | –                       | –                    | 777,484   | 71                                     | 29                      |
|                                  | 2019 | 283,347             | –            | –                           | 11,845          | 104,331                             | –                       | –                    | 399,523   | 74                                     | 26                      |
| <b>KMP appointed during 2020</b> |      |                     |              |                             |                 |                                     |                         |                      |           |  |                         |
| D Chalmers <sup>(4)</sup>        | 2020 | 209,730             | –            | –                           | 5,655           | –                                   | –                       | –                    | 215,385   | 100                                    | –                       |
| D Whereat <sup>(4)</sup>         | 2020 | 203,461             | –            | 2                           | 8,078           | 17,936                              | –                       | –                    | 229,477   | 92                                     | 8                       |
| M Oliver <sup>(4)</sup>          | 2020 | 209,392             | –            | 1,008                       | 8,886           | 17,936                              | –                       | –                    | 237,222   | 92                                     | 8                       |
| A Noble <sup>(4)</sup>           | 2020 | 132,076             | –            | –                           | 11,071          | –                                   | –                       | 57,212               | 200,359   | 100                                    | –                       |
| L Stewart <sup>(4)</sup>         | 2020 | 23,038              | –            | –                           | 808             | –                                   | –                       | –                    | 23,846    | 100                                    | –                       |
| <b>Former KMP</b>                |      |                     |              |                             |                 |                                     |                         |                      |           |  |                         |
| D Coulter <sup>(4)</sup>         | 2020 | 303,321             | –            | 3,316                       | 14,136          | (8,783)                             | –                       | 472,165              | 784,155   | 101                                    | (1)                     |
|                                  | 2019 | 451,119             | –            | 3,218                       | 20,531          | 446,166                             | –                       | –                    | 921,034   | 52                                     | 48                      |
| G Riordan <sup>(4)</sup>         | 2020 | 322,025             | 75,000       | –                           | 14,540          | 75,121                              | –                       | 438,312              | 924,998   | 84                                     | 16                      |
|                                  | 2019 | 465,426             | –            | –                           | 20,531          | 307,499                             | –                       | –                    | 793,457   | 61                                     | 39                      |
| C Kelaher <sup>(5)</sup>         | 2019 | 1,303,163           | –            | 3,467                       | 23,774          | (204,460)                           | –                       | 1,268,129            | 2,394,072 | 109                                    | (9)                     |
| Total                            | 2020 | 3,518,496           | 248,036      | 15,860                      | 126,183         | 704,279                             | –                       | 967,689              | 5,580,543 |  |                         |
|                                  | 2019 | 3,583,039           | 142,713      | 15,950                      | 117,744         | 1,279,181                           | –                       | 1,268,129            | 6,406,756 |  |                         |

(1) Non-monetary benefits include company funded benefits and fringe benefits tax payable on those benefits, typically car parking. There are no other monetary nor non-monetary short term benefits for KMP.

(2) Share-based payments include accruals in relation to the Executive Performance Share Plan and accruals in relation to other grants of performance rights over shares in the Company. The value of the number of shares and options expected to vest has been apportioned over the term from grant date to vesting date. STIs awarded in deferred shares are also shown here.

(3) As payment of the variable component is at the discretion of the Board, the minimum value is nil and the maximum is the total amount paid.

(4) Amounts represent payments relating to the period during which the individuals were identified as KMP.

(5) Total termination payment of \$1,273,379 as disclosed to the ASX includes \$5,250 of annual leave and long service leave entitlements which are included in salary for accounting purposes. The remaining termination payment as disclosed above being \$1,268,129.

# Remuneration report (cont'd)

## 9. Other information

### Equity holdings

The table below sets out details of deferred shares and rights that were granted to KMP during the 2020 financial year or in prior years and that then vested, were exercised/sold or which lapsed/were forfeited during the 2020 financial year.

| Name                    | Type of instrument                         | Grant date | Fair value per right at grant date | Number granted <sup>(1)</sup> |
|-------------------------|--|------------|------------------------------------|-------------------------------|
| <b>KMP</b>              |  |            |                                    |                               |
| R Mota                  | 2018 deferred shares <sup>(2)</sup>        | 30-Jun-18  | \$8.58                             | 13,112                        |
|                         | 2018 deferred shares <sup>(2)</sup>        | 30-Jun-18  | \$8.58                             | 13,112                        |
|                         | 2020 LTI performance rights                | 17-Dec-19  | \$5.90                             | 75,000                        |
|                         | 2019 LTI performance rights                | 26-Sep-18  | \$4.93                             | 50,000                        |
|                         | 2018 LTI performance rights                | 1-Sep-17   | \$8.32                             | 30,000                        |
| <b>Total R Mota</b>     |  |            |                                    |                               |
| D Farmer                | 2018 deferred shares <sup>(2)</sup>        | 30-Jun-18  | \$8.58                             | 6,761                         |
|                         | 2018 deferred shares <sup>(2)</sup>        | 30-Jun-18  | \$8.58                             | 6,761                         |
|                         | 2020 LTI performance rights                | 17-Dec-19  | \$5.90                             | 25,000                        |
|                         | 2019 LTI performance rights                | 26-Sep-18  | \$4.93                             | 25,000                        |
|                         | 2017 LTI performance rights                | 1-Mar-17   | \$5.72                             | 15,000                        |
| <b>Total D Farmer</b>   |  |            |                                    |                               |
| F Lombardo              | 2018 deferred shares <sup>(2)(4)</sup>     | 30-Jun-18  | \$8.58                             | 11,538                        |
|                         | 2018 deferred shares <sup>(2)(4)</sup>     | 30-Jun-18  | \$8.58                             | 11,538                        |
|                         | 2020 LTI performance rights                | 17-Dec-19  | \$5.90                             | 44,000                        |
|                         | 2019 LTI performance rights <sup>(4)</sup> | 26-Sep-18  | \$4.93                             | 44,000                        |
|                         | 2018 LTI performance rights                | 1-Sep-17   | \$8.32                             | 30,000                        |
| <b>Total F Lombardo</b> |  |            |                                    |                               |
| D Whereat               | 2020 LTI performance rights <sup>(4)</sup> | 17-Dec-19  | \$5.90                             | 10,000                        |
|                         | 2019 LTI performance rights <sup>(4)</sup> | 26-Sep-18  | \$4.93                             | 10,000                        |
| <b>Total D Whereat</b>  |  |            |                                    |                               |
| M Oliver                | 2020 LTI performance rights <sup>(4)</sup> | 17-Dec-19  | \$5.90                             | 10,000                        |
|                         | 2019 LTI performance rights <sup>(4)</sup> | 26-Sep-18  | \$4.93                             | 10,000                        |
| <b>Total M Oliver</b>   |  |            |                                    |                               |
| <b>Former KMP</b>       |  |            |                                    |                               |
| D Coulter               | 2018 deferred shares <sup>(2)</sup>        | 30-Jun-18  | \$8.58                             | 13,112                        |
|                         | 2018 deferred shares <sup>(2)</sup>        | 30-Jun-18  | \$8.58                             | 13,112                        |
|                         | 2019 LTI performance rights                | 26-Sep-18  | \$4.93                             | 50,000                        |
|                         | 2018 LTI performance rights                | 1-Sep-17   | \$8.32                             | 30,000                        |
| <b>Total D Coulter</b>  |  |            |                                    |                               |
| G Riordan               | 2018 deferred shares <sup>(2)</sup>        | 30-Jun-18  | \$8.58                             | 8,324                         |
|                         | 2018 deferred shares <sup>(2)</sup>        | 30-Jun-18  | \$8.58                             | 8,324                         |
|                         | 2019 LTI performance rights                | 26-Sep-18  | \$4.93                             | 30,000                        |
|                         | 2018 LTI performance rights                | 1-Sep-17   | \$8.32                             | 20,000                        |
| <b>Total G Riordan</b>  |  |            |                                    |                               |
| <b>Total KMP</b>        |  |            |                                    |                               |

(1) Exercise price at grant date is \$nil.

(2) In August 2018, KMP were awarded STIs for the 2018 financial year, of which one half was settled in cash and the remaining half in the form of deferred shares. Half of the deferred shares vested in July 2019 with the remaining half in July 2020 subject to Board 'look back' provisions.

(3) D Chalmers and L Stewart were appointed KMP after the grant of 2020 LTI performance rights. A Noble was not awarded any deferred shares or rights in her time as KMP. Therefore, these individuals are not included in the above table.

(4) In existence upon appointment as KMP.

|  | Balance at<br>1 July 2019 | Granted as<br>compensation | Exercised/<br>Vested | Forfeited/<br>Lapsed | Balance at<br>30 June 2020 | Financial year<br>of vesting |
|--|---------------------------|----------------------------|----------------------|----------------------|----------------------------|------------------------------|
|  | 13,112                    | –                          | –                    | –                    | 13,112                     | 2021                         |
|  | 13,112                    | –                          | (13,112)             | –                    | –                          | 2020                         |
|  | –                         | 75,000                     | –                    | –                    | 75,000                     | 2022                         |
|  | 50,000                    | –                          | –                    | –                    | 50,000                     | 2021                         |
|  | 30,000                    | –                          | (15,000)             | (15,000)             | –                          | 2020                         |
|  | 106,224                   | 75,000                     | (28,112)             | (15,000)             | 138,112                    |                              |
|  | 6,761                     | –                          | –                    | –                    | 6,761                      | 2021                         |
|  | 6,761                     | –                          | (6,761)              | –                    | –                          | 2020                         |
|  | –                         | 25,000                     | –                    | –                    | 25,000                     | 2022                         |
|  | 25,000                    | –                          | –                    | –                    | 25,000                     | 2021                         |
|  | 15,000                    | –                          | (7,500)              | (7,500)              | –                          | 2020                         |
|  | 53,522                    | 25,000                     | (14,261)             | (7,500)              | 56,761                     |                              |
|  | 11,538                    | –                          | –                    | –                    | 11,538                     | 2021                         |
|  | 11,538                    | –                          | (11,538)             | –                    | –                          | 2020                         |
|  | –                         | 44,000                     | –                    | –                    | 44,000                     | 2022                         |
|  | 44,000                    | –                          | –                    | –                    | 44,000                     | 2021                         |
|  | 30,000                    | –                          | (15,000)             | (15,000)             | –                          | 2020                         |
|  | 97,076                    | 44,000                     | (26,538)             | (15,000)             | 99,538                     |                              |
|  | –                         | 10,000                     | –                    | –                    | 10,000                     | 2022                         |
|  | 10,000                    | –                          | –                    | –                    | 10,000                     | 2021                         |
|  | 10,000                    | 10,000                     | –                    | –                    | 20,000                     |                              |
|  | –                         | 10,000                     | –                    | –                    | 10,000                     | 2022                         |
|  | 10,000                    | –                          | –                    | –                    | 10,000                     | 2021                         |
|  | 10,000                    | 10,000                     | –                    | –                    | 20,000                     |                              |
|  | 13,112                    | –                          | –                    | –                    | 13,112                     | 2021                         |
|  | 13,112                    | –                          | (13,112)             | –                    | –                          | 2020                         |
|  | 50,000                    | –                          | –                    | (50,000)             | –                          | 2021                         |
|  | 30,000                    | –                          | (15,000)             | (15,000)             | –                          | 2020                         |
|  | 106,224                   | –                          | (28,112)             | (65,000)             | 13,112                     |                              |
|  | 8,324                     | –                          | –                    | –                    | 8,324                      | 2021                         |
|  | 8,324                     | –                          | (8,324)              | –                    | –                          | 2020                         |
|  | 30,000                    | –                          | –                    | –                    | 30,000                     | 2021                         |
|  | 20,000                    | –                          | (10,000)             | (10,000)             | –                          | 2020                         |
|  | 66,648                    | –                          | (18,324)             | (10,000)             | 38,324                     |                              |
|  | <b>449,694</b>            | <b>164,000</b>             | <b>(115,347)</b>     | <b>(112,500)</b>     | <b>385,847</b>             |                              |

# Remuneration report (cont'd)

The relevant interest of KMP in the shares issued by the Company, is as follows:

| Ordinary shares <sup>(1)</sup>   |      | Balance at<br>1 July 2019 | Received on<br>vesting of<br>performance<br>rights <sup>(4)</sup> | Net other<br>change | Balance at<br>30 June 2020 |
|----------------------------------|------|---------------------------|---|---------------------|----------------------------|
|                                  |      | No.                       | No.   | No.                 | No.                        |
| R Mota                           | 2020 | 122,115                   | 28,112  | 54,000              | 204,227                    |
|                                  | 2019 | 108,115                   | 7,500   | 6,500               | 122,115                    |
| D Farmer                         | 2020 | –                         | 14,261  | –                   | 14,261                     |
|                                  | 2019 | –                         | –   | –                   | –                          |
| F Lombardo <sup>(2)</sup>        | 2020 | –                         | 19,038  | –                   | 19,038                     |
|                                  | 2019 | –                         | –   | –                   | –                          |
| <b>KMP appointed during 2020</b> |      |                           |   |                     |                            |
| D Chalmers <sup>(2)</sup>        | 2020 | –                         | –   | –                   | –                          |
| D Whereat <sup>(2)</sup>         | 2020 | –                         | –   | –                   | –                          |
| M Oliver <sup>(2)</sup>          | 2020 | –                         | –   | –                   | –                          |
| A Noble <sup>(2)(3)</sup>        | 2020 | –                         | –   | –                   | –                          |
| L Stewart <sup>(2)</sup>         | 2020 | –                         | –   | –                   | –                          |
| <b>Former KMP</b>                |      |                           |   |                     |                            |
| D Coulter <sup>(3)</sup>         | 2020 | 300,971                   | 28,112  | –                   | 329,083                    |
|                                  | 2019 | 293,471                   | 7,500   | –                   | 300,971                    |
| G Riordan <sup>(3)</sup>         | 2020 | 72,500                    | 23,324  | –                   | 95,824                     |
|                                  | 2019 | 65,000                    | 7,500   | –                   | 72,500                     |
| C Kelaher <sup>(3)</sup>         | 2019 | 3,566,381                 | –   | –                   | 3,566,381                  |

(1) The equity holding for the above individuals is inclusive of both direct and indirect shareholdings.

(2) Opening balance is number of shares held at the time of appointment as KMP.

(3) Closing balance is number of shares held at the time of cessation as KMP.

(4) 2018 LTI performance rights that vested on 30 June 2020 were not transferred to participants until July 2020 and are therefore not included in this table.

## Contract terms

The term of each KMP's contract is ongoing. Either IOOF or the individual KMP (excluding the CEO) can terminate their contract on 6 months' notice. In the case of the CEO, either IOOF or the CEO can terminate his contract on 12 months' notice.

In the case of termination of employment, the IOOF Group may elect to make a payment in lieu of part or all of the notice periods, incorporating unpaid leave entitlements and pro-rated entitlement to EEP (if applicable). The Board has discretion regarding treatment of unvested short and long-term incentives received under the previous remuneration framework.

## Payments to persons before taking office

No Director or member of senior management appointed during the year received a payment as part of his or her consideration for agreeing to hold the position.

This report is signed in accordance with a resolution of the Directors made pursuant to s.298(2) of the Corporations Act 2001.



John Selak  
Remuneration Committee Chair

31 August 2020

# Directors' declaration

For the year ended 30 June 2020

- 1 In the opinion of the Directors of the Company:
  - a the consolidated financial statements and notes set out on pages 67 to 130 and the Remuneration Report, set out on pages 42 to 58 in the Directors' Report, are in accordance with the Corporations Act 2001 including:
    - i giving a true and fair view of the IOOF Group's financial position as at 30 June 2020 and its performance for the financial year ended on that date; and
    - ii complying with Australian Accounting Standards and the Corporations Regulations 2001; and
  - b there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable
- 2 The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Chief Executive Officer and Chief Financial Officer for the financial year ended 30 June 2020.
- 3 The Directors draw attention to section 7-2 to the consolidated financial statements, which includes a statement of compliance with International Financial Reporting Standards.

Signed in accordance with a resolution of the Directors:



Mr Allan Griffiths  
Chairman

Melbourne  
31 August 2020



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

To the Directors of IOOF Holdings Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of IOOF Holdings Ltd for the financial year ended 30 June 2020 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Chris Wooden

*Partner*

Melbourne

31 August 2020



# Independent Auditor's Report

To the shareholders of IOOF Holdings Ltd

## Report on the audit of the Financial Report

### Opinion

We have audited the **Financial Report** of IOOF Holdings Ltd (the Company).

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

- Giving a true and fair view of the **Group's** financial position as at 30 June 2020 and of its financial performance for the year ended on that date; and
- Complying with *Australian Accounting Standards* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated Statement of Financial Position as at 30 June 2020;
- Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Equity, and Consolidated Statement of Cash Flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

### Basis for opinion

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

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

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





### Key Audit Matters

The **Key Audit Matters** we identified are:

- Valuation of Goodwill and Intangible Assets
- Provisions for client remediation and related costs
- Information technology related controls

**Key Audit Matters** are those matters that, in our professional judgement, were of most significance in our audit of the Financial Report of the current period.

These 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.

### Valuation of Goodwill and Intangible Assets - \$1,596.0m and \$344.0m

Refer to Note 4-3 Goodwill and 4-2 Intangible Assets to the Financial Report

| The key audit matter  | How the matter was addressed in our audit  |
|---|--|
| <p>A key audit matter for us was the Group’s testing of goodwill and intangible assets for impairment, given the:</p> <ul style="list-style-type: none"> <li>• Size of the balance (being 38% and 8% of total assets respectively); and</li> <li>• Increased estimation uncertainty continuing from the impact of the COVID-19 global pandemic. This increased the level of judgement applied by us when evaluating the evidence available.</li> </ul> <p>We focussed on the significant forward-looking assumptions the Group applied in their value in use models, including:</p> <ul style="list-style-type: none"> <li>• Forecast cash flows, growth rates and terminal growth rates – the Group has experienced reduced FUMA in the current year, as a result of COVID-19. This impacted the Group through a reduction in revenue. These conditions and the uncertainty of their continuation increase the possibility of goodwill and intangible assets being impaired, plus the risk of inaccurate forecasts or a significantly wider range of possible outcomes for us to consider.</li> <li>• Discount rate – this is complicated in nature and varies according to the conditions and environment the specific Cash Generating Unit (CGU)/intangible is subject to from time to time as well as the approach to incorporating risks into the cash flows or discount rates.</li> </ul> | <p>Working with our valuation specialists, our procedures included:</p> <ul style="list-style-type: none"> <li>• We considered the appropriateness of the value in use method applied by the Group to perform the test of goodwill and intangibles impairment against the requirements of the accounting standards.</li> <li>• We assessed the integrity of the value in use models used, including the accuracy of the underlying calculation formulas.</li> <li>• We met with management to understand the impact of COVID-19 on the Group’s FY20 results and related forecasts.</li> <li>• We challenged the forecast cash flows, growth rates and terminal value contained in the value in use model against our understanding of the relevant CGU/intangible and externally sourced industry based growth rates. We assessed the application of key forecast cash flow assumptions for consistency across the Group’s CGUs/intangibles.</li> <li>• We independently developed a discount rate range using publicly available data for comparable entities, adjusted by risk factors specific to the Group’s CGUs/intangibles and the industry they operate in.</li> <li>• We assessed the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the models.</li> <li>• We considered the sensitivity of the models by varying key assumptions, such as forecast growth rates and discount rates, within a reasonably possible range. We considered key assumptions when performing the sensitivity analysis and what the Group consider to be reasonably possible. We did this to identify those CGUs at higher risk of</li> </ul> |



|  |   |
|--|---|
| <p>The Group uses complex models to perform their annual testing of goodwill and intangibles for impairment. The models are largely manually developed, adjusted for historical performance, and use a range of internal and external sources as inputs to the assumptions. Complex modelling, using forward-looking assumptions, tends to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.</p> <p>We involved valuation specialists to supplement our senior audit team members in assessing this key audit matter.</p> | <p>impairment and to focus our further procedures.</p> <ul style="list-style-type: none"> <li>• We assessed the disclosures in the financial report using our understanding obtained from our testing, discussions with management and the Board and against the requirements of the accounting standards.</li> </ul> |
|--|---|

### Provisions for client remediation and related costs - \$630.6m

Refer to Note 4-4 Provisions to the Financial Report

| The key audit matter  | How the matter was addressed in our audit   |
|---|---|
| <p>The provisions for client remediation and related costs is a Key Audit Matter due to the judgments required by us in assessing the Group's determination of:</p> <ul style="list-style-type: none"> <li>• The existence of a present legal or constructive obligation as a basis for recognition of a provision against the criteria in the accounting standards.</li> <li>• Reliable estimates of amounts which may be paid arising from the present obligation, including estimates of the number of affected customers, expected average remediation payments and related costs.</li> <li>• The potential for legal proceedings and external reviews leading to a wider range of estimation outcomes for us to consider.</li> </ul> <p>The Group uses a complex model to estimate the amount which may be paid in future periods. The model is manually developed and uses a range of internal and external sources as inputs to the assumptions. Complex modelling, using forward-looking assumptions, tends to be prone to greater risk for potential bias, error</p> | <p>Working with our regulatory specialists, our procedures included:</p> <ul style="list-style-type: none"> <li>• We obtained an understanding of the Group's process for identifying and assessing the potential impact of the ongoing reviews into client remediation activities.</li> <li>• We assessed the integrity of the model used, including the accuracy of the underlying calculation formulas</li> <li>• We inquired with the Group regarding ongoing reviews into other remediation activities.</li> <li>• We read the minutes and other relevant documentation of the Company's Board of Directors, Board Committees, various management committees, and attended the Company's Audit Committee and Risk and Compliance Committee meetings.</li> <li>• We inspected correspondence with regulatory bodies and reports from external consultants provided to the Group.</li> <li>• We challenged the Group's basis for recognition of a provision and associated costs against the requirements of the accounting standards. We did this by understanding the provisioning methodologies and challenging underlying</li> </ul> |



|  |   |
|--|---|
| <p>and inconsistent application. These conditions necessitate additional scrutiny by us, in particular to address the objectivity of sources used for assumptions, and their consistent application.</p> <p>We involved regulatory specialists to supplement our senior audit team members in assessing this key audit matter.</p> | <p>assumptions including expected average remediation payments and related costs.</p> <ul style="list-style-type: none"> <li>• We tested a sample of customer files to assess the accuracy of the Group’s expected number of affected customers included in the provisions.</li> <li>• We assessed the appropriateness of the Group’s conclusions against the requirements of the accounting standards where estimates were unable to be reliably made for a provision to be recognised.</li> <li>• We assessed the disclosures in the financial report using our understanding obtained from our testing, discussions with management and the Board and against the requirements of the accounting standards.</li> </ul> |
|--|---|

| Information Technology related controls  |  |
|--|--|
| The key audit matter   | How the matter was addressed in our audit  |
| <p>The Information Technology (IT) related controls are a key audit matter as the Group’s key financial accounting and reporting processes are highly dependent on the automated controls over the Group’s IT systems. There is a risk that gaps in the change management, segregation of duties or user access management controls (in relation to key financial accounting and reporting systems) may undermine our ability to place some reliance thereon in our audit. Our audit approach could significantly differ depending on the effective operations of the Group’s IT controls.</p> <p>We involved IT specialists to supplement our senior audit team members in assessing this key audit matter.</p> | <p>Working with our IT specialists we challenged the design of General IT controls and sample tested the operation of key controls (in relation to financial accounting and reporting systems) including:</p> <ul style="list-style-type: none"> <li>• Change management control operation: Inspected the Group’s change management policies and for a sample of system changes during the year checked consistency of the system changes to the Group’s policy.</li> <li>• Segregation of duties control operation: Sample tested key automated controls designed to enforce segregation of duties.</li> <li>• User access management controls operation: We assessed the Group’s evaluation of the user access rights, including privileged user access rights, granted to application systems. We checked for evidence of resolution of exceptions. We also assessed the operating effectiveness of management approval controls over the granting and removal of access rights, including privileged access rights.</li> </ul> |



## Other Information

Other Information is financial and non-financial information in IOOF Holdings Ltd's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Directors' Report and the Remuneration Report. The remaining other information is expected to include: About IOOF, Our Diversified Business Model, Chairman's Commentary, CEO and Managing Directors Commentary, 2020 Results At A Glance, 2020 Strategic Priorities, Environmental, Social & Governance Report, IOOF Foundation and Shareholder Information and is expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

## Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

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

## Auditor's responsibilities for the audit of the Financial Report

Our objective is:

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

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

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

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at:

[https://www.auasb.gov.au/admin/file/content102/c3/ar1\\_2020.pdf](https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf). This description forms part of our Auditor's Report.



## Report on the Remuneration Report

### Opinion

In our opinion, the Remuneration Report of IOOF Holdings Ltd for the year ended 30 June 2020, complies with Section 300A of the Corporations Act 2001.

### Directors' 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 responsibilities

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2020.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

KPMG

KPMG

Chris Wooden

*Partner*

Melbourne

31 August 2020

Rachel Milum

*Partner*

Melbourne

31 August 2020

# Consolidated statement of comprehensive income

For the year ended 30 June 2020

|   |      | 2020           | 2019**          |
|---|------|----------------|-----------------|
|   | Note | \$'000         | \$'000          |
| Revenue   | 2-3  | 1,168,930      | 1,058,763       |
| Expenses  | 2-4  | (1,067,351)    | (1,091,494)     |
| Share of profits/(losses) of associates accounted for using the equity method   | 4-1  | (479)          | 30              |
| Finance costs   |      | (14,259)       | (12,881)        |
| Profit/(Loss) before tax  |      | 86,841         | (45,582)        |
| Income tax benefit/(expense)  | 2-6  | (28,212)       | 15,589          |
| <b>Statutory fund</b>   |      |                |                 |
| Statutory fund revenue*   | 5-1  | 21,583         | 62,269          |
| Statutory fund expenses*  | 5-1  | (31,624)       | (52,110)        |
| Income tax (expense)/benefit – statutory*                                       | 5-1  | 10,041         | (10,159)        |
| Statutory fund contribution to profit, net of tax                               |      | –              | –               |
| <b>Profit/(Loss) for the year from continuing operations</b>                    |      | <b>58,629</b>  | <b>(29,993)</b> |
| <b>Discontinued operations</b>  |      |                |                 |
| Profit/(Loss) for the year from discontinued operations                         | 2-2  | 89,776         | 63,400          |
| <b>Profit for the year</b>  |      | <b>148,405</b> | <b>33,407</b>   |
| <b>Other comprehensive income</b>   |      |                |                 |
| Net change in fair value of financial assets through other comprehensive income |      | 95,677         | 7,888           |
| Exchange differences on translating foreign operations                          |      | (50)           | (6)             |
| Income tax on other comprehensive income  |      | (28,711)       | (2,374)         |
| Other comprehensive income for the year, net of income tax                      |      | 66,916         | 5,508           |
| <b>Total comprehensive income for the year</b>                                  |      | <b>215,321</b> | <b>38,915</b>   |
| <b>Profit attributable to:</b>  |      |                |                 |
| Owners of the Company   |      | 146,964        | 28,560          |
| Non–controlling interest  |      | 1,441          | 4,847           |
| <b>Profit for the year</b>  |      | <b>148,405</b> | <b>33,407</b>   |
| <b>Total comprehensive income attributable to:</b>                              |      |                |                 |
| Owners of the Company   |      | 213,880        | 34,068          |
| Non–controlling interest  |      | 1,441          | 4,847           |
| <b>Total comprehensive income for the year</b>                                  |      | <b>215,321</b> | <b>38,915</b>   |
| <b>Earnings per share – continuing and discontinued operations:</b>             |      |                |                 |
| Basic earnings per share (cents per share)                                      | 2-8  | 42.0           | 8.1             |
| Diluted earnings per share (cents per share)                                    | 2-8  | 41.9           | 8.1             |
| <b>Earnings per share – continuing operations:</b>                              |      |                |                 |
| Basic earnings per share (cents per share)                                      | 2-8  | 16.8           | (8.5)           |
| Diluted earnings per share (cents per share)                                    | 2-8  | 16.8           | (8.5)           |

Notes to the consolidated financial statements are included on pages 72 to 130.

\* A subsidiary of the Company, IOOF Ltd, is a friendly society in accordance with the Life Insurance Act 1995. The funds operated by IOOF Ltd, and any trusts controlled by those funds, are treated as statutory funds in accordance with the Life Insurance Act 1995. These statutory funds are required to be consolidated in accordance with accounting standards.

\*\* Restated – refer to note 2–2.

# Consolidated statement of financial position

As at 30 June 2020

|   |        | 2020             | 2019*            |
|---|--------|------------------|------------------|
|   | Note   | \$'000           | \$'000           |
| <b>Assets</b>   |        |                  |                  |
| Cash  | 1-1(d) | 374,730          | 97,442           |
| Receivables   | 1-1(d) | 612,777          | 328,691          |
| Debt note   | 1-1(d) | –                | 800,000          |
| Other financial assets  | 1-1(d) | 1,116,773        | 1,047,137        |
| Current tax assets  |        | –                | 3,897            |
| Prepayments   |        | 16,265           | 15,307           |
| Deferred acquisition costs  |        | 994              | 1,182            |
| Associates  | 4-1    | 12,946           | 21,509           |
| Property and equipment  | 4-5    | 134,443          | 36,010           |
| Deferred tax assets   | 2-6    | 49,738           | –                |
| Intangible assets   | 4-2    | 343,958          | 364,707          |
| Goodwill  | 4-3    | 1,596,042        | 936,891          |
|   |        | 4,258,666        | 3,652,773        |
| Assets classified as held for sale                                      | 2-2    | –                | 52,474           |
| <b>Total assets</b>   |        | <b>4,258,666</b> | <b>3,705,247</b> |
| <b>Liabilities</b>  |        |                  |                  |
| Payables  | 1-1(d) | 120,566          | 90,235           |
| Other financial liabilities   | 1-1(d) | 1,065,340        | 1,038,118        |
| Loans and borrowings  | 3-2    | 572,252          | 426,503          |
| Provisions  | 4-4    | 756,314          | 453,332          |
| Deferred tax liabilities  | 2-6    | –                | 5,895            |
| Deferred revenue liability  |        | 931              | 1,121            |
| Lease incentives  |        | –                | 5,752            |
|   |        | 2,515,403        | 2,020,956        |
| Liabilities directly associated with assets classified as held for sale | 2-2    | –                | 27,434           |
| <b>Total liabilities</b>  |        | <b>2,515,403</b> | <b>2,048,390</b> |
| <b>Net assets</b>   |        | <b>1,743,263</b> | <b>1,656,857</b> |
| <b>Equity</b>   |        |                  |                  |
| Share capital   | 3-3    | 1,965,824        | 1,963,109        |
| Reserves  | 3-5    | 91,272           | 25,225           |
| Accumulated losses  |        | (313,604)        | (339,140)        |
| Total equity attributable to equity holders of the Company              |        | 1,743,492        | 1,649,194        |
| Non-controlling interest  |        | (229)            | 7,663            |
| <b>Total equity</b>   |        | <b>1,743,263</b> | <b>1,656,857</b> |

Notes to the consolidated financial statements are included on pages 72 to 130.

\*Restated – refer to note 2-2.



# Consolidated statement of changes in equity

For the year ended 30 June 2020

| For the year ended<br>30 June 2020  | Ordinary<br>shares | Treasury<br>shares | Reserves      | Accumulated<br>losses | Total            | Non-<br>controlling<br>interest | Total<br>equity  |
|---|--------------------|--------------------|---------------|-----------------------|------------------|---------------------------------|------------------|
|   | \$'000             | \$'000             | \$'000        | \$'000                | \$'000           | \$'000                          | \$'000           |
| Balance at 1 July 2019  | 1,970,999          | (7,890)            | 25,225        | (339,140)             | 1,649,194        | 7,663                           | 1,656,857        |
| <b>Total comprehensive income<br/>for the year</b>  |                    |                    |               |                       |                  |                                 |                  |
| Profit for the year attributable<br>to owners of the Company                                    | -                  | -                  | -             | 146,964               | 146,964          | 1,441                           | 148,405          |
| Other comprehensive income<br>for the year, net of income tax                                   | -                  | -                  | 66,916        | -                     | 66,916           | -                               | 66,916           |
| <b>Total comprehensive income<br/>for the year</b>  | -                  | -                  | 66,916        | 146,964               | 213,880          | 1,441                           | 215,321          |
| <b>Transactions with owners,<br/>recorded directly in equity</b>                                |                    |                    |               |                       |                  |                                 |                  |
| <i>Contributions by and<br/>(distributions to) owners</i>                                       |                    |                    |               |                       |                  |                                 |                  |
| Dividends paid  | -                  | -                  | -             | (122,514)             | (122,514)        | (16)                            | (122,530)        |
| Share-based payments expense  | -                  | -                  | 2,932         | -                     | 2,932            | -                               | 2,932            |
| Transfer from employee equity-<br>settled benefits reserve on<br>exercise of performance rights | 2,715              | -                  | (2,715)       | -                     | -                | -                               | -                |
| Treasury shares transferred to<br>recipients during the year                                    | (2,867)            | 2,867              | -             | -                     | -                | -                               | -                |
| Transfer of lapsed performance<br>rights to retained earnings                                   | -                  | -                  | (1,086)       | 1,086                 | -                | -                               | -                |
| Divestment of non-controlling<br>interest   | -                  | -                  | -             | -                     | -                | (9,317)                         | (9,317)          |
| Total transactions with owners  | (152)              | 2,867              | (869)         | (121,428)             | (119,582)        | (9,333)                         | (128,915)        |
| <b>Balance at 30 June 2020</b>  | <b>1,970,847</b>   | <b>(5,023)</b>     | <b>91,272</b> | <b>(313,604)</b>      | <b>1,743,492</b> | <b>(229)</b>                    | <b>1,743,263</b> |

Notes to the consolidated financial statements are included on pages 72 to 130.

# Consolidated statement of changes in equity

For the year ended 30 June 2020

| For the year ended<br>30 June 2019  | Ordinary<br>shares | Treasury<br>shares | Reserves      | Accu-<br>mulated<br>losses | Total            | Non-<br>controlling<br>interest | Total<br>equity  |
|---|--------------------|--------------------|---------------|----------------------------|------------------|---------------------------------|------------------|
|   | \$'000             | \$'000             | \$'000        | \$'000                     | \$'000           | \$'000                          | \$'000           |
| Balance at 1 July 2018  | 1,971,648          | (4,625)            | 19,413        | (184,169)                  | 1,802,267        | 10,420                          | 1,812,687        |
| <b>Total comprehensive income<br/>for the year</b>  |                    |                    |               |                            |                  |                                 |                  |
| Profit for the year attributable<br>to owners of the Company                                    | -                  | -                  | -             | 28,560                     | 28,560           | 4,847                           | 33,407           |
| Other comprehensive income<br>for the year, net of income tax                                   | -                  | -                  | 5,508         | -                          | 5,508            | -                               | 5,508            |
| <b>Total comprehensive income<br/>for the year</b>  | -                  | -                  | 5,508         | 28,560                     | 34,068           | 4,847                           | 38,915           |
| <b>Transactions with owners,<br/>recorded directly in equity</b>                                |                    |                    |               |                            |                  |                                 |                  |
| <i>Contributions by and<br/>(distributions to) owners</i>                                       |                    |                    |               |                            |                  |                                 |                  |
| Dividends paid  | -                  | -                  | -             | (184,055)                  | (184,055)        | (6,947)                         | (191,002)        |
| Return of capital to non-<br>controlling interest   | -                  | -                  | -             | -                          | -                | (1,201)                         | (1,201)          |
| Share-based payments expense  | -                  | -                  | 4,828         | -                          | 4,828            | -                               | 4,828            |
| Transfer from employee equity-<br>settled benefits reserve on<br>exercise of performance rights | 4,000              | -                  | (4,000)       | -                          | -                | -                               | -                |
| Treasury shares transferred<br>to recipients during the year                                    | (4,649)            | 4,649              | -             | -                          | -                | -                               | -                |
| Transfer of lapsed performance<br>rights to retained earnings                                   | -                  | -                  | (524)         | 524                        | -                | -                               | -                |
| Purchase of treasury shares   | -                  | (7,914)            | -             | -                          | (7,914)          | -                               | (7,914)          |
| Additional non-controlling interest<br>arising upon acquisition                                 | -                  | -                  | -             | -                          | -                | 544                             | 544              |
| <b>Total transactions with owners</b>   | <b>(649)</b>       | <b>(3,265)</b>     | <b>304</b>    | <b>(183,531)</b>           | <b>(187,141)</b> | <b>(7,604)</b>                  | <b>(194,745)</b> |
| <b>Balance at 30 June 2019</b>  | <b>1,970,999</b>   | <b>(7,890)</b>     | <b>25,225</b> | <b>(339,140)</b>           | <b>1,649,194</b> | <b>7,663</b>                    | <b>1,656,857</b> |

Notes to the consolidated financial statements are included on pages 72 to 130.

# Consolidated statement of cash flows

For the year ended 30 June 2020

|   |      | 2020           | 2019          |
|---|------|----------------|---------------|
|   | Note | \$'000         | \$'000        |
| <b>Cash flows from operating activities</b>                                   |      |                |               |
| Receipts from customers   |      | 1,325,331      | 1,211,456     |
| Payments to suppliers and employees   |      | (1,134,441)    | (991,342)     |
| Dividends from associates   |      | 351            | 358           |
| Net stockbroking purchases  |      | (30)           | 612           |
| Legal settlements paid  |      | (5,636)        | (47,928)      |
| Legal settlements recovered   |      | 3,342          | 37,070        |
| Remediation costs   |      | (15,817)       | (4,071)       |
| Coupon interest received on debt note   |      | 9,381          | 67,910        |
| Income taxes paid – corporate   |      | (42,708)       | (111,269)     |
| Contributions received – statutory  |      | 119,027        | 112,292       |
| Withdrawal payments – statutory   |      | (117,582)      | (139,398)     |
| Dividends and distributions received – statutory                              |      | 1,839          | 6,200         |
| Proceeds from divestment of financial instruments – statutory                 |      | 150,373        | 291,688       |
| Payments for financial instruments – statutory                                |      | (125,818)      | (239,209)     |
| Amounts (advanced to)/borrowed from other entities – statutory                |      | (17,010)       | (3,432)       |
| Income taxes paid – statutory   |      | (5,170)        | (18,754)      |
| Net cash (used in)/provided by operating activities                           | 2–5  | 145,432        | 172,183       |
| <b>Cash flows from investing activities</b>                                   |      |                |               |
| Dividends and distributions received  |      | 1,473          | 1,238         |
| Interest received   |      | 4,373          | 9,448         |
| Acquisition transition costs  |      | (26,598)       | (18,485)      |
| Interest and other costs of finance paid                                      |      | (10,089)       | (16,372)      |
| Redemption/(purchase) of certificates of deposit                              |      | –              | 407,443       |
| Redemption/(purchase) of debt note  |      | 800,000        | (800,000)     |
| Proceeds on divestment of subsidiaries  |      | 93,007         | 41,251        |
| Acquisition of subsidiary, net of cash acquired                               |      | (678,768)      | (8,176)       |
| Purchase of shares in associates  |      | (500)          | (2,750)       |
| Net proceeds on purchase and divestment of financial and other assets         |      | 85,015         | 1,287         |
| Receipt of deferred purchase consideration                                    |      | –              | 351           |
| Net proceeds from/(payment for) swaps   |      | (30,176)       | –             |
| Payments for property and equipment   |      | (8,195)        | (26,199)      |
| Payments for intangible assets  |      | (13,076)       | (3,775)       |
| Repayment of loan principal (related parties)                                 |      | 7,298          | 47            |
| Net cash (used in)/provided by investing activities                           |      | 223,764        | (414,692)     |
| <b>Cash flows from financing activities</b>                                   |      |                |               |
| Borrowings repaid   |      | (84,952)       | (240,619)     |
| Drawdown of borrowings  |      | 115,000        | 670,000       |
| Purchase of treasury shares   |      | –              | (7,914)       |
| Capital return to non-controlling interest                                    |      | –              | (1,201)       |
| Repayment of lease liabilities  |      | (14,324)       | –             |
| Dividends paid:   |      |                |               |
| – members of the Company  |      | (122,514)      | (184,055)     |
| – non-controlling members of subsidiary entities                              |      | (16)           | (6,947)       |
| Net cash (used in)/provided by financing activities                           |      | (106,806)      | 229,264       |
| <b>Net increase/(decrease) in cash and cash equivalents</b>                   |      |                |               |
|   |      | 262,390        | (13,245)      |
| <b>Cash and cash equivalents at the beginning of year</b>                     |      |                |               |
|   |      | 97,442         | 125,619       |
| Cash divested classified in assets held for sale at the beginning of the year |      | 14,963         | –             |
| Effects of exchange rate changes on cash and cash equivalents                 |      | (65)           | 31            |
| Reclassification to assets held for sale                                      |      | –              | (14,963)      |
| <b>Cash and cash equivalents at the end of year</b>                           |      | <b>374,730</b> | <b>97,442</b> |

Notes to the consolidated financial statements are included on pages 72 to 130.

# Notes to the financial statements

For the year ended 30 June 2020

IOOF Holdings Ltd (the “Company” or “Parent”) is a listed public company incorporated in Australia. The IOOF Group comprises the Company and its subsidiaries, and the consolidated Group’s interest in associates.

## Section 1 – Financial instruments and risk management

The IOOF Group’s activities expose it to a variety of financial and non-financial risks. Financial risks include: market risks (including price risk, currency risk and cash flow and interest rate risk), credit risk, statutory fund and liquidity risk. The nature of the financial risk exposures arising from financial instruments, the objectives, policies and processes for managing these risks, and the methods used to measure them are detailed below. Key non-financial exposures, such as operational risk and a failure to meet regulatory compliance obligations, are discussed in detail in the Operating and Financial Review included within the Directors’ Report.

### 1-1 Risk Management

#### IOOF Risk Management Framework

Risk is defined as the chance of an event occurring that will have an impact on the strategic or business objectives of the IOOF Group, including a failure to exploit opportunities. The IOOF Group’s risk management process involves the identification of material risks, assessment of consequence and likelihood, implementation of controls to manage risks, and continuous monitoring and improvement of the procedures in place.

The IOOF Group’s objective is to satisfactorily manage its risks in line with the IOOF Group’s Risk Management Policy set by the Board, and this aligns to International Standard ISO 31000. The IOOF Group’s Risk Management Framework manages the risks faced by the IOOF Group, with approaches varying depending on the nature of the risk, through the risk management policies, Risk Appetite Statement, and tolerances set, approved, and monitored by the Board. The IOOF Group maintains a framework to ensure regulatory compliance obligations are managed in accordance with Australian Standard 3806 Compliance Programs. The IOOF Group’s exposure to all material risks is monitored by the Enterprise Risk and Compliance Team and this exposure, and emerging risks, are regularly reported to the Risk and Compliance Committee, and the Board.

The IOOF Group’s income and operating cash flows are indirectly impacted by changing market conditions. Its exposure is through the impact of market changes on the level of funds under management and administration, and consequently management fee and service fee revenue. Information has been provided below only on the direct impact of changing market conditions to the IOOF Group’s income and operating cash flows.

Liquidity risk relates to the IOOF Group having insufficient liquid assets to cover cash flow requirements. The Group manages liquidity risk by maintaining sufficient liquid assets and an ability to access a committed line of credit. The liquidity requirements for the Group’s licensed entities are regularly reviewed and carefully monitored in accordance with their licence requirements.

The COVID-19 environment impacted on operating cash flows in the fourth quarter of 2020. The ASX All Ordinaries closed the financial year at 10.4% lower than 30 June 2019, which directly impacts FUMA and revenues. Substantial cash outflows were experienced due to the Early Access to Superannuation scheme, particularly in the ex-ANZ pensions and investments (P&I) business. The Group made payments totalling approximately \$743 million in relation to this scheme.

#### Financial risk

The financial risk management objectives, policies and processes and the quantitative data about the exposure to risk at the reporting date, as set out in the remainder of this note, includes the benefit funds and the controlled trusts. The risks associated with financial instruments held by the benefit funds and controlled trusts are borne by the policyholders and members of those funds and trusts, and not the shareholders of the IOOF Group. There is no direct impact on the net profit or the equity of the IOOF Group as a consequence of changes in markets as they apply to financial instruments held by those funds and trusts at the reporting date. Further information in relation to the benefit funds is included in Note 5.

Similarly, the objectives, policies and processes for managing the risks of the IOOF Group are separate and distinct from those for the benefit funds and trusts. The funds and trusts are managed under extensive regulatory requirements, and in accordance with specific investment guidelines, risk management strategies, risk management plans, and product disclosure statements.

Information in relation to financial risks associated with the benefit funds and controlled trusts is available in their Product Disclosure Statements and the individual annual financial reports of those trusts.

Further information in relation to the Australian Accounting Standards requirement to consolidate the benefit funds and controlled trusts in the consolidated financial statements of the IOOF Group is available in Note 7-3(b) Basis of consolidation.

## (a) Market risk

### (i) Price risk

Price risk is the risk that the fair value or future earnings of a financial instrument will fluctuate because of changes in market prices (other than from interest rate risk or currency risk, as described later). The financial instruments managed by the IOOF Group that are impacted by price risk consist of investment units held in trusts and financial assets at fair value through other comprehensive income (OCI).

The price risk associated with the units held in trusts is that the fair value of those units will fluctuate with movements in the redemption value of those units, which in turn is based on the fair value of the underlying assets held by the trusts. Financial assets at fair value through OCI are exposed to price risk as the share price fluctuates.

### IOOF Group sensitivity

At 30 June 2020, had the price of the units/shares held by the IOOF Group in unlisted unit trusts/shares in other entities increased/decreased by 5% (2019: 1%) with all other variables held constant, gains / losses recorded through profit or loss would increase / decrease by \$32,416,000 (2019: \$6,748,000), and financial assets at fair value through OCI reserves would increase / decrease by \$4,879,000 (2019: \$291,000).

### (ii) Currency risk

The IOOF Group's exposure to foreign exchange risk in relation to the financial instruments of its foreign activities in New Zealand and Hong Kong is immaterial.

### (iii) Cash flow and interest rate risk

Interest rate risk is the risk to the IOOF Group's earnings and capital arising from changes in market interest rates. The financial instruments held that are impacted by interest rate risk consist of cash, loans, and borrowings.

Short and long-term investment mixes and loans to related entities are influenced by liquidity policy requirements. Interest rates (both charged and received) are based on market rates, and are closely monitored by management. They are primarily at variable rates of interest, and expose the IOOF Group to cash flow interest rate risk.

Management regularly assesses the appropriateness of the investment of surplus funds with the objective of maximising returns.

### IOOF Group sensitivity

At 30 June 2020, if interest rates had changed by +/- 50 basis points (2019: +/- 100 basis points) from the year-end rates with all other variables held constant, post tax profit for the year would have increased/decreased by \$1,548,000 (2019: \$2,233,000). Equity would have been higher/lower by the same amount.

## (b) Credit risk

Credit risk refers to the risk that a counterparty will fail to meet its contractual obligations resulting in financial loss to the IOOF Group. Credit risk arises for the IOOF Group from cash, debt note, receivables and loans.

The IOOF Group mitigates its credit risk by ensuring cash deposits are held with high credit quality financial institutions and other highly liquid investments are held with trusts operated by the IOOF Group. Where investments are held in units in a trust operated by the IOOF Group, that trust is subject to the rules of the trust deed and the investment in underlying assets is subject to asset allocation guidelines.

Receivables consist of management fees receivable, service fees receivable and other amounts receivable from related parties. These counterparties generally do not have an independent credit rating, and the IOOF Group assesses the credit quality of the debtor taking into account its financial position, past experience with the debtor, and other available credit risk information. In relation to management fees receivable, the IOOF Group is contractually entitled to deduct such fees from investors' account balances, in accordance with the Product Disclosure Statements, and pass the fees to the Responsible Entity or Trustee. Due to this pass-through process the embedded credit risk is considered minimal. Other receivables are regularly monitored by line management.

The maximum exposure to credit risk at the reporting date is the carrying value of the financial assets as summarised in the table included in this note below. The IOOF Group does not hold any significant collateral as security over its receivables and loans, apart from its recourse to certain shares in subsidiaries in relation to loans to executives of subsidiaries. The Company had a concentration of credit risk to ANZ for the value of the debt note in 2019 (\$800m). There is no such concentration in 2020.

### Expected credit loss assessment

As at 30 June 2020, \$9,786,000 trade receivables of the IOOF Group were past due but not impaired (2019: \$2,873,000). The amount of the impairment provision was \$420,000 (2019: \$585,000).

Collectability of trade receivables is reviewed on an ongoing basis. The IOOF Group recognises loss allowances for expected credit losses on financial assets measured at amortised cost. When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating expected credit losses, the IOOF Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the IOOF Group's historical experience and informed credit assessment and including forward-looking information.

# Notes to the financial statements

For the year ended 30 June 2020

The IOOF Group considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the IOOF Group in full, without recourse by the IOOF Group to actions such as realising security, or the financial asset is more than 90 days past due. The maximum period considered when estimating expected credit losses is the maximum contractual period over which the IOOF Group is exposed to the credit risk.

Expected credit losses are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the IOOF Group expects to receive). Expected credit losses are discounted at the effective interest rate of the financial asset. Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

## Impaired receivables

The amount of the impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance has been recognised becomes uncollectible in a subsequent year, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit or loss.

| Movements in the provisions for impairment of trade receivables are as follows: | 2020          | 2019          |
|---|---------------|---------------|
|   | \$'000        | \$'000        |
| Carrying value at 1 July  | 585           | 607           |
| Provision for impairment provided/(written back) during the year                | (165)         | (22)          |
| <b>Carrying value at 30 June</b>  | <b>420</b>    | <b>585</b>    |
| <b>Ageing of trade receivables that were not impaired at 30 June</b>            |               |               |
| Neither past due nor impaired   | 69,448        | 45,950        |
| Past due 31-60 days   | 4,507         | 1,402         |
| Past due 61-90 days   | 3,526         | 468           |
| Past due 91-120 days  | 1,753         | 1,003         |
|   | <b>79,234</b> | <b>48,823</b> |
| <b>Trade receivables past due but not impaired</b>                              | <b>9,786</b>  | <b>2,873</b>  |

## (c) Statutory Fund Risk

Financial risks are monitored and controlled by selecting appropriate assets to back policy liabilities. The assets are regularly monitored by the Investment Management Committee to ensure there are no material exposures and that liability mismatching issues and other risks such as liquidity risk and credit risk are maintained within acceptable limits. The Investment Management Committee is chaired by an independent expert and its membership is drawn from appropriately skilled senior management. There are two Non-Executive Directors on this Committee.

The IOOF Group's friendly society operations are subject to regulatory capital requirements which prescribe the amount of capital to be held depending on the type, quality and concentration of investments held. Procedures are in place to monitor compliance with these requirements. Refer to Section 5 – Statutory funds for further details.

These funds are not available to shareholders. Balances relating to statutory funds in the table below are disclosed inclusive of amounts collected/receivable from or paid/payable to IOOF Group entities.

## (d) Liquidity risk

Liquidity risk relates to the IOOF Group having insufficient liquid assets to cover current liabilities and unforeseen expenses. The IOOF Group maintains a prudent approach to managing liquidity risk exposure by maintaining sufficient liquid assets and an ability to access a committed line of credit. It is managed by continuously monitoring actual and forecast cash flows and by matching the maturity profiles of financial assets and liabilities. Temporary surplus funds are invested in highly liquid, low risk financial assets.

The IOOF Group had access to undrawn bank borrowing facilities at the balance date, on the terms described and disclosed in section 3-2 Borrowings. The liquidity requirements for licensed entities in the IOOF Group are regularly reviewed and carefully monitored in accordance with those licence requirements. The IOOF Group continuously monitors actual and forecast financial results to determine compliance with banking covenants.

## Maturities of financial liabilities

The tables below analyse the IOOF Group's financial liabilities into relevant maturity groupings based on the remaining years at the balance date to the contractual maturity date. The amounts disclosed therein are the contractual undiscounted cash flows.

| 2020   | Carrying Amount  |                  |                  | Contractual cash flows |                  |                |                  |
|--|------------------|------------------|------------------|------------------------|------------------|----------------|------------------|
|  | Current          | Non-Current      | Total            | 1 year or less         | 1-5 years        | 5+ years       | Total            |
|  | \$'000           | \$'000           | \$'000           | \$'000                 | \$'000           | \$'000         | \$'000           |
| <b>Financial liabilities</b>   |                  |                  |                  |                        |                  |                |                  |
| Payables – corporate   | 118,689          | 129              | 118,818          | 118,689                | 129              | –              | 118,818          |
| Payables – statutory   | 1,748            | –                | 1,748            | 1,748                  | –                | –              | 1,748            |
| Total payables   | 120,437          | 129              | 120,566          | 120,437                | 129              | –              | 120,566          |
| Ex-ANZ Advice Licensee (AL) remediation provision – corporate <sup>(1)</sup> | 139,427          | 76,347           | 215,774          | 139,427                | 76,347           | –              | 215,774          |
| IOOF adviser remediation provision – corporate <sup>(1)</sup>                | 81,492           | 135,408          | 216,900          | 81,492                 | 135,408          | –              | 216,900          |
| Ex-ANZ P&I remediation provision – corporate <sup>(1)</sup>                  | 107,459          | 90,417           | 197,876          | 107,459                | 90,417           | –              | 197,876          |
| Other provisions   | 56,273           | –                | 56,273           | 56,273                 | –                | –              | 56,273           |
| Other financial liabilities – corporate                                      |                  |                  |                  |                        |                  |                |                  |
| Ex-ANZ AL remediation settlements liability                                  | 30,978           | 16,963           | 47,941           | 30,978                 | 16,963           | –              | 47,941           |
| Contingent consideration   | 5,626            | 1,198            | 6,824            | 5,626                  | 1,198            | –              | 6,824            |
| Other financial liabilities – statutory                                      |                  |                  |                  |                        |                  |                |                  |
| Insurance contract liabilities   | 187,079          | –                | 187,079          | 187,079                | –                | –              | 187,079          |
| Investment contract liabilities  | 823,496          | –                | 823,496          | 823,496                | –                | –              | 823,496          |
| Total other financial liabilities  | 1,047,179        | 18,161           | 1,065,340        | 1,047,179              | 18,161           | –              | 1,065,340        |
| Borrowings – corporate   | –                | 457,858          | 457,858          | –                      | 457,858          | –              | 457,858          |
|  | <b>1,388,535</b> | <b>687,903</b>   | <b>2,076,438</b> | <b>1,388,535</b>       | <b>687,903</b>   | <b>–</b>       | <b>2,076,438</b> |
| <b>Financial assets available to meet the above financial liabilities</b>    |                  |                  |                  |                        |                  |                |                  |
| <b>Financial assets at amortised cost</b>                                    |                  |                  |                  |                        |                  |                |                  |
| Cash – corporate   | 225,360          | –                | 225,360          | 225,360                | –                | –              | 225,360          |
| Cash restricted ORFR – corporate   | 145,630          | –                | 145,630          | 145,630                | –                | –              | 145,630          |
| Cash – statutory   | 3,740            | –                | 3,740            | 3,740                  | –                | –              | 3,740            |
| Total cash   | 374,730          | –                | 374,730          | 374,730                | –                | –              | 374,730          |
| Receivables – corporate  |                  |                  |                  |                        |                  |                |                  |
| Trade receivables  | 78,508           | –                | 78,508           | 78,508                 | –                | –              | 78,508           |
| Other receivables  | 234,022          | 3,778            | 237,800          | 234,022                | 3,778            | –              | 237,800          |
| Ex-ANZ AL remediation indemnity  | 170,389          | 93,301           | 263,690          | 170,389                | 93,301           | –              | 263,690          |
| Security bonds   | –                | 250              | 250              | –                      | –                | 250            | 250              |
| Receivables – statutory  |                  |                  |                  |                        |                  |                |                  |
| Trade receivables  | 306              | –                | 306              | 306                    | –                | –              | 306              |
| Other receivables  | 8,880            | –                | 8,880            | 8,880                  | –                | –              | 8,880            |
| Dividends and distributions receivable                                       | 23,343           | –                | 23,343           | 23,343                 | –                | –              | 23,343           |
| Total receivables  | 515,448          | 97,329           | 612,777          | 515,448                | 97,079           | 250            | 612,777          |
| <b>Fair value through profit or loss</b>                                     |                  |                  |                  |                        |                  |                |                  |
| Unlisted unit trusts – corporate   | –                | 902              | 902              | –                      | 902              | –              | 902              |
| Unlisted unit trusts – statutory   | 925,257          | –                | 925,257          | 925,257                | –                | –              | 925,257          |
| <b>Equity investments at FVOCI – corporate</b>                               | <b>–</b>         | <b>139,406</b>   | <b>139,406</b>   | <b>–</b>               | <b>–</b>         | <b>139,406</b> | <b>139,406</b>   |
| <b>Loans and other receivables</b>   |                  |                  |                  |                        |                  |                |                  |
| Loans to policyholders – statutory   | 51,208           | –                | 51,208           | 51,208                 | –                | –              | 51,208           |
| Total other financial assets   | 976,465          | 140,308          | 1,116,773        | 976,465                | 902              | 139,406        | 1,116,773        |
|  | <b>1,866,643</b> | <b>237,637</b>   | <b>2,104,280</b> | <b>1,866,643</b>       | <b>97,981</b>    | <b>139,656</b> | <b>2,104,280</b> |
| <b>Net financial assets/(liabilities)</b>                                    | <b>478,108</b>   | <b>(450,266)</b> | <b>27,842</b>    | <b>478,108</b>         | <b>(589,922)</b> | <b>139,656</b> | <b>27,842</b>    |

(1) Maturity of remediation provisions is not based on contractual maturity but rather expected payment dates.



# Notes to the financial statements

For the year ended 30 June 2020

| 2019  | Carrying Amount  |                  |                  | Contractual cash flows |                  |                 |                  |
|---|------------------|------------------|------------------|------------------------|------------------|-----------------|------------------|
|   | Current          | Non-Current      | Total            | 1 year or less         | 1-5 years        | 5+ years        | Total            |
|   | \$'000           | \$'000           | \$'000           | \$'000                 | \$'000           | \$'000          | \$'000           |
| <b>Financial liabilities</b>  |                  |                  |                  |                        |                  |                 |                  |
| Payables – corporate  | 86,360           | –                | 86,360           | 86,360                 | –                | –               | 86,360           |
| Payables – statutory  | 3,875            | –                | 3,875            | 3,875                  | –                | –               | 3,875            |
| Total payables  | 90,235           | –                | 90,235           | 90,235                 | –                | –               | 90,235           |
| Ex-ANZ AL remediation provision – corporate                               | 24,116           | 144,694          | 168,810          | 24,116                 | 96,463           | 48,231          | 168,810          |
| IOOF adviser remediation provision – corporate                            | 31,881           | 191,284          | 223,165          | 31,881                 | 127,523          | 63,761          | 223,165          |
| Other financial liabilities – corporate                                   |                  |                  |                  |                        |                  |                 |                  |
| Ex-ANZ AL remediation settlements liability                               | 2,073            | 12,437           | 14,510           | 2,073                  | 8,291            | 4,146           | 14,510           |
| Contingent consideration  | 837              | –                | 837              | 837                    | –                | –               | 837              |
| Other financial liabilities – statutory                                   |                  |                  |                  |                        |                  |                 |                  |
| Insurance contract liabilities  | 202,434          | –                | 202,434          | 202,434                | –                | –               | 202,434          |
| Investment contract liabilities   | 820,337          | –                | 820,337          | 820,337                | –                | –               | 820,337          |
| Total other financial liabilities   | 1,025,681        | 12,437           | 1,038,118        | 1,025,681              | 8,291            | 4,146           | 1,038,118        |
| Borrowings – corporate  | –                | 426,503          | 426,503          | –                      | 426,503          | –               | 426,503          |
|   | <b>1,171,912</b> | <b>774,919</b>   | <b>1,946,831</b> | <b>1,171,912</b>       | <b>658,780</b>   | <b>116,139</b>  | <b>1,946,831</b> |
| <b>Financial assets available to meet the above financial liabilities</b> |                  |                  |                  |                        |                  |                 |                  |
| <b>Financial assets at amortised cost</b>                                 |                  |                  |                  |                        |                  |                 |                  |
| Cash – corporate  | 91,687           | –                | 91,687           | 91,687                 | –                | –               | 91,687           |
| Cash – statutory  | 5,755            | –                | 5,755            | 5,755                  | –                | –               | 5,755            |
| Total cash  | 97,442           | –                | 97,442           | 97,442                 | –                | –               | 97,442           |
| Receivables – corporate   |                  |                  |                  |                        |                  |                 |                  |
| Trade receivables   | 46,260           | –                | 46,260           | 46,260                 | –                | –               | 46,260           |
| Other receivables   | 59,095           | 681              | 59,776           | 59,095                 | 681              | –               | 59,776           |
| Ex-ANZ AL remediation indemnity   | 26,189           | 157,131          | 183,320          | 26,189                 | 104,754          | 52,377          | 183,320          |
| Security bonds  | –                | 250              | 250              | –                      | –                | 250             | 250              |
| Receivables – statutory   |                  |                  |                  |                        |                  |                 |                  |
| Trade receivables   | 1,978            | –                | 1,978            | 1,978                  | –                | –               | 1,978            |
| Other receivables   | 10,540           | –                | 10,540           | 10,540                 | –                | –               | 10,540           |
| Dividends and distributions receivable                                    | 26,567           | –                | 26,567           | 26,567                 | –                | –               | 26,567           |
| Total receivables   | 170,629          | 158,062          | 328,691          | 170,629                | 105,435          | 52,627          | 328,691          |
| <b>Fair value through profit or loss</b>                                  |                  |                  |                  |                        |                  |                 |                  |
| Debt note – corporate   | 800,000          | –                | 800,000          | 800,000                | –                | –               | 800,000          |
| Other financial assets  |                  |                  |                  |                        |                  |                 |                  |
| <b>Fair value through profit or loss</b>                                  |                  |                  |                  |                        |                  |                 |                  |
| Unlisted unit trusts – corporate  | –                | 641              | 641              | –                      | 641              | –               | 641              |
| Unlisted unit trusts – statutory  | 963,373          | –                | 963,373          | 963,373                | –                | –               | 963,373          |
| <b>Equity investments at FVOCI – corporate</b>                            | –                | 41,627           | 41,627           | –                      | –                | 41,627          | 41,627           |
| <b>Loans and other receivables</b>  |                  |                  |                  |                        |                  |                 |                  |
| Loans to directors and executives of associated entities – corporate      | –                | 7,298            | 7,298            | –                      | –                | 7,298           | 7,298            |
| Loans to policyholders – statutory  | 34,198           | –                | 34,198           | 34,198                 | –                | –               | 34,198           |
| Total other financial assets  | 997,571          | 49,566           | 1,047,137        | 997,571                | 641              | 48,925          | 1,047,137        |
|   | <b>2,065,642</b> | <b>207,628</b>   | <b>2,273,270</b> | <b>2,065,642</b>       | <b>106,076</b>   | <b>101,552</b>  | <b>2,273,270</b> |
| <b>Net financial assets/(liabilities)</b>                                 | <b>893,729</b>   | <b>(567,290)</b> | <b>326,439</b>   | <b>893,729</b>         | <b>(552,704)</b> | <b>(14,586)</b> | <b>326,439</b>   |

## (e) Accounting policies and fair value estimation

The fair values of financial assets and liabilities are equal to the carrying amounts shown in the statement of financial position.

### Offsetting assets and liabilities

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the IOOF Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### Financial assets

The IOOF Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the date at which the IOOF Group becomes a party to the contractual provisions of the instrument.

The IOOF Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the IOOF Group is recognised as a separate asset or liability.

The IOOF Group has the following financial assets:

- cash;
- debt note;
- financial assets at fair value through profit or loss;
- financial assets at fair value through other comprehensive income; and
- loans and receivables.

### Cash

Cash includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

### Debt note

The debt note was initially recognised at cost, and subsequently revalued to fair value through profit or loss at balance date. Fair value is determined using a discounted cash flow methodology, which incorporates unobservable inputs such as discount rates, counterparty credit, and probability-adjusted revenues expected to be received under the arrangement. The debt note was redeemed on 31 January 2020 to fund the acquisition of the Pensions and Investments businesses from ANZ.

### Financial assets at fair value through profit or loss

A financial asset is classified as at fair value through profit or loss if the IOOF Group manages such investments and makes purchase and sale decisions in accordance with the IOOF Group's documented risk management or investment strategy. Upon initial recognition attributable transaction costs are recognised in profit or loss when incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognised in profit or loss.

Units in unlisted trusts are carried at the current unit price for redemption of those units with the trust.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. The quoted market price used for financial assets is the closing price.

### Equity investments at Fair Value through Other Comprehensive Income

Equity investments at fair value through other comprehensive income (FVOCI) are non-derivative assets comprising principally marketable equity securities that are either designated in this category or are not classified in any of the other categories of financial instruments.

Equity investments at FVOCI are recognised initially at fair value plus any directly attributable transaction costs, and are revalued through other comprehensive income (OCI) each reporting period. Dividends are recognised in profit or loss unless it clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise when the IOOF Group provides money, assets, or services directly to a debtor with no intention of selling the receivable. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method if it is held to collect contractual cash flows and its contractual terms give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

### Certificates of deposit

Certificates of deposit held during the prior year include deposits with original maturities of more than three months.

# Notes to the financial statements

For the year ended 30 June 2020

## Financial liabilities

The IOOF Group initially recognises financial liabilities on the date at which the IOOF Group becomes a party to the contractual provisions of the instrument. The IOOF Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

The IOOF Group has the following non-derivative financial liabilities:

- payables;
- borrowings (including finance leases); and
- other financial liabilities.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

## Payables

The carrying value of payables are assumed to approximate their fair values due to their short-term nature.

## Borrowings and finance leases

Borrowings and finance leases are further explained in section 3-2 Borrowings.

## Contingent consideration

The contingent consideration amounts payable can rise and fall depending on performance hurdles achieved during the deferral period specific to each agreement which may include revenue targets, gross margin targets and/or Funds Under Management, Administration, Advice and Supervision (FUMAS) retention requirements.

Where contingent consideration is due for payment after 12 months, the estimated amounts payable are discounted. Assumptions used include pre-tax discount rates in the range of 3-4% which were based on market interest rates upon acquisition of related intangibles.

## Alternative investments

### Total return swap liability on alternative investments measurement

The total return swap liability is initially recognised at cost and subsequently measured at fair value. Changes in the fair value of financial liabilities are recognised through the Statement of comprehensive income. The maturities of financial instruments table includes the net amount of the total return swap on alternative investments at 30 June 2020. The value of the amount payable on the total return swap on alternative investments at 30 June 2020 is \$783.1m. The value of the alternative investments at 30 June 2020 is \$783.1m.

## Alternative investment assets classification

Alternative investments are made up of cash held with the Custodian and investments in alternative portfolios which have been designated as fair value through profit or loss. Alternative investments include investments in hedge funds, unlisted real estate funds and private equity funds.

### Alternative investment assets recognition and de-recognition

Regular way purchases and sales of financial assets are recognised on trade date – the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

### Alternative investment assets initial recognition and measurement

Alternative investments are initially recognised and subsequently measured at fair value which is determined as the redemption price at the balance sheet date.

### Total return swap liability on alternative investments classification

Total return swaps liability is made up of fully funded total return swaps, which are designated at fair value through profit or loss.

## Assets and liabilities relating to statutory funds

Assets held in the Statutory Funds (including the Benefit Funds) are subject to the distribution and transfer restrictions and other requirements of the Life Insurance Act 1995. Monies held in the benefit funds and controlled trusts are held for the benefit of the members of those funds, and are subject to the constitution and rules of those funds.

Accordingly, with the exception of permitted profit distributions, the investments held in the statutory funds are not available for use by other parties of the IOOF Group.

Policy liabilities have been determined in accordance with applicable accounting standards. Policy liabilities for life insurance contracts are valued in accordance with AASB 1038, whereas life investment contracts are valued in accordance with AASB 9 and AASB 15. There are differences between the valuation requirements of the accounting standards and those of the Life Insurance Act 1995.

### Assets relating to statutory funds

The IOOF Group has determined that all financial assets held within its reported statutory funds (including the benefit funds which are treated as statutory funds) represent the assets backing policy liabilities and are measured at fair value through profit or loss. Other than loans and receivables held by the IOOF Group and its controlled entities, assets backing policy liabilities have been designated at fair value through profit or loss as the assets are managed on a fair value basis.

### Liabilities relating to statutory funds

Policy liabilities have been determined in accordance with applicable accounting standards. Policy liabilities for life insurance contracts are valued in accordance with AASB 1038, whereas life investment contracts are valued in accordance with AASB 9 and AASB 15. There are differences between the valuation requirements of the accounting standards and those of the Life Insurance Act 1995.

### Contract classification relating to statutory funds

The accounting treatment of certain transactions varies depending on the nature of the contract underlying the transaction. The major contract classifications are insurance contracts and investment contracts.

#### (i) Insurance contracts

Insurance contracts with a discretionary participation feature ('DPF') are those containing significant insurance risk at the inception of the contract, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. The significance of insurance risk is dependent on both the probability of an insured event and the magnitude of its potential effect. Life insurance contract liabilities are calculated in accordance with actuarial standards.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the year.

#### (ii) Investment contracts

Contracts not considered insurance contracts are classified as investment contracts. The accounting treatment of investment contracts depends on whether the investment has a discretionary participation feature ('DPF'). A DPF represents a contractual right to receive, as a supplement to guaranteed benefits, additional benefits that are:

- likely to be a significant portion of the total benefits;
- distributed at the discretion of the insurer; and
- are based on the performance of a specified pool of assets.

Deposits collected and benefits paid under investment contracts with DPF are accounted for through profit or loss. The gross change in the liability to these policyholders for the year, which includes any participating benefits vested in policyholders and any undistributed surplus attributed to policyholders, is also recognised in profit or loss.

Deposits collected and withdrawals processed for investment contracts without DPF are accounted for directly through the statement of financial position as a movement in the investment contract liability. Distributions on these contracts are charged to profit or loss as an expense.

Where contracts contain both an investment component and an insurance component and the deposit component can be separately measured, the underlying amounts are unbundled. Premiums relating to the insurance component are accounted for through profit or loss and the investment component is accounted for as a deposit through the statement of financial position as described above.

# Notes to the financial statements

For the year ended 30 June 2020

## 1-2 Financial Instruments

### Fair value hierarchy

The fair values of financial assets and liabilities are equal to the carrying amounts shown in the statement of financial position. The table below analyses financial instruments carried at fair value, by valuation method.

|   | Level 1        | Level 2        | Level 3        | Total            |
|---|----------------|----------------|----------------|------------------|
| 30 June 2020  | \$'000         | \$'000         | \$'000         | \$'000           |
| <b>Financial assets measured at fair value</b>      |                |                |                |                  |
| FVOCI – corporate                                   | 139,406        | –              | –              | 139,406          |
| Unlisted unit trusts – corporate                    | –              | 902            | –              | 902              |
| Unlisted unit trusts – statutory                    | –              | 925,257        | –              | 925,257          |
|   | <b>139,406</b> | <b>926,159</b> | <b>–</b>       | <b>1,065,565</b> |
| <b>Financial liabilities measured at fair value</b> |                |                |                |                  |
| Contingent consideration – corporate                | –              | –              | 6,824          | 6,824            |
|   | <b>–</b>       | <b>–</b>       | <b>6,824</b>   | <b>6,824</b>     |
| <b>30 June 2019</b>                                 |                |                |                |                  |
| <b>Financial assets measured at fair value</b>      |                |                |                |                  |
| FVOCI – corporate                                   | 41,627         | –              | –              | 41,627           |
| Unlisted unit trusts – corporate                    | –              | 641            | –              | 641              |
| Unlisted unit trusts – statutory                    | –              | 963,373        | –              | 963,373          |
| Debt note – corporate                               | –              | –              | 800,000        | 800,000          |
|   | <b>41,627</b>  | <b>964,014</b> | <b>800,000</b> | <b>1,805,641</b> |
| <b>Financial liabilities measured at fair value</b> |                |                |                |                  |
| Contingent consideration – corporate                | –              | –              | 837            | 837              |
|   | <b>–</b>       | <b>–</b>       | <b>837</b>     | <b>837</b>       |

The definitions of each level and the valuation techniques used are as follows:

- Level 1: quoted closing prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included with Level 1 that are observable for the asset or liability, either directly (ie as prices) or indirectly (ie. derived from prices). Level 2 fair values for the over-the-counter foreign exchange and index swap are provided by the counterparty and verified by the IOOF Group. Fair values are derived from published market indices and include adjustments to take account of the credit risk of the IOOF Group entity and counterparty.
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The IOOF Group recognises transfers between levels of the fair value hierarchy as of the end of the reporting year during which the transfer has occurred. There were no transfers between Level 1 to Level 2 of the fair value hierarchy during the year ended 30 June 2020.

| Reconciliation of movements in level 3 financial instruments | Debt note |                | Contingent consideration |            |
|--|-----------|----------------|--------------------------|------------|
|  | 2020      | 2019           | 2020                     | 2019       |
|  | \$'000    | \$'000         | \$'000                   | \$'000     |
| Opening balance as at 1 July                                 | 800,000   | –              | 837                      | 392        |
| Issuance/(redemption) of debt note                           | (800,000) | 800,000        | –                        | –          |
| Take up of deferred consideration liability                  | –         | –              | 6,802                    | 2,907      |
| Unwinding of discount  | –         | –              | –                        | 8          |
| Settlement of contingent consideration                       | –         | –              | (815)                    | (2,470)    |
| <b>Closing balance as at 30 June</b>                         | <b>–</b>  | <b>800,000</b> | <b>6,824</b>             | <b>837</b> |

There were no transfers into or out of Level 3 of the fair value hierarchy during the year ended 30 June 2020, except as disclosed in the table above.

Level 3 financial assets consist of:

- A debt note carried at fair value in prior year. The debt note is valued via a discounted cash flow, which incorporates unobservable inputs such as discount rates, counterparty credit, and probability-adjusted revenues expected to be received under the arrangement. An increase in the discount rate used in isolation would result in a decrease to the fair value of the debt note. An increase in the probability adjusted revenues in isolation would result in an increase in the fair value of the debt note. The debt note was redeemed on 31 January 2020 to fund the acquisition of the Pensions and Investments businesses from ANZ.

Level 3 financial liabilities consist of:

- Deferred purchase consideration in respect of client lists purchased by the IOOF Group, which is valued at best estimate of the amount payable under the relevant contracts. The amount of deferred consideration payable is linked to the retention of clients, which is an unobservable output and may decrease the value of the liability.

# Notes to the financial statements

For the year ended 30 June 2020

## Section 2 – Results for the year

This section focuses on the results and performance of the IOOF Group. On the following pages you will find disclosures explaining the IOOF Group's results for the year, segmental information, taxation and earnings per share.

Where an accounting policy is specific to a single note, the policy is described in the note to which it relates.

### 2-1 Operating Segments

The IOOF Group has the following six strategic divisions, which are its reportable segments. All segments' operating results are regularly reviewed by the IOOF Group's Chief Executive Officer to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

### Financial advice and distribution

The provision of financial planning advice and stockbroking services supported by services such as investment research, training, compliance support and access to financial products.

### Portfolio and estate administration

The provision of administration and management services through master trust platforms, which offer a single access point to a range of investment products.

|   | Financial advice and distribution |           | Portfolio and estate administration |           | Investment management |          |  |
|---|-----------------------------------|-----------|-------------------------------------|-----------|-----------------------|----------|--|
|   | 2020                              | 2019      | 2020                                | 2019      | 2020                  | 2019     |  |
|   | \$'000                            | \$'000    | \$'000                              | \$'000    | \$'000                | \$'000   |  |
| Management and service fees revenue                   | 261,893                           | 285,737   | 382,740                             | 399,260   | 98,327                | 95,694   |  |
| External other fee revenue                            | 17,278                            | 15,690    | 8,714                               | 8,427     | 7,337                 | 7,049    |  |
| Service fees and other direct costs                   | (192,837)                         | (195,442) | (88,843)                            | (96,014)  | (36,601)              | (36,696) |  |
| Deferred acquisition costs                            | –                                 | (18)      | (73)                                | (155)     | –                     | –        |  |
| Gross Margin  | 86,334                            | 105,967   | 302,538                             | 311,518   | 69,063                | 66,047   |  |
| Stockbroking revenue                                  | 3,304                             | 4,508     | –                                   | –         | –                     | –        |  |
| Stockbroking service fees expense                     | (1,241)                           | (1,285)   | –                                   | –         | –                     | –        |  |
| Stockbroking net contribution                         | 2,063                             | 3,223     | –                                   | –         | –                     | –        |  |
| Inter-segment revenue <sup>(i)</sup>                  | 94,142                            | 84,455    | 7,135                               | 2,689     | –                     | –        |  |
| Inter-segment expenses <sup>(i)</sup>                 | (3,025)                           | (2,123)   | (98,243)                            | (82,255)  | (2,612)               | (2,903)  |  |
| Net Operating Revenue                                 | 179,514                           | 191,522   | 211,430                             | 231,952   | 66,451                | 63,144   |  |
| Other revenue   | 3,383                             | 3,978     | –                                   | –         | –                     | –        |  |
| Finance income  | 101                               | 145       | –                                   | –         | –                     | –        |  |
| Share of profits of associates                        | (499)                             | 31        | –                                   | –         | –                     | –        |  |
| Operating expenditure                                 | (103,572)                         | (106,863) | (115,005)                           | (108,932) | (10,537)              | (10,698) |  |
| Share-based payments expense                          | (998)                             | (1,749)   | (1,085)                             | (1,903)   | (601)                 | (1,146)  |  |
| Finance costs   | (635)                             | (15)      | (34)                                | –         | –                     | –        |  |
| Depreciation of property & equipment                  | (8,692)                           | (2,571)   | (9,488)                             | (5,082)   | (1,262)               | (653)    |  |
| Amortisation of intangible assets<br>– IT Development | –                                 | –         | (812)                               | (715)     | –                     | –        |  |
| Non-controlling interest                              | (3)                               | 45        | –                                   | –         | –                     | –        |  |
| Income tax expense                                    | (20,172)                          | (25,162)  | (26,918)                            | (35,932)  | (16,396)              | (15,538) |  |
| UNPAT from continuing operations                      | 48,427                            | 59,361    | 58,088                              | 79,388    | 37,655                | 35,109   |  |
| Discontinued operations                               |                                   |           |                                     |           |                       |          |  |
| <b>UNPAT</b>  |                                   |           |                                     |           |                       |          |  |

(i) Segment revenues, expenses and results include transfers between segments. Such transfers are priced on a commercial basis and are eliminated on consolidation.

\* For the period 1 October 2018 to 30 June 2019.

\*\* For the period 1 February 2020 to 30 June 2020.



## Investment management

The management and investment of monies on behalf of corporate, superannuation, institutional clients and private individual investor clients.

### Ex-ANZ wealth management advice licensees

Ex-ANZ Wealth Management Advice Licensees (ex-ANZ ALs) acquired from ANZ during 2019, which provide financial planning advice services.

### Ex-ANZ pensions and investments

Ex-ANZ Pensions and Investments (P&I) businesses which have platform businesses across retail and corporate. This is also inclusive of the debt note revenue up until its redemption on 31 January 2020.

## Corporate and other

Corporate and other costs include those of a strategic, shareholder or governance nature incurred in carrying on business as a listed entity managing multiple business units.

Information regarding the results of each reportable segment (excluding the benefit funds) is included below. Performance is measured based on segment underlying profit before income tax as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

|  | Ex-ANZ wealth management |           | Ex-ANZ pensions and investments |          | Corporate and other |          | Total          |                |
|--|--------------------------|-----------|---------------------------------|----------|---------------------|----------|----------------|----------------|
|  | 2020                     | 2019*     | 2020**                          | 2019     | 2020                | 2019     | 2020           | 2019           |
|  | \$'000                   | \$'000    | \$'000                          | \$'000   | \$'000              | \$'000   | \$'000         | \$'000         |
|  | 184,148                  | 145,861   | 165,119                         | -        | -                   | -        | 1,092,227      | 926,552        |
|  | 14,837                   | 6,290     | 2,929                           | -        | 242                 | 353      | 51,337         | 37,809         |
|  | (198,040)                | (139,650) | (49,573)                        | -        | -                   | 401      | (565,894)      | (467,401)      |
|  | -                        | -         | -                               | -        | -                   | -        | (73)           | (173)          |
|  | 945                      | 12,501    | 118,475                         | -        | 242                 | 754      | 577,597        | 496,787        |
|  | -                        | 38        | -                               | -        | -                   | -        | 3,304          | 4,546          |
|  | -                        | -         | -                               | -        | -                   | -        | (1,241)        | (1,285)        |
|  | -                        | 38        | -                               | -        | -                   | -        | 2,063          | 3,261          |
|  | 19,547                   | -         | 167                             | -        | 657                 | 137      | 121,648        | 87,281         |
|  | -                        | -         | (17,768)                        | -        | -                   | -        | (121,648)      | (87,281)       |
|  | 20,492                   | 12,539    | 100,874                         | -        | 899                 | 891      | 579,660        | 500,048        |
|  | 2,899                    | 6,204     | 600                             | -        | 1,014               | 867      | 7,896          | 11,049         |
|  | 170                      | 390       | 10,223                          | 71,987   | 2,144               | 5,917    | 12,638         | 78,439         |
|  | 20                       | (1)       | -                               | -        | -                   | -        | (479)          | 30             |
|  | (49,875)                 | (41,725)  | (64,031)                        | -        | (41,362)            | (39,005) | (384,382)      | (307,223)      |
|  | (119)                    | (14)      | -                               | -        | (129)               | 15       | (2,932)        | (4,797)        |
|  | (19)                     | (49)      | (242)                           | -        | (13,329)            | (12,817) | (14,259)       | (12,881)       |
|  | (1,025)                  | (56)      | (2,720)                         | -        | -                   | -        | (23,187)       | (8,362)        |
|  | -                        | -         | -                               | -        | -                   | -        | (812)          | (715)          |
|  | 172                      | 134       | -                               | -        | -                   | -        | 169            | 179            |
|  | 8,207                    | 7,776     | (13,411)                        | (21,596) | 18,424              | 17,986   | (50,266)       | (72,466)       |
|  | (19,078)                 | (14,802)  | 31,293                          | 50,391   | (32,339)            | (26,146) | 124,046        | 183,301        |
|  |                          |           |                                 |          |                     |          | 4,788          | 14,688         |
|  |                          |           |                                 |          |                     |          | <b>128,834</b> | <b>197,989</b> |

Segment disclosures have been prepared on an underlying (UNPAT) basis as discussed in the Operating and Financial Review section of the Directors' Report. Comparatives have been restated to be on a comparable basis.

# Notes to the financial statements

For the year ended 30 June 2020

## Reconciliation of reportable segment revenues and expenses

|   | Note | 2020           | 2019            |
|---|------|----------------|-----------------|
|   |      | \$'000         | \$'000          |
| <b>Profit attributable to Owners of the Company</b>                                   |      | <b>146,964</b> | <b>28,560</b>   |
| Discontinued operations   | 2-2  | (88,166)       | (58,374)        |
| <b>Profit/(Loss) from continuing operations attributable to Owners of the Company</b> |      | <b>58,798</b>  | <b>(29,814)</b> |
| <i>Underlying net profit after tax pre-amortisation (UNPAT) adjustments:</i>          |      |                |                 |
| Amortisation of intangible assets   | 2-4  | 36,749         | 37,651          |
| Acquisition costs – Acquisition advisory  | 2-4  | 6,010          | 2,488           |
| Acquisition costs – Integration preparation   | 2-4  | 24,955         | 20,766          |
| Acquisition costs – Finance costs   | 2-4  | 65             | 416             |
| Termination payments  | 2-4  | 2,865          | 2,043           |
| Profit on divestment of assets  | 2-3  | (1,528)        | (368)           |
| Non-recurring professional fees paid  | 2-4  | 6,426          | 2,027           |
| Unwind of deferred tax liability recorded on intangible assets                        |      | (9,717)        | (9,881)         |
| Impairment of goodwill  | 2-4  | 4,344          | –               |
| IOOF AL remediation costs   | 2-4  | 1,511          | 235,278         |
| Governance uplift costs   | 2-4  | 4,461          | –               |
| Other   |      | 1,444          | 875             |
| Income tax attributable   |      | (12,337)       | (78,180)        |
| <b>UNPAT from continuing operations</b>   |      | <b>124,046</b> | <b>183,301</b>  |
| UNPAT from discontinued operations  |      | 4,788          | 14,688          |
| <b>UNPAT</b>  |      | <b>128,834</b> | <b>197,989</b>  |

The significant accounting policies which apply to the major revenue and expense items below follow each of the notes. More general information on how these are recognised/measured can be found in note 7-2 *Basis of preparation*.

## 2-2 Discontinued operations

### (a) AET Corporate Trust business

On 1 November 2018, the IOOF Group completed the divestment of the AET Corporate Trust business to Sargon Capital Pty Ltd (Sargon) for an upfront consideration of \$41.3m and a deferred component of \$10.3m dependent on the novation of certain contract revenue to Sargon. An additional \$1.6m consideration relating to a net asset adjustment was received in January 2019. At 30 June 2019, the deferred consideration was written back as it was considered unlikely that the performance hurdles would be met and the deferred consideration would be received. This continues to be the case at 30 June 2020.

The recovery of legal claims relates to recoveries as a result of agreed settlements with PwC, HLB Mann Judd, IOOF's insurers and insurance broker, in respect of the cross-claims brought by Australian Executor Trustees Limited against those parties as part of the proceedings related to Provident Capital Limited.

### (b) Ord Minnett business

On 27 June 2019, the Directors announced the divestment of the Group's 70% holding in Ord Minnett Holdings Pty Ltd (Ord Minnett). The disposal is consistent with the Group's

long-term strategy to focus on its core wealth management capabilities. The Group entered into a contract with a consortium of private investors led by current Ord Minnett management to dispose of its stake in Ord Minnett for sale consideration of \$115m, \$10m of which was received in the previous financial year as a non-refundable deposit. The Group recognised a post-tax profit on sale of \$83.7m in respect of the Ord Minnett business upon completion of the transaction. Completion of the sale occurred on 24 September 2019.

### (c) Investment in Perennial Value Management

On 10 October 2019, the IOOF Group divested its equity accounted investment in Perennial Value Management Limited. The book value of the Group's investment in PVM was \$7.8m at the time of divestment.

### (d) IOOF New Zealand business

On 16 April 2020, the IOOF Group announced that IOOF New Zealand Ltd had entered into an agreement to sell all client rights relating to the IOOF Integral Master Trust to Britannia Financial Services Limited. IOOF New Zealand Ltd closed effective 15 April 2020.

### (e) Analysis of profit for the year from discontinued operations

Revenue, expenses and associated income tax in the financial statements and notes have been restated to a continuing basis, where applicable, and therefore exclude the below results of the discontinued operations.

|  | Year ended    | Year ended     |
|--|---------------|----------------|
|  | 30 June 2020  | 30 June 2019   |
|  | \$'000        | \$'000         |
| <b>Results of discontinued operations</b>                                    |               |                |
| Revenue  | 49,739        | 169,541        |
| Expenses   | (42,046)      | (167,370)      |
| Legal settlement recovery  | –             | 36,000         |
| Results from operating activities  | 7,693         | 38,171         |
| Income tax   | (2,241)       | (18,746)       |
| Results from operating activities, net of tax                                | 5,452         | 19,425         |
| Gain on sale of discontinued operation                                       | 83,614        | 58,968         |
| Income tax on gain on sale of discontinued operation                         | 710           | (14,993)       |
| Gain on disposal of discontinued operation, net of tax                       | 84,324        | 43,975         |
| <b>Profit for the period</b>   | <b>89,776</b> | <b>63,400</b>  |
| <b>Profit for the period attributable to:</b>                                |               |                |
| Owners of the entity   | 88,166        | 58,374         |
| Non-controlling interest   | 1,610         | 5,026          |
| <b>Profit for the period</b>   | <b>89,776</b> | <b>63,400</b>  |
| Basic earnings per share (cents per share)                                   | 25.2          | 16.5           |
| Diluted earnings per share (cents per share)                                 | 25.1          | 16.5           |
| <b>Cash flows from discontinued operations</b>                               |               |                |
| Net cash provided by/(used in) operating activities                          | 59,462        | (28,998)       |
| Net cash (used in)/provided by investing activities                          | (843)         | 24,024         |
| Net cash provided by/(used in) financing activities                          | –             | (500)          |
| <b>Net cash flow for the period</b>  | <b>58,619</b> | <b>(4,974)</b> |
| <b>Profit for the period from discontinued operations</b>                    | <b>88,166</b> | <b>58,374</b>  |
| <i>Underlying net profit after tax pre-amortisation (UNPAT) adjustments:</i> |               |                |
| Amortisation of intangible assets  | 375           | 1,553          |
| Termination payments   | 562           | 61             |
| Profit on divestment of assets   | (83,614)      | (58,959)       |
| Impairment of non-current assets   | 117           | 24,249         |
| Unwind of deferred tax liability recorded on intangible assets               | (73)          | (319)          |
| Provident legal settlement/(provision)                                       | –             | (36,000)       |
| Income tax attributable  | (745)         | 25,729         |
| <b>UNPAT from discontinued operations</b>                                    | <b>4,788</b>  | <b>14,688</b>  |

# Notes to the financial statements

For the year ended 30 June 2020

## (f) Assets and liabilities of discontinued operations

### Assets and liabilities of disposal group

The net assets of the AET Corporate Trust disposal group at the date of disposal are shown below.

|                                       | 1-Nov-18      |
|---------------------------------------|---------------|
|                                       | \$'000        |
| <b>Assets</b>                         |               |
| Cash                                  | 1,605         |
| Receivables                           | 3,127         |
| Prepayments                           | 53            |
| Plant & equipment                     | 5             |
| Intangible assets                     | 279           |
| Deferred tax assets                   | 188           |
| <b>Total assets</b>                   | <b>5,257</b>  |
| <b>Liabilities</b>                    |               |
| Payables                              | 453           |
| Provisions                            | 456           |
| Deferred tax liabilities              | 4             |
| <b>Total liabilities</b>              | <b>913</b>    |
| <b>Net assets and liabilities</b>     | <b>4,344</b>  |
| Consideration received in cash        | 41,316        |
| Income tax paid                       | (14,993)      |
| Cash and cash equivalents disposed of | (1,605)       |
| <b>Net cash inflow</b>                | <b>24,718</b> |

As described above, the IOOF Group disposed of its Ord Minnett business effective 24 September 2019. The IOOF Group entered into an agreement with a consortium of private investors and the fair value less costs to sell of the business was higher than the aggregate carrying amount of the related assets and liabilities. Therefore, no impairment loss was recognised on reclassification of the asset and liabilities as held for sale nor at 30 June 2019. The major classes of assets and liabilities of the Ord Minnett business at 30 June 2019 were as follows:

|  | 30-Jun-19     |
|--|---------------|
|  | \$'000        |
| <b>Assets</b>  |               |
| Cash   | 14,963        |
| Receivables  | 13,310        |
| Current tax asset  | 219           |
| Deferred tax assets  | 2,623         |
| Property, plant & equipment  | 2,093         |
| Other intangible assets  | 9,555         |
| Other assets   | 9,711         |
| <b>Total assets</b>  | <b>52,474</b> |
| <b>Liabilities</b>   |               |
| Trade payables   | 7,546         |
| Provisions   | 19,573        |
| Other liabilities  | 315           |
| <b>Total liabilities</b>   | <b>27,434</b> |
| Net assets of Ord Minnett business attributable to non-controlling interests | (7,512)       |
| <b>Net assets of Ord Minnett business classified as held for sale</b>        | <b>17,528</b> |

## 2-3 Revenue

|  | Policy note | 2020      | 2019      |
|--|-------------|-----------|-----------|
|  |             | \$'000    | \$'000    |
| Management and service fees revenue  | (i)         | 1,092,227 | 926,552   |
| Stockbroking revenue   | (ii)        | 3,304     | 4,546     |
| External other fee revenue   | (ii)        | 51,337    | 37,809    |
| <b>Finance income</b>  | (iii)       |           |           |
| Interest income on loans to Directors of associated entities                                 |             | 86        | 249       |
| Interest income from non-related entities  |             | 11,180    | 76,825    |
| Dividends and distributions received   |             | 1,419     | 1,256     |
| Net fair value (losses)/gains on other financial assets at fair value through profit or loss |             | (47)      | 109       |
|  |             | 12,638    | 78,439    |
| Other revenue  |             |           |           |
| Profit on divestment of assets   |             | 1,528     | 368       |
| Other  |             | 7,896     | 11,049    |
|  |             | 9,424     | 11,417    |
| <b>Total revenue</b>   |             | 1,168,930 | 1,058,763 |

### Accounting policies

Revenue is measured based on the consideration specified in a contract with a customer. The IOOF Group recognises revenue when it transfers control over a good or service to a customer.

#### (i) Management and service fees revenue

The IOOF Group provides management services to unit trusts and funds operated by the IOOF Group at normal commercial rates. Management and service fees earned from the unit trusts and funds are calculated based on an agreed percentage of the respective funds under management or administration as disclosed in the respective product disclosure statements, and are recognised as performance obligations are satisfied over time.

Management and service fees revenue from the provision of financial advisory services together with revenue from the rendering of services are recognised as performance obligations are satisfied over time.

#### (ii) Stockbroking revenue and external other fee revenue

Other fee revenue and stockbroking revenue from the rendering of services are recognised as a performance obligation satisfied over time.

#### (iii) Finance income

Finance income comprises interest income on funds invested (including financial assets at fair value through OCI), dividend income, gains on the divestment of financial assets at fair value through OCI and changes in the fair value of financial assets at fair value through profit or loss. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the IOOF Group's right to receive payment is established, which in the case of quoted securities is the ex-dividend date.

# Notes to the financial statements

For the year ended 30 June 2020

## 2-4 Expenses

|   | Policy note | 2020             | 2019             |
|---|-------------|------------------|------------------|
|   |             | \$'000           | \$'000           |
| <b>Service fees and other direct costs</b>                        | (i)         |                  |                  |
| Service and marketing fees expense                                |             | 529,585          | 442,098          |
| Stockbroking service fees expense                                 |             | 1,241            | 1,285            |
| Other direct costs  |             | 36,309           | 25,303           |
|   |             | 567,135          | 468,686          |
| <b>Operating expenditure</b>                                      |             |                  |                  |
| Salaries and related employee expenses (excluding superannuation) | (ii)        | 266,684          | 195,321          |
| Employee defined contribution plan expense                        | (ii)        | 18,525           | 15,139           |
| Information technology costs                                      |             | 39,787           | 36,619           |
| Professional fees   |             | 17,305           | 9,695            |
| Marketing   |             | 9,342            | 10,602           |
| Office support and administration                                 |             | 21,341           | 15,651           |
| Occupancy related expenses  |             | 6,788            | 18,109           |
| Travel and entertainment  |             | 4,594            | 6,020            |
| Other   |             | 16               | 67               |
|   |             | 384,382          | 307,223          |
| <b>Other expenses</b>   |             |                  |                  |
| Share-based payments expense                                      | (iii)       | 2,932            | 4,797            |
| Acquisition costs – Acquisition advisory                          |             | 6,010            | 2,488            |
| Acquisition costs – Integration preparation                       |             | 24,955           | 20,766           |
| Acquisition costs – Finance costs                                 |             | 65               | 416              |
| Termination payments  | (iv)        | 2,865            | 2,043            |
| Depreciation of property and equipment                            |             | 23,187           | 8,362            |
| Amortisation of intangible assets                                 | (v)         | 36,749           | 37,645           |
| Amortisation of intangible assets – IT development                | (v)         | 812              | 715              |
| Deferred acquisition costs  | (vi)        | 73               | 173              |
| Non-recurring professional fees                                   |             | 6,426            | 2,027            |
| Governance uplift   |             | 4,461            | –                |
| IOOF AL remediation costs   |             | 1,511            | 235,278          |
| Impairment of goodwill  |             | 4,344            | –                |
| Other   |             | 1,444            | 875              |
|   |             | 115,834          | 315,585          |
| <b>Total expenses</b>   |             | <b>1,067,351</b> | <b>1,091,494</b> |

## Accounting policies

Expenses are recognised at the fair value of the consideration paid or payable for services received, further specific expense policies are listed below:

### (i) Service fees and other direct costs

Service fees and other direct costs include amounts paid to advisers, dealer groups and other suppliers in the course of operating and marketing products and services of the IOOF Group. Examples of direct costs include custodian fees, audit services and the printing and mailing of client statements and other communications. The values are recognised at the fair value of the consideration paid or payable for the goods or services received.

### (ii) Salaries and related employee expenses

These entitlements include salaries, wages, superannuation, bonuses, overtime, allowances, annual and long service leave, but exclude share-based payments. The accounting policies for the four major expense categories under this definition are as follows.

### Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

A liability is recognised for the amount expected to be paid if the IOOF Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### Short-term incentive plans

A provision for employee benefits in the form of an incentive plan is recognised when there is no realistic alternative but to settle the liability, and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

## Annual and long service leave benefits

The IOOF Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior years plus related on-costs.

Liabilities for long-term benefits that are expected to be settled beyond 12 months are discounted using rates attaching to high quality corporate bonds which most closely match the terms of maturity of the related liabilities at balance date.

In determining the liability for employee entitlements, consideration is given to future increases in wage and salary rates, experience with employee departures and years of service.

### Employee defined contribution plan expense

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised in profit or loss in the years during which services are rendered by employees. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

### (iii) Share-based payments expense

The grant date fair value of share-based payment awards granted to employees is recognised as a share-based payment expense, with a corresponding increase in the share-based payments reserve, over the year that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.



# Notes to the financial statements

For the year ended 30 June 2020

The fair value at grant date is independently determined where considered appropriate.

Shares held by the IOOF Equity Plans Trust will contribute to the employee allocation of shares on satisfaction of vesting performance hurdles. The IOOF Group has no right to recall placed shares. However, a subsidiary company acts as the Trustee of the Trust, and can direct the voting rights of shares held and strategic direction.

Further information is include in Note 6-2.

## **(iv) Termination payments**

Termination benefits or redundancy costs are recognised as an expense when the IOOF Group is committed demonstrably to a formal detailed plan without possibility of withdrawal, or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

## **(v) Amortisation and impairment**

The value of intangible assets, with the exception of goodwill and brand names with indefinite useful lives, reduces over the number of years the IOOF Group expects to use the asset, the useful economic life, via an annual amortisation charge to profit and loss. The values and useful lives ascribed are reflective of arms-length transactions and independent expert advice thereon.

Where there has been a technological change or decline in business performance, amongst other impairment indicators, the Directors review the value of assets to ensure they have not fallen below their carrying value. Should an asset's value fall below its carrying value an additional one-off impairment charge is made against profit.

## **(vi) Deferred acquisition costs**

Deferred acquisition costs relate to service fees paid, and are deferred as an asset in recognition that they relate to a future economic benefit. Deferred acquisition costs are initially measured at historical cost and are written down immediately to their recoverable amount if the carrying amount is greater than its estimated recoverable amount.

Deferred acquisition costs are progressively amortised in profit or loss by a systematic allocation over the years the future economic benefits are expected to be received.

The amortisation period is between 5 and 7 years.

## 2-5 Net cash provided by operating activities

Cash includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash.

This note reconciles the operating profit to the cash provided by operating activities per the cash flow statement.

|  | 2020           | 2019           |
|--|----------------|----------------|
|  | \$'000         | \$'000         |
| Profit for the year  | 148,405        | 33,407         |
| Depreciation of property and equipment                               | 24,507         | 9,045          |
| Amortisation of intangible assets                                    | 37,935         | 39,919         |
| Impairment of goodwill   | 4,344          | 9,490          |
| Impairment of other non-current assets                               | 550            | 14,759         |
| Loss/(profit) on divestment of assets                                | (106)          | (109)          |
| Profit on divestment of subsidiary                                   | (84,325)       | (48,959)       |
| Interest and other costs of finance                                  | 14,338         | 12,884         |
| Interest received and receivable                                     | (1,953)        | (5,516)        |
| Dividends and distributions received and receivable                  | (1,473)        | (1,238)        |
| Dividends received from associates                                   | 351            | 358            |
| Share of profits of associates accounted for using the equity method | (565)          | (986)          |
| Share-based payments expense   | 2,932          | 4,828          |
| Acquisition transition costs   | 31,030         | 23,670         |
| Other  | (740)          | (111)          |
| Changes in net operating assets and liabilities:                     |                |                |
| (Increase)/decrease in receivables                                   | (84,636)       | (2,422)        |
| (Increase)/decrease in other assets                                  | (944)          | (13,429)       |
| (Increase)/decrease in other financial assets                        | 20,972         | (2,243)        |
| (Increase)/decrease in deferred acquisition costs                    | 191            | 370            |
| Increase/(decrease) in payables                                      | 8,872          | 2,134          |
| Increase/(decrease) in deferred revenue liabilities                  | (189)          | (292)          |
| Increase/(decrease) in provisions                                    | 66,315         | 190,230        |
| Increase/(decrease) in income tax payable                            | (8,317)        | (93,418)       |
| Increase/(decrease) in policyholder liabilities                      | (12,196)       | 7,889          |
| Increase/(decrease) in other liabilities                             | -              | 218            |
| Increase/(decrease) in deferred taxes                                | (19,866)       | (8,295)        |
| <b>Net cash provided by operating activities</b>                     | <b>145,432</b> | <b>172,183</b> |

# Notes to the financial statements

For the year ended 30 June 2020

## 2-6 Income taxes

|   | 2020          | 2019            |
|---|---------------|-----------------|
|   | \$'000        | \$'000          |
| <b>Current tax expense</b>  |               |                 |
| Current year  | 42,887        | 65,058          |
| Adjustment for prior years  | (668)         | (93)            |
| Taxable losses not recognised   | 126           | 47              |
|   | 42,345        | 65,012          |
| <b>Deferred tax expense</b>   |               |                 |
| Origination and reversal of temporary differences   | (14,602)      | (80,397)        |
| Adjustments recognised in the current year in relation to the deferred tax of prior years | 425           | (32)            |
| Recognition of tax losses and deferred tax balances                                       | 44            | (172)           |
|   | (14,133)      | (80,601)        |
| <b>Total income tax (benefit)/expense</b>   | <b>28,212</b> | <b>(15,589)</b> |

| Income tax recognised in other comprehensive income    | 2020       |             |            | 2019       |             |            |
|--|------------|-------------|------------|------------|-------------|------------|
|  | \$'000     |             |            | \$'000     |             |            |
|  | Before tax | Tax expense | Net of tax | Before tax | Tax expense | Net of tax |
| Financial assets through OCI                           | 95,677     | (28,703)    | 66,975     | 7,888      | (2,366)     | 5,522      |
| Exchange differences on translating foreign operations | (50)       | (8)         | (58)       | (6)        | (8)         | (14)       |
|  | 95,627     | (28,711)    | 66,917     | 7,882      | (2,374)     | 5,508      |

|   | 2020         |               | 2019         |                 |
|---|--------------|---------------|--------------|-----------------|
|   | %            | \$'000        | %            | \$'000          |
| <b>Reconciliation of effective tax rate</b>         |              |               |              |                 |
| Profit/(Loss) before tax from continuing operations |              | 86,841        |              | (45,582)        |
| Tax using the IOOF Group's domestic tax rate        | 30.0%        | 26,052        | 30.0%        | (13,538)        |
| <b>Tax effect of:</b>                               |              |               |              |                 |
| Share of tax credits with statutory funds           | 1.7%         | 1,489         | (2.2%)       | 982             |
| (Non-assessable income)/Non-deductible expenses     | 0.8%         | 718           | 3.0%         | (1,381)         |
| Impairment of goodwill                              | 1.5%         | 1,303         | – %          | –               |
| Share of profits of associates                      | 0.2%         | 144           | 0.0%         | (9)             |
| Assessable associate and subsidiary dividends       | 0.2%         | 216           | (0.1%)       | 65              |
| Revenue tax loss not recognised                     | 0.1%         | 126           | (0.1%)       | 47              |
| Imputation and foreign tax credits                  | (0.7%)       | (613)         | 1.1%         | (516)           |
| Recognition of deferred tax balances                | 0.1%         | 44            | 0.4%         | (172)           |
| Other   | (1.2%)       | (1,023)       | 2.0%         | (907)           |
| Under/(over) provided in prior years                | (0.3%)       | (244)         | 0.4%         | (160)           |
|   | <b>32.5%</b> | <b>28,212</b> | <b>34.5%</b> | <b>(15,589)</b> |

For statutory reporting purposes, IOOF Group had an effective tax rate of 32.5% on its continuing operations for the year ended 30 June 2020 (2019: 34.5%) compared to a statutory corporate tax rate of 30%. This rate difference is primarily due to impairment of goodwill, research and development (R&D) tax offsets, and tax offsets for fully franked dividend income, prior period amendments, and non-deductible subsidiary acquisition costs. For the year ended 30 June 2019, the rate difference was primarily due to impairment of goodwill, research and development (R&D) tax offsets, tax offsets for fully franked dividend income, prior period amendments and non-deductible subsidiary acquisition costs. Excluding these items the IOOF Group's effective tax rate would be 30% across both periods.

|  | 2020          | 2019           |
|--|---------------|----------------|
|  | \$'000        | \$'000         |
| <b>Deferred tax assets and liabilities</b>   |               |                |
| <b>Deferred tax asset balance comprises temporary differences attributable to:</b>     |               |                |
| Salaries and related employee expenses   | 20,838        | 17,758         |
| Provisions, accruals and creditors   | 206,995       | 121,625        |
| Carry forward capital and revenue losses   | 9,854         | 94             |
| Capital gains on disposal of subsidiaries  | 21            | 9,679          |
| Right of use lease liability   | 32,735        | –              |
| Other  | 1,524         | 2,056          |
| Deferred tax asset balance as at 30 June   | 271,967       | 151,212        |
| Set-off of deferred tax liabilities pursuant to set-off provisions                     | (222,229)     | (151,212)      |
| <b>Net deferred tax asset balance as at 30 June</b>                                    | <b>49,738</b> | <b>–</b>       |
| <b>Deferred tax liability balance comprises temporary differences attributable to:</b> |               |                |
| Unrealised gains – corporate   | 38,642        | 9,951          |
| Unrealised gains – statutory*  | (6,740)       | 8,612          |
| Customer relationships   | 79,689        | 88,166         |
| Property and equipment   | 28,292        | (964)          |
| Customer remediation indemnity   | 64,730        | 50,643         |
| Other  | 17,616        | 699            |
| Deferred tax liability balance as at 30 June   | 222,229       | 157,107        |
| Set-off of deferred tax assets pursuant to set-off provisions                          | (222,229)     | (151,212)      |
| <b>Net deferred tax liability balance as at 30 June</b>                                | <b>–</b>      | <b>5,895</b>   |
| <b>Reconciliation of movements</b>   |               |                |
| Net carrying amounts at the beginning of the year                                      | (5,895)       | (73,756)       |
| Acquisitions and divestments   | 67,062        | 696            |
| Credited/(charged) to profit or loss   | 14,132        | 80,601         |
| Credited/(charged) to profit or loss – statutory*                                      | 15,352        | (4,111)        |
| Temporary differences directly attributable to equity                                  | (28,692)      | (2,361)        |
| Discontinued operations  | (12,221)      | (4,341)        |
| Reclassification to held for sale  | –             | (2,623)        |
| <b>Carrying amount at the end of the year</b>  | <b>49,738</b> | <b>(5,895)</b> |
| Unrecognised deferred tax assets   |               |                |
| Tax losses   | 5,325         | 4,905          |
| <b>Potential tax benefit at the Australian tax rate of 30%</b>                         | <b>1,598</b>  | <b>1,472</b>   |

\* A subsidiary of the Company, IOOF Ltd, is a friendly society in accordance with the Life Insurance Act 1995. The funds operated by IOOF Ltd, and any trusts controlled by those funds, are treated as statutory funds in accordance with the Life Insurance Act 1995. These statutory funds are required to be consolidated in accordance with accounting standards.

# Notes to the financial statements

For the year ended 30 June 2020

## Accounting policies

### Income tax

Income tax comprises current and deferred tax. Current and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

### Current tax

Current tax is the expected tax payable or receivable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax also includes any tax arising from dividends.

Current tax assets and liabilities are offset only if certain criteria are met.

### Deferred tax

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and associates to the extent that the IOOF Group is able to control the timing of the reversal of the temporary differences and it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when deferred tax balances relate to the same taxation authority.

### Tax consolidation

IOOF Holdings Ltd and its wholly owned Australian resident entities (including IOOF Ltd benefit funds) are part of a tax-consolidated group under Australian taxation law. As a consequence, all members of the tax-consolidated group are taxed as a single entity.

## Tax transparency

The IOOF Group is committed to tax transparency and integrity. It has been a signatory to the Board of Taxation's Voluntary Tax Transparency Code (the Code), since January 2017.

The Code is a set of principles and 'minimum standards' to guide disclosure of tax information by businesses, encourage those businesses to avoid aggressive tax planning, and to help educate the public about their compliance with Australia's tax laws.

The IOOF Group provides a reconciliation of accounting profit to tax expense, and to income tax paid/payable including identification of material temporary and non-temporary differences and accounting effective company tax rates for the IOOF Group's Australian and global operations.

## Information about international related party dealings

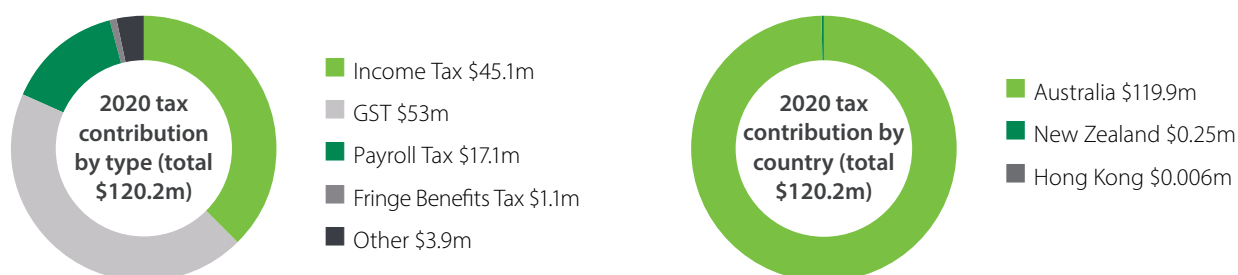
The IOOF Group has previously conducted foreign activities in New Zealand, via IOOF New Zealand, and in Hong Kong, via share broking business, Ord Minnett (now both discontinued operations). Each of those entities is subject to the local tax regime. Related party dealings between the IOOF Group's Australian and foreign jurisdictions are supported by transfer pricing documentation.

## Approach to tax strategy and governance

Tax governance is part of the IOOF Group's overall risk management framework, as well as being part of an overall tax strategy. The overall tax strategy drives the IOOF Group's approach to tax risk management and is aimed at good corporate tax compliance and reporting, ability to meet and be prepared for regulatory changes, and in ensuring shareholder value. Tax governance is continuously monitored and in line with the IOOF Group's strategy. The IOOF Group regards its relationship with the ATO as effective and open thereby maintaining transparency and collaboration.

## Tax contribution analysis

The IOOF Group contributed a total of \$120.2m (2019: \$160.6m) in taxes to Australian, New Zealand and Hong Kong governments (state and federal) in the 2020 tax year. \$119.9m or 99.75% (2019: \$160.2m or 99.75%) of this amount was attributable to the Australian Government. The below tables provide an analysis of the types of taxes the IOOF Group is liable for and those payable in Australia versus those in foreign jurisdictions.



Further taxes paid by the IOOF Group on behalf of others, including employees and members, are not directly borne by the IOOF Group. These include income tax, GST, pay-as-you-earn withholding taxes, and local duties, which total a further \$95m (2019: \$133m).

## 2-7 Dividends

After 30 June 2020 the following fully franked dividends were declared by the directors. The dividends have not been provided for and there are no income tax consequences.

|                     | Cents per share | Total  | Date of payment   | Franked/unfranked |
|---------------------|-----------------|--------|-------------------|-------------------|
|                     |                 | \$'000 |                   |                   |
| Final 2020 dividend | 11.5            | 40,374 | 22 September 2020 | Franked           |

|   | 2020          | 2019          |
|---|---------------|---------------|
|   | \$'000        | \$'000        |
| Dividend franking account   |               |               |
| <b>30 per cent franking credits available to shareholders of IOOF Holdings Ltd for subsequent financial years</b> | <b>73,263</b> | <b>93,032</b> |

The above available amounts are based on the balance of the dividend franking account at year-end adjusted for:

- franking credits that will arise from the payment of the current tax liabilities; and
- franking credits that the IOOF Group may be prevented from distributing in subsequent years.

The ability to utilise the franking credits is dependent upon there being sufficient available profits to declare dividends. The impact on the dividend franking account of dividends declared after the balance date but not recognised as a liability is to reduce it by \$17,303,000 (2019: \$28,587,000).

The following dividends were declared and paid by the IOOF Group during the current and preceding financial year:

|                       | Cents per share | Total          | Date of payment | Franked/unfranked |
|-----------------------|-----------------|----------------|-----------------|-------------------|
|                       |                 | \$'000         |                 |                   |
| <b>2020</b>           |                 |                |                 |                   |
| Interim 2020 dividend | 16.0            | 56,172         | 16-Mar-20       | Franked           |
| Special 2020 dividend | 7.0             | 24,575         | 27-Sep-19       | Franked           |
| Final 2019 dividend   | 12.0            | 42,129         | 27-Sep-19       | Franked           |
|                       | <b>35.0</b>     | <b>122,876</b> |                 |                   |
| <b>2019</b>           |                 |                |                 |                   |
| Interim 2019 dividend | 25.5            | 89,524         | 15-Mar-19       | Franked           |
| Final 2018 dividend   | 27.0            | 94,791         | 4-Sep-18        | Franked           |
|                       | <b>52.5</b>     | <b>184,315</b> |                 |                   |

The total dividends declared relating to earnings for the year ended 30 June 2020 amounted to 34.5 cents per share (2019: 37.5 cents per share).

Franked dividends declared or paid during the year were franked at the tax rate of 30 per cent.

Dividend amounts shown are inclusive of any dividends paid on treasury shares.

# Notes to the financial statements

For the year ended 30 June 2020

## 2-8 Earnings per share

|   | 2020            | 2019            |
|---|-----------------|-----------------|
|   | Cents per share | Cents per share |
| <b>Basic earnings per share</b>         |                 |                 |
| From continuing operations              | 16.8            | (8.5)           |
| From discontinued operations            | 25.2            | 16.7            |
| <b>Total basic earnings per share</b>   | <b>42.0</b>     | <b>8.1</b>      |
| <b>Diluted earnings per share</b>       |                 |                 |
| From continuing operations              | 16.8            | (8.5)           |
| From discontinued operations            | 25.1            | 16.6            |
| <b>Total diluted earnings per share</b> | <b>41.9</b>     | <b>8.1</b>      |

### Basic and diluted earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic and diluted earnings per share are as follows:

|  | 2020          | 2019            |
|--|---------------|-----------------|
|  | \$'000        | \$'000          |
| Profit for the year attributable to owners of the Company  | 146,964       | 28,560          |
| Earnings used in the calculation of basic and diluted EPS  | 146,964       | 28,560          |
| Profit for the year from discontinued operations used in the calculation of basic and diluted EPS from discontinued operations | 88,166        | 58,374          |
| <b>Earnings used in the calculation of basic and diluted EPS from continuing operations</b>                                    | <b>58,798</b> | <b>(29,814)</b> |

|   | 2020           | 2019           |
|---|----------------|----------------|
|   | No. '000       | No. '000       |
| <b>Weighted average number of ordinary shares</b>           |                |                |
| Weighted average number of ordinary shares (basic)          | 350,122        | 350,456        |
| Effect of unvested performance rights                       | 681            | 982            |
| <b>Weighted average number of ordinary shares (diluted)</b> | <b>350,803</b> | <b>351,438</b> |

### Accounting policies

The IOOF Group presents basic and diluted earnings per share data for its ordinary shares. Basic earnings per share is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the year, adjusted for treasury shares held.

Diluted earnings per share is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, adjusted for treasury shares held, for the effects of all dilutive potential ordinary shares, which comprise performance rights and share options granted to employees.

At 30 June 2020, there were no options outstanding (2019: nil).

The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the year.



## Section 3 – Capital management and financing

This section outlines how the IOOF Group manages its capital structure and related financing costs, including its balance sheet liquidity and access to capital markets.

The IOOF Group's objectives when managing capital are to safeguard its ability to continue as a going concern, so that it can continue to provide returns to shareholders and benefits to other stakeholders, and to maintain an optimal structure to reduce the cost of capital.

### 3-1 Capital management

In order to maintain or adjust the capital structure, the IOOF Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, buy back its shares on market, issue new shares, sell assets, or otherwise adjust debt levels.

The IOOF Group monitors capital on the basis of investment capital, working capital and regulatory capital.

Investment capital is the IOOF Group's capital that is not required for regulatory and working capital requirements of the business. The investment capital is invested in:

- bank deposits and debt note;
- subsidiaries;
- financial assets at fair value through other comprehensive income;
- unit trusts, as investments; and
- IOOF Group operated unit trusts, as seed capital.

The investment capital is available to support the organic development of new businesses and products and to respond to investment and growth opportunities such as acquisitions, as they arise. Seed capital is primarily available to support the business in establishing new products and is also used to support capital adequacy requirements of the benefit funds.

Working capital is the capital that is required to meet the day to day operations of the business.

Regulatory capital is the capital which the IOOF Group is required to hold as determined by legislative and regulatory requirements in respect of its friendly society and financial services licensed operations. During the year, the IOOF Group has complied with all externally imposed capital requirements.

The Board of each operational subsidiary manages its own capital required to support planned business growth and meet regulatory requirements. Australian Prudential Regulation Authority (APRA) regulated subsidiaries have their own capital management plan which specifically addresses the regulatory requirements of that entity and sets a target surplus over minimum regulatory requirements. Regular monitoring of regulatory requirements ensures sufficient capital is available and appropriate planning is made to retain target surpluses. IOOF Holdings Ltd is primarily the provider of equity capital to its subsidiaries. Such investment is funded by

IOOF Holdings Ltd's own investment capital, through capital issues, profit retention and, in some instances, by debt.

Subsidiary capital generated in excess of planned requirements is returned to IOOF Holdings Ltd, usually by way of dividends.

A standby facility is in place as a safeguard against a temporary need for funds and to provide a short term funding facility that allows the business to take advantage of acquisition opportunities as they arise. The weighted average cost of capital is regularly monitored. Funding decisions take into consideration the cost of debt versus the cost of equity with emphasis on the outcome that is best for shareholder interests.

The IOOF Group's capital risk management strategy was not changed during the year.

Further information in relation to capital adequacy requirements imposed by the Life Insurance Act is provided in section 5-4 Capital adequacy position.

### 3-2 Borrowings

This note provides information about the contractual terms of the IOOF Group's interest-bearing borrowings, which are measured at amortised cost.

For more information about the IOOF Group's exposure to interest rate and liquidity risk, see section 1-1 Risk management.

On 27 October 2019, the IOOF Group amended the Syndicated Facility Agreement (SFA) with lenders to reduce the available facilities to reflect the reduced consideration for the ANZ P&I business. The amended SFA consists of the following facilities:

- \$240m revolving cash advance facility with a 3 year repayment term from 27 September 2018 (being the SFA effective date).
- \$375m revolving cash advance facility with a 5 year repayment term from the SFA effective date.
- Multi-option facility with a 3 year repayment term from the SFA effective date, comprising a contingent liability facility.

The current interest-bearing borrowings have a debt duration profile of approximately 2.5 years (calculated on a facility limit basis).

# Notes to the financial statements

For the year ended 30 June 2020

The overall net debt to equity ratio stood at 25% at 30 June 2020 (30 June 2019: 0%) reflecting a net \$430.9m in borrowings (including lease liabilities), principally \$460m under the SFA. All banking covenants have been met at 30 June 2020.

Subsequent to the end of the financial year, the IOOF Group has renegotiated the terms of its borrowings. This has extended the repayment term of its 3 year facility to be a 4 year repayment term from the SFA effective date.

Proceeds from SFA borrowings were initially applied towards the subscription of a debt note with a face value of \$800m from ANZ. The debt note was redeemed on 31 January 2020 and applied against the consideration owing for the ANZ P&I businesses.

|   | 2020           | 2019           |
|---|----------------|----------------|
|   | \$'000         | \$'000         |
| Cash advance & working capital facility | 457,858        | 426,503        |
| Lease liabilities                       | 114,394        | –              |
| <b>Total 30 June</b>                    | <b>572,252</b> | <b>426,503</b> |

## (a) Cash advance & working capital facility

The unsecured cash advance facilities and working capital facility is provided under an Australian dollar line of credit facility, to which unrestricted access was available at balance date as follows:

|                          | 2020           | 2019           |
|--------------------------|----------------|----------------|
|                          | \$'000         | \$'000         |
| Total facilities         | 615,000        | 770,000        |
| Used at 30 June          | 460,000        | 430,000        |
| <b>Unused at 30 June</b> | <b>155,000</b> | <b>340,000</b> |

The financial liability under the facility has a fair value equal to its carrying amount.

|  | 2020           | 2019           |
|--|----------------|----------------|
|  | \$'000         | \$'000         |
| <b>Revolving Cash Advance Facility</b>   |                |                |
| Opening balance 1 July                   | 426,503        | –              |
| Net borrowings drawn/(repaid)            | 30,000         | 430,000        |
| Amortised capitalised establishment fees | 1,355          | (3,497)        |
| <b>Closing balance 30 June</b>           | <b>457,858</b> | <b>426,503</b> |

## (b) Lease liabilities

|   | 2020           | 2019     |
|---|----------------|----------|
|   | \$'000         | \$'000   |
| <b>Lease liabilities</b>                            |                |          |
| Opening balance 1 July                              | –              | –        |
| Lease liabilities recognised on adoption of AASB 16 | 81,750         | –        |
| Net lease liabilities acquired/(repaid)             | 35,459         | –        |
| Interest charge                                     | (2,815)        | –        |
| <b>Closing balance 30 June</b>                      | <b>114,394</b> | <b>–</b> |

## (c) Other facilities

In addition to the revolving cash advance and working capital facilities, the IOOF Group has additional contingent liability facilities. The aggregate of the contingent liability facilities is \$55m (2019: \$71.3m) of which \$51.9m was used at 30 June 2020 (30 June 2019: \$67.8m).

## Accounting policies

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets.

Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

### 3-3 Share capital

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

|  | 2020             | 2019             |
|--|------------------|------------------|
|  | \$'000           | \$'000           |
| 351,076,027 fully paid ordinary shares (2019: 351,076,027) | 1,970,847        | 1,970,999        |
| 861,715 treasury shares (2019: 1,237,144)                  | (5,023)          | (7,890)          |
|  | <b>1,965,824</b> | <b>1,963,109</b> |

|  | 2020           |                  | 2019           |                  |
|--|----------------|------------------|----------------|------------------|
|  | No. '000       | \$'000           | No. '000       | \$'000           |
| <b>Ordinary shares</b>   |                |                  |                |                  |
| On issue at 1 July   | 351,076        | 1,970,999        | 351,076        | 1,971,648        |
| Transfer from employee equity-settled benefits reserve on exercise of performance rights | –              | 2,715            | –              | 4,000            |
| Treasury shares transferred to recipients during the year                                | –              | (2,867)          | –              | (4,649)          |
| On issue at 30 June  | 351,076        | 1,970,847        | 351,076        | 1,970,999        |
| <b>Treasury shares</b>   |                |                  |                |                  |
| On issue at 1 July   | (1,237)        | (7,890)          | (485)          | (4,625)          |
| Purchase of treasury shares  | –              | –                | (1,240)        | (7,914)          |
| Treasury shares transferred to recipients during the year                                | 447            | 3,558            | 488            | 4,649            |
| Treasury shares returned from recipients during the year                                 | (72)           | (691)            | –              | –                |
| On issue at 30 June  | (862)          | (5,023)          | (1,237)        | (7,890)          |
|  | <b>350,214</b> | <b>1,965,824</b> | <b>349,839</b> | <b>1,963,109</b> |

## Accounting policies

### Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares and share options are shown in equity as a deduction, net of any tax effects.

### Treasury shares

Shares in the Company which are purchased on-market by the IOOF Equity Plans Trust are classified as treasury shares and are deducted from share capital. Treasury shares are excluded from the weighted average number of ordinary shares used in the earnings per share calculations. The IOOF Equity Plans Trust is controlled by the IOOF Group and is therefore consolidated. Dividends received on treasury shares are eliminated on consolidation.

# Notes to the financial statements

For the year ended 30 June 2020

## 3-4 Capital commitments and contingencies

The only capital commitments entered into by the IOOF Group are operating lease commitments disclosed in section 4-6 Leases.

### Other commitments

|  | 2020          | 2019          |
|--|---------------|---------------|
|  | \$'000        | \$'000        |
| <b>Guarantees and underwriting commitments</b> |               |               |
| Rental bond guarantees                         | 18,267        | 10,773        |
| ASX settlement bond guarantee                  | –             | 500           |
| ASIC bond guarantees                           | –             | 40            |
| Other guarantees                               | 382           | 454           |
|  | <b>18,649</b> | <b>11,767</b> |

Two subsidiaries of the IOOF Group have contractual agreements with its planners to provide a put option “Buyer of Last Resort Facility” should a planner wish to sell their business and on the satisfaction of certain specific requirements. The terms and conditions provide that where the specific requirements have been met, a predetermined purchase price will be payable for the business as agreed by all parties over a predetermined period. Where certain terms and conditions have not been met, the predetermined purchase price will be discounted accordingly. As at 30 June 2020, the IOOF Group had received requests from planners which satisfied requirements to exercise its obligation. The resale value of such businesses purchased may differ from the cost to the IOOF Group. Where confirmation notices have been received, the IOOF Group has a fixed obligation to purchase the businesses at market value, the aggregate value of this fixed obligation is \$5.32m (2019: \$3.00m).

Contingent liabilities of the IOOF Group exist in relation to claims and/or possible claims which, at the date of signing these accounts, have not been resolved. For example, on 28 February 2020 IOOF Group was served with a class action proceeding filed by Shine Lawyers in the Federal Court of Australia on behalf of certain shareholders of IOOF – please refer to the ASX announcement on that date for further information. An assessment of the likely loss to the Company and its controlled entities has been made in respect of the identified claims, on a claim by claim basis, and specific provision has been made where appropriate. The IOOF Group does not consider that the outcome of any other current proceedings, either individually or in aggregate, is likely to materially affect its operations or financial position.

## 3-5 Reserves

|   | 2020          | 2019          |
|---|---------------|---------------|
|   | \$'000        | \$'000        |
| Equity investment revaluation reserve <sup>(i)</sup>  | 91,300        | 24,326        |
| Business combinations reserve <sup>(ii)</sup>         | (326)         | (326)         |
| Foreign currency translation reserve <sup>(iii)</sup> | (27)          | 30            |
| Operating risk financial reserve <sup>(iv)</sup>      | 2,655         | 2,655         |
| Share-based payments reserve <sup>(v)</sup>           | (2,330)       | (1,460)       |
|   | <b>91,272</b> | <b>25,225</b> |

### Nature and purpose of reserves

- (i) Equity investment revaluation reserve comprises the cumulative net change in fair value of equity securities designated at FVOCI, net of tax.
- (ii) Business combinations reserve reflects historic acquisitions of non-controlling interests, net of tax.
- (iii) Foreign currency translation reserve comprises foreign currency differences arising from the translation of the financial statements of the IOOF Group's foreign operations, net of tax.
- (iv) The operating risk financial reserve is held for certain superannuation products that were previously held under Australian Executor Trustees Limited and have been transferred to I.O.O.F. Investment Management Limited as Superannuation Trustee in the prior year. Other similar reserves exist within the IOOF Group, however these are generally held by the relevant funds.
- (v) The equity-settled employee benefits reserve arises on the grant of performance rights and share options to executives and senior employees under the employee share plan. Amounts are transferred out of the reserve and into issued capital when the shares are transferred to employees.

## Section 4 – Operating assets and liabilities

This section shows the assets used to generate the IOOF Group's trading performance and the liabilities incurred as a result. Liabilities relating to the IOOF Group's financing activities are addressed in Section 3.

### 4-1 Associates

Associates are those entities over which the IOOF Group has significant influence, but not control, over the financial and operating policies.

The IOOF Group has interests in a number of associates. For one of these associates, Perennial Value Management Limited, the IOOF Group owned 52.4% of the equity interests in 2019 but had 42.4% of the voting rights and dividend entitlements. The IOOF Group determined that it did not have control but had significant influence because it had representation on the board of the investee. This investment was divested on 10 October 2019.

In addition, the IOOF Group owns 56.7% (2019: 56.7%) of the equity interests of Thornton Group (SA) Pty Ltd. The IOOF Group has determined that it does not have control of this investee as it has no controlling interest over the appointment of the Board and as a result does not have power over the investee to direct its operations.

The IOOF Group owns 10.7% (2019: 12.1%) of the equity interests of Grow Super. Despite not owning 20%, the Group has determined that it has significant influence because it has representation on the board of the investee and participates in management decisions.

The table below discloses material associates individually:

| Associate                       | Country of incorporation | Ownership interest |      | Carrying value |               | IOOF Group's share of profit/(loss) |           |
|---------------------------------|--------------------------|--------------------|------|----------------|---------------|-------------------------------------|-----------|
|                                 |                          | 2020               | 2019 | 2020           | 2019          | 2020                                | 2019      |
|                                 |                          | %                  | %    | \$'000         | \$'000        | \$'000                              | \$'000    |
| Perennial Value Management Ltd* | Australia                | –                  | 52.4 | –              | 6,800         | –                                   | –         |
| Thornton Group (SA) Pty Ltd     | Australia                | 56.7               | 56.7 | 6,179          | 6,129         | 180                                 | 127       |
| Grow Super                      | Australia                | 10.7               | 12.1 | 3,789          | 4,155         | (866)                               | (298)     |
| Other associates                |                          |                    |      | 2,978          | 4,425         | 207                                 | 201       |
|                                 |                          |                    |      | <b>12,946</b>  | <b>21,509</b> | <b>(479)</b>                        | <b>30</b> |

\* Investment was divested in the current year. Share of profit of \$1,043 thousand (2019: \$956 thousand) has been reclassified to discontinued operations.

All significant associates have a 30 June financial year end.

The following table summarises the 2019 financial information of the IOOF Group's material associate, Perennial Value Management Limited, as included in its own financial statements. All fair values and accounting policies are consistent with those of the IOOF Group. This investment was divested on 10 October 2019.

# Notes to the financial statements

For the year ended 30 June 2020

|  | 2020        | 2019          |
|--|-------------|---------------|
|  | \$'000      | \$'000        |
| <b>Beneficial ownership interest</b>                                 | <b>0.0%</b> | <b>42.4%</b>  |
| Current assets   | –           | 19,477        |
| Non-current assets   | –           | 8,219         |
| Current liabilities  | –           | (7,050)       |
| Non-current liabilities  | –           | (361)         |
| <b>Net assets (100%)</b>   | <b>–</b>    | <b>20,285</b> |
| IOOF Group's share of net assets (42.4%)                             | –           | 8,591         |
| IOOF Group's share of movements in equity and other reserves (42.4%) | –           | (1,791)       |
| Goodwill   | –           | –             |
| <b>Carrying value of interest in associate</b>                       | <b>–</b>    | <b>6,800</b>  |
| Revenue (100%)   | –           | 24,787        |
| Profit and total comprehensive income (100%)                         | –           | 2,258         |
| Profit and total comprehensive income (42.4%)                        | –           | 956           |
| <b>Total profit and total comprehensive income (42.4%)</b>           | <b>–</b>    | <b>956</b>    |
| Dividends received by the IOOF Group                                 | –           | –             |

None of the IOOF Group's equity-accounted investees are publicly listed entities and consequently do not have published price quotations.

## Dividends received from associates

During the year, the IOOF Group has received dividends of \$351,000 (2019: \$358,000) from its associates.

## Accounting policies

Interests in associates are accounted for using the equity method. They are initially recognised at cost, which includes any transaction costs. Subsequent to initial recognition, the consolidated financial statements include the IOOF Group's share of the profit or loss and other comprehensive income of the associates, until the date on which significant influence ceases.

## 4-2 Intangible assets (other than goodwill)

|                          | 2020           | 2019           |
|--------------------------|----------------|----------------|
|                          | \$'000         | \$'000         |
| Cost                     | 667,577        | 652,248        |
| Accumulated amortisation | (323,619)      | (287,541)      |
|                          | <b>343,958</b> | <b>364,707</b> |

|  | IT development | Computer software | Customer relationships | Brand names   | Other intangibles | Total          |
|--|----------------|-------------------|------------------------|---------------|-------------------|----------------|
|  | \$'000         | \$'000            | \$'000                 | \$'000        | \$'000            | \$'000         |
| <b>Carrying value at 1 July 2018</b>                         | 1,284          | 4,267             | 331,936                | 66,945        | 3,878             | 408,310        |
| Acquisition through business combination                     | –              | –                 | 1,382                  | –             | –                 | 1,382          |
| Additions  | 1,654          | 1                 | 33                     | –             | 3,070             | 4,758          |
| Divestments  | –              | (9)               | (260)                  | –             | –                 | (269)          |
| Amortisation expense attributable to continuing operations   | (715)          | (909)             | (34,534)               | (801)         | (1,401)           | (38,360)       |
| Amortisation expense attributable to discontinued operations | –              | (44)              | (1,515)                | –             | –                 | (1,559)        |
| Reclassification to held for sale                            | –              | (24)              | (2,758)                | (6,773)       | –                 | (9,555)        |
| <b>Carrying value at 30 June 2019</b>                        | <b>2,223</b>   | <b>3,282</b>      | <b>294,284</b>         | <b>59,371</b> | <b>5,547</b>      | <b>364,707</b> |
| Acquisition through business combination                     | –              | –                 | 5,031                  | –             | –                 | 5,031          |
| Additions  | 1,490          | 33                | –                      | –             | 10,839            | 12,362         |
| Divestments  | –              | (7)               | –                      | –             | –                 | (7)            |
| Impairment   | –              | –                 | (343)                  | –             | (207)             | (550)          |
| Amortisation expense attributable to continuing operations   | (812)          | (913)             | (33,735)               | (801)         | (1,300)           | (37,561)       |
| Amortisation expense attributable to discontinued operations | –              | (24)              | –                      | –             | –                 | (24)           |
| <b>Carrying value at 30 June 2020</b>                        | <b>2,901</b>   | <b>2,371</b>      | <b>265,237</b>         | <b>58,570</b> | <b>14,879</b>     | <b>343,958</b> |

### Accounting policies

Intangible assets are non-physical assets used by the IOOF Group to generate revenues and profits. These assets include brand names, software, customer and adviser relationships and contractual arrangements. The cost of these assets is the amount that the IOOF Group has paid or, where there has been a business combination, the fair value of the specific intangible assets that could be sold separately or which arise from legal rights.

The value of intangible assets, with the exception of goodwill and brand names with indefinite useful lives, reduces over the number of years the IOOF Group expects to use the asset, the useful economic life, via an annual amortisation charge to profit and loss. The values and useful lives ascribed are reflective of arms-length transactions and independent expert advice thereon. Where there has been a technological change or decline in business performance the Directors review the value of assets to ensure they have not fallen below their carrying value. Should an asset's value fall below its carrying value an additional one-off impairment charge is made against profit.

### Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on brands, is recognised in profit or loss as incurred.

# Notes to the financial statements

For the year ended 30 June 2020

## Amortisation

Amortisation is charged to the income statement over the estimated useful lives of intangible assets unless such lives are judged to be indefinite. Indefinite life assets are not amortised but are tested for impairment at each reporting date. The estimated useful lives for the current and comparative years are as follows:

- brand names 20 years
- IT development 3 – 5 years
- computer software 2.5 – 10 years
- other 5 – 10 years
- customer relationships 10 – 20 years
- contract agreements 9 – 10 years

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

## Impairment testing for cash-generating units containing indefinite life intangible assets

For the purposes of impairment testing, indefinite life intangibles are allocated to the IOOF Group's operating divisions, or CGUs, which represent the lowest level within the IOOF Group at which intangible assets are monitored for internal management purposes.

Each CGU is not higher than the IOOF Group's operating segments as reported in Note 2-1 Operating segments.

In 2020, impairment has been recognised in relation to certain customer relationships and other intangible assets. Reduced cash flows associated with the customer relationships and other intangible assets led to their expected value in use and fair value less costs to sell declining to below the carrying value of the intangible assets.

## Indefinite life intangible assets (other than goodwill)

The indefinite life intangible assets (other than goodwill) relate to brand names. The below table excludes \$7.1m (2019: \$7.9m) of intangibles which have a finite life. The aggregate carrying amounts of indefinite-life intangible assets allocated to each CGU are as follows:

|           | 2020          | 2019          |
|-----------|---------------|---------------|
|           | \$'000        | \$'000        |
| Shadforth | 51,000        | 51,000        |
| Lonsdale  | 500           | 500           |
|           | <b>51,500</b> | <b>51,500</b> |

In designating brand names as indefinite life, consideration was given to the length of time the brand names have been in existence and it was determined that there is no foreseeable limit to the years over which the brand names are expected to generate net cash inflows for the IOOF Group.

The recoverable amount for the brand names have been determined based on a royalty savings method of calculating value in use. The calculation incorporates estimated costs of brand maintenance. The discount rate of 14.3% (2019: 13.3%) used reflects the IOOF Group's pre-tax nominal weighted average cost of capital (WACC). Management's assessment of indefinite life intangible value-in-use exceeds the value of the intangible asset allocated to the CGU, therefore any reasonably possible changes to assumptions used in management's assessment is not expected to result in impairment.



## 4-3 Goodwill

|  | 2020             | 2019           |
|--|------------------|----------------|
|  | \$'000           | \$'000         |
| Cost                                     | 1,693,817        | 1,030,321      |
| Accumulated impairment                   | (97,775)         | (93,430)       |
| <b>Net carrying value of goodwill</b>    | <b>1,596,042</b> | <b>936,891</b> |
| Carrying value at 1 July                 | 936,891          | 940,226        |
| Acquisition through business combination | 663,495          | 6,155          |
| Impairment of goodwill                   | (4,344)          | (9,490)        |
| <b>Carrying value at 30 June</b>         | <b>1,596,042</b> | <b>936,891</b> |

\* Purchase price allocation has not been completed for the acquisition of the ex-ANZ P&I businesses. The net asset adjustment is still being finalised in connection with this acquisition. Therefore, the goodwill acquired in this acquisition is provisional.

Impairment of \$4.3m has been recognised in 2020 in relation to goodwill allocated to the Consultum CGU (2019: impairment of \$9.5m in relation to goodwill allocated to Perennial Investment Partners Limited). Reduced profitability from lower revenue led to its expected fair value less costs to sell and value in use declining to below the carrying value of the goodwill balance.

### Accounting policies

Goodwill represents the future economic benefits that arise from assets that are not capable of being individually identified and separately recognised. Its cost is the amount the IOOF Group has paid in acquiring a business over and above the fair value of the individual assets and liabilities acquired. The value of goodwill is an 'intangible' value that comes from, for example, a uniquely strong market position and the productivity of its employees. The goodwill recognised by the IOOF Group has all arisen as a result of business combinations.

For the measurement of goodwill at initial recognition, see section 7-3(b)(i) Business combinations.

### Subsequent measurement

Goodwill is measured at cost less accumulated impairment losses. In respect of equity-accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment, and any impairment loss is allocated to the carrying amount of the equity accounted investee as a whole.

### Impairment testing for cash-generating units containing goodwill

As a result of the COVID-19 pandemic, assessing fair value as at the reporting date involves uncertainties around the underlying assumptions given the constantly changing nature and early stage of the situation. The length of time it will take the measures implemented by the Australian government to manage the effects of the COVID-19 pandemic on the broader economy and the global and domestic markets is still unknown.

For the purposes of impairment testing, goodwill is allocated to the IOOF Group's cash-generating units (CGUs). These represent the lowest level within the IOOF Group at which the goodwill is monitored for internal management purposes. Assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows from continuing use of other assets or groups of assets (the CGU).

These CGUs are not higher than the IOOF Group's operating segments as reported in 2-1 Operating segments.

# Notes to the financial statements

For the year ended 30 June 2020

The aggregate carrying amounts of goodwill allocated to each CGU are as follows:

|                                     | 2020             | 2019           | Value in Use element |                       |                         |
|-------------------------------------|------------------|----------------|----------------------|-----------------------|-------------------------|
|                                     |                  |                | Cash inflows yrs 1-5 | Cash outflows yrs 1-5 | Cash flows – perpetuity |
|                                     | \$'000           | \$'000         |                      |                       |                         |
| Ex-ANZ Wealth*                      | 659,822          | 80             | C                    | C                     | 2.0% growth from yr 5   |
| Shadforth                           | 431,191          | 431,191        | B                    | E                     | 2.0% growth from yr 5   |
| Portfolio and estate administration | 347,509          | 347,509        | B                    | E                     | 2.0% growth from yr 5   |
| DKN                                 | 80,339           | 80,339         | B                    | E                     | 2.0% growth from yr 5   |
| Multi manager                       | 39,735           | 39,735         | B                    | E                     | 2.0% growth from yr 5   |
| IOOF Ltd                            | 11,970           | 11,970         | D                    | D                     | 2.0% growth from yr 5   |
| Consultum                           | –                | 4,344          | A                    | E                     | 2.0% growth from yr 5   |
| Bridges                             | 5,703            | 1,950          | B                    | E                     | 2.0% growth from yr 5   |
| Australian Executor Trustees        | 19,773           | 19,773         | B                    | E                     | 2.0% growth from yr 5   |
|                                     | <b>1,596,042</b> | <b>936,891</b> |                      |                       |                         |

\* Purchase price allocation has not been completed for the acquisition of the ex-ANZ P&I businesses. The net asset adjustment is still being finalised in connection with this acquisition. Therefore, the goodwill acquired in this acquisition is provisional.

**A** Reserve Bank of Australia forecast GDP growth rate<sup>1</sup>

**B** Blended rate of the 2021 budgeted rates by asset class and business unit

**C** 2021-2023 budget for the ex-ANZ P&I businesses, inflated thereafter in accordance with note E below

**D** Observed Australian friendly societies annual compounding growth for March 2014 to March 2019<sup>2</sup>

**E** Blended rate of the underlying Australian forecast inflation levels and the applicable Reserve Bank of Australia GDP growth rate<sup>3</sup>

The recoverable amounts for goodwill allocated to all CGUs have been determined based on value-in-use calculations using 2020 actual balances to forecast 2021 and beyond cash flows. While the impacts of the COVID-19 pandemic on cash flows in the medium to long term are still uncertain, the assessment undertaken to determine the recoverable amount for goodwill allocated to all CGUs includes reduced forecast revenues for all CGUs and a COVID-19 specific alpha affecting the discounting of all future cash flows and the terminal values of CGUs.

The growth rates applied do not exceed the long-term average growth rate for businesses in which each CGU operates. The pre-tax discount rate of 14.3% (2019: 13.3%) used reflects the IOOF Group's pre-tax nominal weighted average cost of capital (WACC).

Management's assessment of goodwill's value-in-use exceeds the value of goodwill allocated to these CGUs. Any reasonably possible changes to assumptions used in management's assessment is not expected to result in impairment.

Management has applied a post tax WACC increment of 3.5% for Consultum (2019: 3.5%) to reflect a specific company risk premium. This incremental amount is judgement based and consistent with accepted valuation industry practice.

The results of the annual impairment testing included management's view of the current impact of COVID-19 on the Group's performance, including impacts on growth rates and discount rates.

<sup>1</sup> Source – RBA Statement of Monetary Policy

<sup>2</sup> Source – ABS 5655.0 Managed Funds Australia

<sup>3</sup> Source – RBA Statement of Monetary Policy

## 4-4 Provisions

|                                  | 2020           | 2019           |
|----------------------------------|----------------|----------------|
|                                  | \$'000         | \$'000         |
| Employee entitlements            | 69,491         | 59,312         |
| Ex-ANZ AL remediation provision  | 215,774        | 168,810        |
| IOOF AL remediation provision    | 216,900        | 223,165        |
| Ex-ANZ P&I remediation provision | 197,876        | –              |
| Other                            | 56,273         | 2,045          |
|                                  | <b>756,314</b> | <b>453,332</b> |

|  | Employee entitlements | Ex-ANZ AL remediation <sup>1</sup> | IOOF AL remediation | Ex-ANZ P&I remediation | Other <sup>2</sup> | Total          |
|--|-----------------------|------------------------------------|---------------------|------------------------|--------------------|----------------|
|  | \$'000                | \$'000                             | \$'000              | \$'000                 | \$'000             | \$'000         |
| Balance at 1 July 2019                     | 59,312                | 168,810                            | 223,165             | –                      | 2,045              | 453,332        |
| Acquisition through business combination   | 7,268                 | –                                  | –                   | 203,173                | 618                | 211,059        |
| Provisions made/(reversed) during the year | 35,089                | 80,395                             | –                   | (1,243)                | 55,767             | 170,008        |
| Provisions utilised during the year        | (32,173)              | (33,431)                           | (6,265)             | (4,054)                | (2,157)            | (78,080)       |
| Derecognised on disposal of subsidiary     | (5)                   | –                                  | –                   | –                      | –                  | (5)            |
| <b>Balance at 30 June 2020</b>             | <b>69,491</b>         | <b>215,774</b>                     | <b>216,900</b>      | <b>197,876</b>         | <b>56,273</b>      | <b>756,314</b> |

1 Provisions totalling \$168.1m were recognised in respect of the ex-ANZ ALs acquired on 1 October 2018. These provisions relate to customer remediation during the period that the relevant entities were owned by ANZ. The sale agreement indemnified the acquired entities in relation to customer remediation and accordingly, a corresponding receivable from ANZ has been recognised.

2 Other provisions includes \$54.5m in relation to the judgement in the Kerr v Australian Executor Trustees (SA) Ltd proceedings. This amount is held in escrow pending the appeal outcome. The escrow lodgement was made by the Group's insurers and an offsetting receivable has also been recognised. There is no cash flow impact arising from this provision.

## Accounting policies

A provision is recognised if, as a result of a past event, the IOOF Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money.

### Client remediation provision

ASIC, as part of its Wealth Management Project, has conducted investigations into financial advice fees paid pursuant to ongoing service arrangements, focused on major Wealth Management institutions with financial advice arms. The IOOF Group has a significant number of self-employed and salaried financial advisers and, having noted the ongoing impact of the investigation on clients, has voluntarily undertaken its own review. The review seeks to determine whether fee paying clients under its licenses were: a) provided with agreed services and/or advice; b) supported with documentation evidencing appropriate provision of service and/or advice; and c) received advice appropriate to their circumstances.

The IOOF Group engaged an expert consultant to design the review methodology and estimate financial compensation impact for this matter, in line with observed industry practice to date. IOOF Group has used sampling of cohorts of financial advisers, based on key risk indicators, to establish possible incidents of inappropriate advice or instances of fees for no service (or no evidence of service). The results of that sampling have been extrapolated across the financial adviser cohorts in accordance with observed likelihood of occurrence within that cohort. Where client compensation is probable and able to be reliably estimated, provisions have been taken. Compensation costs include return of service fees, estimated client loss for inappropriate advice, interest for time value of money at ASIC's directed rate of RBA cash rate + 6% and committed costs to resource the compensation program.

# Notes to the financial statements

For the year ended 30 June 2020

As of 30 June 2020, the IOOF Group has provisions of \$630,550,000 (2019: \$391,975,000) in respect of client remediation and related costs. Of this amount, \$215,774,000 is indemnified by the ANZ Banking Group (2019: \$168,810,000) and an offsetting receivable has also been recognised.

An increase in the ex-ANZ AL remediation provision of \$80m was required. In addition, the provision was drawn down by client remediation payments and program costs paid throughout the year. The increase was driven by a change in methodology relating to adviser categorisation, now aligning to that used by IOOF ALs, and is offset by a corresponding increase in the equivalent receivable from ANZ. The provision remains under the financial cap of the remediation program arrangements with ANZ. There is no material cash flow impact arising from that component of the provision. Additionally, \$203,173,000 was taken on upon acquisition of the ex-ANZ P&I businesses relating to other areas of remediation.

Determining the amount of the provision, which represents management's best estimate of the costs of settling the identified matters, requires the exercise of significant judgement. It will often be necessary to form a view on a number of different assumptions, including the number of impacted clients, the average refund per client, and associated remediation costs. Consequently, the appropriateness of the underlying assumptions is reviewed on a regular basis against actual experience and other relevant evidence, and adjustments are made to the provisions where appropriate.

## Employee entitlements

The provision for employee benefits includes provisions for remuneration in the form of incentive plans and expected leave benefits that employees have earned in return for their service in the current and prior years plus related on-costs.

A provision for employee benefits in the form of an incentive plan is recognised when there is no realistic alternative but to settle the liability, and at least one of the following conditions is met:

- there are formal terms in the plan for determining the amount of the benefit;
- the amounts to be paid are determined before the time of completion of the financial report; or
- past practice gives clear evidence of the amount of the obligation.

A provision for restructuring is recognised when the IOOF Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating losses are not provided for.

Liabilities for incentives are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

## Other provisions

Other provisions have been made for the present value of the Directors' best estimates of legal settlements. The information usually required by AASB 137 Provisions, Contingent Liabilities and Contingent Assets, is not disclosed on the grounds that it can be expected to prejudice the outcome of certain other litigation.

## 4-5 Property and equipment

|                          | 2020           | 2019          |
|--------------------------|----------------|---------------|
|                          | \$'000         | \$'000        |
| Cost                     | 217,443        | 96,142        |
| Accumulated depreciation | (83,000)       | (60,132)      |
|                          | <b>134,443</b> | <b>36,010</b> |

|  | Office equipment | Leasehold improvements | IT assets     | Land and buildings | Right-of-use assets – premises | Total          |
|--|------------------|------------------------|---------------|--------------------|--------------------------------|----------------|
|  | \$'000           | \$'000                 | \$'000        | \$'000             | \$'000                         | \$'000         |
| Balance at 1 July 2019                                       | 3,190            | 11,655                 | 19,622        | 1,543              | –                              | 36,010         |
| Recognition on initial application of AASB 16                | –                | –                      | –             | –                  | 75,998                         | 75,998         |
| Additions  | 633              | 1,380                  | 5,976         | –                  | 39,024                         | 47,013         |
| Disposals  | (6)              | (11)                   | (9)           | –                  | –                              | (26)           |
| Reduction in right-of-use asset upon sublease of property    | –                | –                      | –             | –                  | (1,101)                        | (1,101)        |
| Depreciation expense   | (760)            | (1,838)                | (4,770)       | (14)               | (15,805)                       | (23,187)       |
| Depreciation expense attributable to discontinued operations | (31)             | –                      | –             | –                  | (116)                          | (147)          |
| Impairment expense attributable to discontinued operations   | –                | –                      | –             | –                  | (117)                          | (117)          |
| <b>Balance at 30 June 2020</b>                               | <b>3,026</b>     | <b>11,186</b>          | <b>20,819</b> | <b>1,529</b>       | <b>97,883</b>                  | <b>134,443</b> |

### (i) Recognition and measurement

Property and equipment are measured at cost less any accumulated depreciation and any accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

The gain or loss on divestment of an item of property and equipment is determined by comparing the proceeds from divestment with the carrying amount of the property and equipment and is recognised net within other income/other expenses in profit or loss. When revalued assets are sold, any related amount included in the revaluation reserve is transferred to retained earnings.

### (ii) Subsequent costs

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the IOOF Group. Repairs and maintenance costs are charged to profit or loss as they are incurred.

### (iii) Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each component of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the IOOF Group will obtain ownership by the end of the lease term.

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for the current and comparative year are as follows:

- office equipment 3–10 years
- leasehold improvements and right of use assets 3–10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date, and adjusted if appropriate.

# Notes to the financial statements

For the year ended 30 June 2020

## 4-6 Leases

From 1 July 2019, the Group has recognised right-of-use assets for operating leases, except for short-term and low-value leases.

### Operating lease commitments

Prior to the recognition of lease assets and liabilities on balance sheet, the Group disclosed commitments in relation to operating leases contracted for at the reporting date, but not recognised as liabilities. In 2020, commitments relate to short-term leases and leases of low value assets. Those commitments are payable as follows:

|   | 30 June 2020 | 30 June 2019 |
|---|--------------|--------------|
|   | \$'000       | \$'000       |
| Within one year                                   | 228          | 8,786        |
| Later than one year but not later than five years | 2            | 43,896       |
| Later than five years                             | –            | 29,068       |
|   | 230          | 81,750       |

### Amounts recognised in the statement of financial position

The statement of financial position shows the following amounts relating to leases:

|   | 30 June 2020  | 1 July 2019   |
|---|---------------|---------------|
|   | \$'000        | \$'000        |
| <b>Right of use assets – premises<sup>1</sup></b> | <b>97,883</b> | <b>75,998</b> |
| Lease liabilities – current <sup>2</sup>          | 18,746        | 8,786         |
| Lease liabilities – non-current <sup>2</sup>      | 95,648        | 72,964        |
|   | 114,394       | 81,750        |

1 Right of use assets are presented within Property and Equipment in the statement of financial position.

2 Lease liabilities are presented within Borrowings in the statement of financial position.

The following table sets out a maturity analysis of lease liabilities, showing the undiscounted lease payments to be made after the reporting date.

|   | 30 June 2020 |
|---|--------------|
|   | \$'000       |
| Within one year                                   | 21,521       |
| Later than one year but not later than five years | 76,427       |
| Later than five years                             | 22,404       |
|   | 120,352      |

### Amounts recognised in the profit or loss

The statement of comprehensive income shows the following amounts relating to leases:

|  | 30 June 2020 | 30 June 2019 |
|--|--------------|--------------|
|  | \$'000       | \$'000       |
| Income from subleasing right-of-use assets | 458          | 331          |
| Interest charge                            | 2,815        | –            |
| Depreciation charge                        | 15,805       | –            |
| Lease expense – short term leases          | 901          | 14,778       |
|  | 19,521       | 14,778       |

The Group assesses whether a contract is or contains a lease at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the new lessee, except for certain short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate. The incremental borrowing rate is determined with reference to the following factors:

- length of the lease;
- lessee specific credit risk; and
- secured borrowings adjustment.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) any by reducing the carrying amount to reflect the lease payments made. The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right of use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

## Impact of initial application of AASB 16 Leases

### General impact of application of AASB 16 Leases

The Group has applied AASB 16 for the first time for the financial reporting period commencing 1 July 2019.

AASB 16 introduced new or amended requirements with respect to lease accounting. It introduced significant changes to the lessee accounting by removing the distinction between operating and finance leases, and requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The Group has applied AASB 16 using the modified retrospective application of AASB 16 in accordance with AASB 16:C5(b). Consequently, the Group has not restated the comparative information. The impact of the adoption of AASB 16 on the Group's consolidated financial statements is described below.

### Impact of the new definition of a lease

The Group has made use of the practical expedient available on transition to AASB 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with AASB 117 *Leases* and IFRIC 4 will continue to apply to those leases entered or modified before 1 July 2019. The change in definition of a lease mainly relates to the concept of control. AASB 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group has applied the definition of a lease and related guidance set out in AASB 16 to all lease contracts entered into or modified on or after 1 July 2019 (whether it is a lessor or a lessee in the lease contract). In preparation for the first-time application of AASB 16, the Group carried out an implementation project. The project showed that the new definition in AASB 16 does not change significantly the scope of contracts that meet the definition of a lease for the Group.

# Notes to the financial statements

For the year ended 30 June 2020

## Impact on Lessee Accounting

### Former operating leases

AASB 16 has changed how the Group accounts for leases previously classified as operating leases under AASB 117, which were off-balance sheet. On initial application of AASB 16, for all leases (except as noted below), the Group has:

- a Recognised right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of the future lease payments;
- b Recognised depreciation of right-of-use assets and interest on lease liabilities in the consolidated statement of profit or loss;
- c Separated the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated cash flow statement.

Lease incentives (e.g. rent-free period) have been recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under AASB 117 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis.

Under AASB 16, right-of-use assets are tested for impairment in accordance with AASB 136 Impairment of Assets. This has replaced the previous requirement to recognise a provision for onerous lease contracts.

For short-term leases (lease term of 12 months or less) and leases of low-value assets, the Group has opted in some instances to recognise a lease expense on a straight-line basis as permitted by AASB 16.

### Former finance leases

The main difference between AASB 16 and AASB 117 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. As the Group does not have any finance leases in place, this change has not had any effect on the Group's consolidated financial statements.

### Impacts on transition

The Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under AASB 16, the Group as a lessee recognises right-of-use assets and lease liabilities for contracts that convey a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applied the modified retrospective transition approach, resulting in the cumulative effect of adopting AASB 16 as an adjustment to opening retained earnings at 1 January 2019, with no restatement to comparative information.

At transition, for leases classified as operating leases under AASB 117:

- Lease liabilities were measured at present value of the remaining lease payments, discounted using the determined incremental borrowing rate, as appropriate for each identified lease arrangement, as at 1 July 2019;
- Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments; and
- In addition, the Group elected to apply the option to adjust the carrying amount of the right-of-use assets for any onerous lease provisions that had been recognised on the Group balance sheet as at 30 June 2019.

The impact on transition is summarised below:

|  | 1 July 2019 |
|--|-------------|
|  | \$'000      |
| Right-of-use assets presented in property, plant and equipment | 75,998      |
| Lease incentives   | 5,752       |
| Lease liabilities  | (81,750)    |
|  | –           |

When measuring lease liabilities for leases that were previously classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 July 2019. The weighted-average rate applied is 2.75%.

### Transitional practical expedients

The Group elected to apply the following transition practical expedients:

- i Exemption for certain lease arrangements with a short-remaining-term from the date of initial application;
- ii Discount rates applied to a portfolio of leases with similar characteristics; and
- iii The exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.



## Section 5 – Statutory funds

A subsidiary of the Company, IOOF Ltd, is a friendly society in accordance with the Life Insurance Act 1995. Balances below are disclosed inclusive of amounts collected/receivable from or paid/payable to IOOF Group entities. Details of the assets and liabilities of the statutory funds are included in Section 1. Statutory funds are not available to shareholders.

### 5-1 Statutory fund contribution to profit or loss, net of tax

|   | Statutory |          |
|---|-----------|----------|
|   | 2020      | 2019     |
|   | \$'000    | \$'000   |
| <b>Statutory fund revenue</b>   |           |          |
| Interest income   | 913       | 1,006    |
| Dividends and distributions received  | 37,375    | 47,170   |
| Net fair value (losses)/gains on other financial assets designated as fair value through profit or loss | (54,727)  | 5,183    |
| <b>Investment contracts with DPF:</b>   |           |          |
| Contributions received – investment contracts with DPF  | 5,145     | 2,104    |
| DPF policyholder liability decrease   | 15,355    | 37,945   |
| Non – DPF policyholder liability increase/(decrease)  | 14,924    | (33,447) |
| Other fee revenue   | 2,598     | 2,308    |
|   | 21,583    | 62,269   |
| <b>Statutory fund expenses</b>  |           |          |
| Service and marketing fees expense  | 10,352    | 9,917    |
| Direct operating expenses   | 5         | 5        |
| <b>Investment contracts with DPF:</b>   |           |          |
| Benefits and withdrawals paid   | 21,178    | 42,032   |
| Termination bonuses   | 36        | 33       |
| Interest  | 53        | 123      |
|   | 31,624    | 52,110   |
| Income tax (benefit)/expense  | (10,041)  | 10,159   |
| <b>Statutory fund contribution to profit or loss, net of tax</b>  | <b>–</b>  | <b>–</b> |

### Accounting policies

#### Investment contracts with discretionary participation feature (DPF)

The value of these liabilities changes in relation to the change in unit prices for unit linked contracts, and are decreased by management fee charges. In accordance with the rules of the funds, any remaining surplus is attributed to the policyholders. Adjustments to the liabilities at each reporting date are recorded in profit or loss.

#### Other investment contracts

The value of these liabilities changes in relation to the change in unit prices for unit linked contracts, and are decreased by management fee charges. In accordance with the rules of the funds, any remaining surplus is attributed to the members of the fund. Amounts distributable to members are recorded in profit or loss as an expense.

There is no claims expense in respect of life investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Surrenders are recognised when the policyholder formally notifies of their intention to end the policy previously contracted.

# Notes to the financial statements

For the year ended 30 June 2020

## Insurance contract liabilities and claims expense

A claim expense is recognised when the liability to the policyholder under the policy contract has been established, or upon notification of the insured event. Withdrawal components of life insurance contracts are not expenses and are treated as movements in life insurance contract liabilities.

## 5-2 Actuarial assumptions and methods

The effective date of the actuarial report on the policy liabilities and capital adequacy reserves is 30 June 2020. The actuarial report for IOOF Ltd was prepared by Mr Andrew Mead, FIAA, and was dated 26 August 2020. The actuarial report indicates that Mr Mead is satisfied as to the accuracy of the data upon which the policy liabilities have been determined.

### Actuarial Methods

Policy liabilities have been calculated in accordance with relevant actuarial guidance issued by the Australian Prudential Regulation Authority under the Life Insurance Act 1995. Policy liabilities are based on a systematic release of planned margins as services are provided to policyholders and premiums are received.

### Processes used to select assumptions

#### Mortality and Morbidity

All mortality and morbidity risk is fully reinsured and the gross risk to the IOOF Group is low. The mortality and morbidity assumptions have been taken to be equal to the reinsurer's mortality and morbidity assumptions.

#### Other Assumptions

In adopting the accumulation method to assess the policy liabilities, one material assumption is required. It is assumed that the future overall experience as to expense levels, surrender/lapse rates and discount rates will likely remain within a satisfactory range so that the policies produce future profits for the business. In which case, there is no need to set aside provisions, in addition to the accumulation amounts, for future losses (i.e. there is no loss recognition concerns for the business). This assumption has been adopted on the basis that, based on the current actual experience of the business, the policies are producing satisfactory profits for the business and there is no circumstances known that would indicate that the current position (i.e. general experience levels and ongoing profitability) will not continue into the future.

## Sensitivity analysis

The policy liabilities are not sensitive to changes in variables within a moderate range. Increases in mortality and morbidity assumptions will result in an increase in gross policy liabilities for IOOF Group, however as the mortality and morbidity risk is fully reinsured any change in these assumptions would be consistent with the reinsurer's assumptions and the net change in policy liabilities would be nil.

## 5-3 Disclosures on asset restrictions, managed assets and trustee activities

### (i) Restrictions on assets

Investments held in life statutory funds can only be used in accordance with the relevant regulatory restrictions imposed under the Life Act and associated rules and regulations. The main restrictions are that the assets in a life statutory fund can only be used to meet the liabilities and expenses of that life statutory fund, to acquire investments to further the business of the life statutory fund or as distributions when capital adequacy and other regulatory requirements are met.

### (ii) Managed Funds and other fiduciary duties

Entities in the IOOF Group, including the IOOF Ltd Benefit Funds, hold controlling investments in managed funds. A subsidiary of the Company is the Responsible Entity for these managed funds and has a fiduciary responsibility for managing these trusts. Arrangements are in place to ensure that such activities are managed separately from the other activities of the IOOF Group.

## 5-4 Capital adequacy position

Capital adequacy reserves are required to meet the prudential standards determined in accordance with Prudential Standard LPS 110 Capital Adequacy issued by the Australian Prudential Regulation Authority under paragraph 230A(1)(a) of the Life Insurance Act 1995. Capital adequacy reserves provide additional protection to policy holders against the impact of fluctuations and unexpected adverse circumstances on the Company.

The figures in the table below represent the number of times coverage of the aggregate of all benefit funds and statutory funds in IOOF Ltd over the prescribed capital amount.

|  | Statutory     |               |
|--|---------------|---------------|
|  | 2020          | 2019          |
|  | \$'000        | \$'000        |
| (a) Capital Base   | 15,083        | 16,027        |
| (b) Prescribed capital amount                                  | 6,688         | 7,241         |
| Capital in excess of prescribed capital amount = (a) – (b)     | 8,395         | 8,786         |
| <b>Capital adequacy multiple (%) (a) / (b)</b>                 | <b>226%</b>   | <b>221%</b>   |
| <b>Capital Base comprises:</b>                                 |               |               |
| Net Assets   | 15,083        | 16,027        |
| Regulatory adjustment applied in calculation of Tier 1 capital | –             | –             |
| <b>(A) Common Equity Tier 1 Capital</b>                        | <b>15,083</b> | <b>16,027</b> |
| <b>(B) Total Additional Tier 1 Capital</b>                     | <b>–</b>      | <b>–</b>      |
| Tier 2 Capital   | –             | –             |
| Regulatory adjustment applied in calculation of Tier 2 capital | –             | –             |
| <b>(C) Total Tier 2 Capital</b>                                | <b>–</b>      | <b>–</b>      |
| <b>Total capital base</b>                                      | <b>15,083</b> | <b>16,027</b> |

For detailed capital adequacy information on a statutory fund basis, users of this annual financial report should refer to the financial statements prepared by IOOF Ltd.

# Notes to the financial statements

For the year ended 30 June 2020

## Section 6 – Other disclosures

### 6-1 Parent entity financials

As at and throughout the financial year ended 30 June 2020, the parent entity of the IOOF Group was IOOF Holdings Ltd.

|   | 2020             | 2019             |
|---|------------------|------------------|
|   | \$'000           | \$'000           |
| <b>Result of the parent entity</b>                      |                  |                  |
| Profit for the year                                     | 160,795          | 165,610          |
| Total comprehensive income for the year                 | 160,795          | 165,610          |
| <b>Financial position of parent entity at year end</b>  |                  |                  |
| Current assets  | 29,404           | 8,227            |
| Total assets  | 2,478,995        | 2,410,135        |
| Current liabilities                                     | 7,873            | 8,562            |
| Total liabilities                                       | 465,942          | 435,065          |
| <b>Total equity of the parent entity comprising of:</b> |                  |                  |
| Share capital   | 1,970,847        | 1,970,999        |
| Share-based payments reserve                            | 1,908            | 2,777            |
| Retained earnings                                       | 40,298           | 1,294            |
| <b>Total equity</b>                                     | <b>2,013,053</b> | <b>1,975,070</b> |

### Parent entity contingent liabilities

Contingent liabilities of IOOF Holdings Ltd exist in relation to claims and/or possible claims which, at the date of signing these accounts, have not been resolved. An assessment of the likely loss to the Company and its controlled entities has been made in respect of the identified claims, on a claim by claim basis, and specific provision has been made where appropriate. IOOF Holdings Ltd does not consider that the outcome of any other current proceedings, either individually or in aggregate, is likely to materially affect its operations of financial position.

|  | 2020   | 2019   |
|--|--------|--------|
|  | \$'000 | \$'000 |
| <b>Guarantees and underwriting commitments</b> |        |        |
| Rental bond guarantees                         | 1,621  | 3,977  |

## 6-2 Share-based payments

The IOOF Group operates a number of employee share and option schemes operated by the IOOF Equity Plans Trust (the "Trust"). The employee share option plans were approved by the Board of Directors.

### IOOF Executive and Employee Share Option Plan

The IOOF Group has an ownership-based compensation scheme for executives and senior employees.

Selected employees may be granted options which entitle them to purchase ordinary fully paid shares in the Company at a price fixed at the time the options are granted. Voting and dividend rights will be attached to the unissued ordinary shares when the options have been exercised. Options may be exercised at any time from the date of vesting to the date of their expiry.

Options granted under the plan carry no dividend or voting rights. All plans are equity-settled. There were no options granted in 2020 (2019: nil).

### IOOF Executive Performance Rights Plan

The IOOF Executive Performance Rights Plan is the vehicle used to deliver equity based incentives to executives and senior employees of the IOOF Group.

Each employee receives ordinary shares of the Company on vesting of the performance rights. No amounts are paid or payable by the recipient on receipt of the performance rights or on vesting. The performance rights carry neither rights to dividends nor voting rights prior to vesting.

Performance rights granted under the plan carry no dividend or voting rights. All plans are equity-settled.

### Deferred Share Plan

A Short Term Incentive (STI) mandatory deferral program exists with equity deferral relating to Executive STIs awarded from 2018 onwards. On vesting of performance rights, ordinary shares are transferred to the employee's name or held in trust. The employee receives all dividends on the ordinary shares while held in trust.

|  | Performance Rights | Deferred Shares | Total           |
|--|--------------------|-----------------|-----------------|
|  | Rights             | Shares          | Rights & Shares |
|  | No.                | No.             | No.             |
| Opening balance at 1 July 2019           | 838,919            | 358,788         | 1,197,707       |
| Forfeited or lapsed during the year      | (231,190)          | (72,052)        | (303,242)       |
| Exercised or transferred during the year | (462,481)          | (167,247)       | (629,728)       |
| Granted during the year                  | 698,122            | 57,592          | 755,714         |
| Outstanding at 30 June 2020              | 843,370            | 177,081         | 1,020,451       |
| <b>Exercisable at 30 June 2020</b>       | –                  | –               | –               |

# Notes to the financial statements

For the year ended 30 June 2020

## Disclosure of share-based payment plans

| Series – Recipient              | Exercise price | Opening balance<br>1 July 2019 | Granted        | Forfeited or lapsed | Exercised        | Closing balance<br>30 June 2020 |
|---------------------------------|----------------|--------------------------------|----------------|---------------------|------------------|---------------------------------|
| <b>Performance rights</b>       |                |                                |                |                     |                  |                                 |
| 2017-01 Executives              | nil            | 150,000                        | –              | (75,000)            | (75,000)         | –                               |
| 2017-03 Executives              | nil            | 30,000                         | –              | –                   | (30,000)         | –                               |
| 2017-04 Other Key Stakeholders  | nil            | 29,567                         | –              | –                   | (29,567)         | –                               |
| 2018-01 Executives              | nil            | 155,000                        | –              | (45,000)            | –                | 110,000                         |
| 2018-04 Other Key Stakeholders  | nil            | 15,891                         | –              | (1,895)             | –                | 13,996                          |
| 2019-01 Executives              | nil            | 279,000                        | –              | (105,000)           | –                | 174,000                         |
| 2019-04 Other Key Stakeholders  | nil            | 46,961                         | –              | (1,844)             | –                | 45,117                          |
| 2019-05 Other Key Stakeholders  | nil            | 132,500                        | 7,500          | –                   | –                | 140,000                         |
| 2019-06 Other Key Stakeholders  | nil            | –                              | 270,322        | –                   | (270,322)        | –                               |
| 2020-01 Other Key Stakeholders  | nil            | –                              | 57,592         | –                   | (57,592)         | –                               |
| 2020-02 Executives and Others   | nil            | –                              | 329,000        | –                   | –                | 329,000                         |
| 2020-03 Other Key Stakeholders  | nil            | –                              | 33,708         | (2,451)             | –                | 31,257                          |
|                                 |                | 838,919                        | 698,122        | (231,190)           | (462,481)        | 843,370                         |
| <b>Deferred shares</b>          |                |                                |                |                     |                  |                                 |
| 2017-05 Managing Director       | nil            | 35,420                         | –              | (35,420)            | –                | –                               |
| 2018-03 Other Key Stakeholders* | nil            | 89,777                         | –              | –                   | (89,777)         | –                               |
| 2018-05 Managing Director       | nil            | 36,632                         | –              | (36,632)            | –                | –                               |
| 2018-06 Executives              | nil            | 154,939                        | –              | –                   | (77,470)         | 77,469                          |
| 2019-02 Other Key Stakeholders* | nil            | 42,020                         | –              | –                   | –                | 42,020                          |
| 2020-01 Other Key Stakeholders* | nil            | –                              | 57,592         | –                   | –                | 57,592                          |
|                                 |                | 358,788                        | 57,592         | (72,052)            | (167,247)        | 177,081                         |
|                                 |                | <b>1,197,707</b>               | <b>755,714</b> | <b>(303,242)</b>    | <b>(629,728)</b> | <b>1,020,451</b>                |

\*Upon vesting, shares are held in trust for 18 months and may be forfeited in the event of compliance breaches.

There are no options outstanding at 30 June 2020.

## Inputs for measurement of grant date fair values granted during the financial year

The grant date fair value of share-based payment plans granted during the year were measured based on a binomial options pricing model for non-market performance conditions and a monte carlo simulation model for market performance conditions. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plans are the following:

| Series                         | Fair value | Grant date share price | Expected volatility | Expected life (years) | Dividend yield | Risk-free interest rate |
|--------------------------------|------------|------------------------|---------------------|-----------------------|----------------|-------------------------|
| 2019-01 Executives             | \$4.93     | \$8.00                 | 24%                 | 3                     | 6.80%          | 2.20%                   |
| 2019-02 Other Key Stakeholders | \$7.58     | \$7.84                 | 24%                 | 1                     | 6.90%          | 2.10%                   |
| 2019-04 Other Key Stakeholders | \$3.54     | \$4.73                 | 37%                 | 3                     | 11.40%         | 2.00%                   |
| 2019-05 Other Key Stakeholders | \$4.93     | \$8.00                 | 24%                 | 3                     | 6.80%          | 2.20%                   |
| 2019-06 Other Key Stakeholders | \$5.57     | \$5.99                 | n/a                 | n/a                   | n/a            | n/a                     |
| 2020-01 Other Key Stakeholders | \$5.90     | \$6.08                 | 62%                 | 1                     | 6.17%          | 0.58%                   |
| 2020-02 Executives and Others  | \$6.47     | \$8.01                 | 44%                 | 3                     | 4.68%          | 0.70%                   |
| 2020-03 Other Key Stakeholders | \$3.38     | \$3.95                 | 54%                 | 3                     | 7.09%          | 0.28%                   |

The following share-based payment arrangements were in existence during the current and comparative reporting years:

| Performance Rights Series – Recipient | Exercise price | Earliest vesting date | Last tranche vesting date | Performance related vesting conditions |
|---------------------------------------|----------------|-----------------------|---------------------------|--|
| 2020-03 Other Key Stakeholders        | nil            | 30-Jun-22             | n/a                       | n/a                                    |
| 2020-02 Executives and Others         | nil            | 30-Jun-22             | n/a                       | TSR                                    |
| 2020-01 Other Key Stakeholders*       | nil            | 8-Apr-20              | 8-Apr-20                  | n/a                                    |
| 2019-06 Other Key Stakeholders        | nil            | 20-Sep-19             | 20-Sep-19                 | n/a                                    |
| 2019-05 Other Key Stakeholders        | nil            | 30-Jun-21             | n/a                       | TSR                                    |
| 2019-04 Other Key Stakeholders        | nil            | 30-Jun-21             | n/a                       | n/a                                    |
| 2019-03 Managing Director             | nil            | n/a                   | n/a                       | Lapsed                                 |
| 2019-02 Other Key Stakeholders*       | nil            | 24-Apr-19             | n/a                       | n/a                                    |
| 2019-01 Executives                    | nil            | 30-Jun-21             | n/a                       | TSR                                    |
| 2018-07 Other Key Stakeholders        | nil            | 20-Sep-18             | 20-Sep-18                 | n/a                                    |
| 2018-04 Other Key Stakeholders        | nil            | 30-Jun-20             | n/a                       | n/a                                    |
| 2018-02 Managing Director             | nil            | n/a                   | n/a                       | Lapsed                                 |
| 2018-01 Executives                    | nil            | 30-Jun-20             | 30-Jun-20                 | TSR                                    |
| 2017-04 Other Key Stakeholders        | nil            | 30-Jun-19             | 30-Jun-19                 | n/a                                    |
| 2017-03 Executives                    | nil            | 31-Dec-19             | n/a                       | TSR                                    |
| 2017-02 Managing Director             | nil            | n/a                   | n/a                       | Lapsed                                 |
| 2017-01 Executives                    | nil            | 30-Jun-19             | 30-Jun-19                 | TSR                                    |

\*Shares are held in trust for 18 months and may be forfeited in the event of compliance breaches.

The breakdown of share-based payments expense for the year by recipient is as follows. This represents the expense recorded to date and does not reflect the opportunity to transfer to retained profits the value of those legacy series that will lapse.

| Recipient                               | 2020   | 2019   |
|---|--------|--------|
|   | \$'000 | \$'000 |
| Former Managing Director                | –      | (204)  |
| Chief Executive Officer                 | 281    | 446    |
| Executives                              | 436    | 2,102  |
| Other Key Stakeholders*                 | 2,215  | 2,484  |
|   | 2,932  | 4,828  |
| Attributable to discontinued operations | –      | (31)   |
|   | 2,932  | 4,797  |

\*Other key stakeholders include other Group employees.

## Accounting policies

The grant date fair value of share-based payment awards granted to employees is recognised as a share-based payment expense, with a corresponding increase in the share-based payments reserve, over the years that the employees unconditionally become entitled to the awards. The amount recognised as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that meet the related service and non-market performance conditions at vesting date.

For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

The fair value at grant date is independently determined where considered appropriate. The option pricing model used takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

# Notes to the financial statements

For the year ended 30 June 2020

Shares held by the Trust will contribute to the employee allocation of shares on satisfaction of vesting performance hurdles. The IOOF Group has no right to recall placed shares. However, a subsidiary company acts as the Trustee of the Trust, and can direct the voting rights of shares held.

Shares in the Company held by the Trust are classified and disclosed as treasury shares, and deducted from share capital. Dividends received by the Trust are recorded as dividend income in the financial statements of the Trust and are eliminated on consolidation.

## 6-3 IOOF Group subsidiaries

Set out below is a list of material subsidiaries of the IOOF Group.

|  | Country of incorporation | Ownership interest |      |
|--|--------------------------|--------------------|------|
|  |                          | 2020               | 2019 |
|  |                          | %                  | %    |
| <b>Parent entity</b>                                       |                          |                    |      |
| IOOF Holdings Ltd  | Australia                |                    |      |
| <b>Material subsidiaries</b>                               |                          |                    |      |
| Australian Executor Trustees Limited                       | Australia                | 100                | 100  |
| Bridges Financial Services Pty Limited                     | Australia                | 100                | 100  |
| Consultum Financial Advisers Pty Ltd                       | Australia                | 100                | 100  |
| Executive Wealth Management Financial Services Pty Limited | Australia                | 100                | 100  |
| I.O.O.F. Investment Management Limited                     | Australia                | 100                | 100  |
| IOOF Ltd   | Australia                | 100                | 100  |
| IOOF Equity Plans Trust                                    | Australia                | 100                | 100  |
| IOOF NZ Ltd  | New Zealand              | 100                | 100  |
| IOOF Service Co Pty Ltd                                    | Australia                | 100                | 100  |
| IOOF Investment Services Ltd                               | Australia                | 100                | 100  |
| Lonsdale Financial Group Limited                           | Australia                | 100                | 100  |
| SFG Australia Limited                                      | Australia                | 100                | 100  |
| Financial Acuity Limited                                   | Australia                | 100                | 100  |
| Shadforth Financial Group Limited                          | Australia                | 100                | 100  |
| Actuate Alliance Services Pty Ltd                          | Australia                | 100                | 100  |
| Financial Investment Network Group Pty Limited             | Australia                | 100                | 100  |
| RI Advice Group Pty Ltd                                    | Australia                | 100                | 100  |
| FSP Group Pty Limited                                      | Australia                | 100                | 100  |
| Millennium 3 Financial Services Group Pty Ltd              | Australia                | 100                | 100  |
| Millennium 3 Financial Services Pty Ltd                    | Australia                | 100                | 100  |
| Millennium3 Professional Services Pty Ltd                  | Australia                | 100                | 100  |
| Financial Lifestyle Solutions Pty Limited                  | Australia                | 100                | 100  |
| Financial Services Partners Management Trust               | Australia                | 100                | 100  |
| Ord Minnett Limited  | Australia                | –                  | 70   |
| Ord Minnett Financial Planning Pty Limited                 | Australia                | –                  | 70   |
| Ord Minnett Management Limited                             | Australia                | –                  | 70   |
| OnePath Custodians Pty Limited                             | Australia                | 100                | –    |
| OnePath Administration Pty Limited                         | Australia                | 100                | –    |
| OnePath Investment Holdings Pty Limited                    | Australia                | 100                | –    |
| Oasis Asset Management Limited                             | Australia                | 100                | –    |
| Oasis Fund Management Limited                              | Australia                | 100                | –    |
| Mercantile Mutual Financial Services Pty Limited           | Australia                | 100                | –    |
| Global One Alternative Investments Management Pty Ltd      | Australia                | 100                | –    |
| OnePath Funds Management Limited                           | Australia                | 100                | –    |



## Unconsolidated structured entities

The IOOF Group has interests in various structured entities that are not consolidated. An 'interest' in an unconsolidated structured entity is any form of contractual or non-contractual involvement which exposes the IOOF Group to variability of returns from the performance of that entity. Such interests include holdings of equity securities and seed capital. The seed capital is primarily available to support the business in establishing new products and is also used to support capital adequacy requirements of the benefit funds.

The IOOF Group has investments in managed investment funds through its asset management subsidiaries. Control of these managed investment funds may exist since the IOOF Group has power over the activities of the fund. However, these funds have not been consolidated because the IOOF Group is not exposed to significant variability in returns from the funds. The IOOF Group earns management fees from the management of these investment funds which are commensurate with the services provided and are reported in external management and service fees revenue in note 2-2. Management fees are generally based on the value of the assets under management. Therefore, the fees earned are impacted by the composition of the assets under management and fluctuations in financial markets.

Investment funds are investment vehicles that consist of a pool of funds collected from several investors for the purpose of investing in securities such as money market instruments, debt securities, equity securities and other similar assets. For all investment funds, the IOOF Group's maximum exposure to loss is equivalent to the carrying amount of the investment in the fund.

## 6-4 Acquisition of subsidiary

Final completion of the acquisition of the ANZ P&I businesses occurred on 31 January 2020. The purchase price allocation has not been completed for the acquisition. The net asset adjustment is still being negotiated in connection with this acquisition.

In the period from acquisition to 30 June 2020, the ex-ANZ P&I businesses contributed revenue of \$178.9m and a profit of \$31.3m to the IOOF Group's UNPAT results. This excludes integration preparation costs of \$25.0m incurred during the year.

If the acquisition had occurred on 1 July 2019, management estimates that the consolidated revenue from continuing operations for the Group would have been \$1,444.1m and consolidated profit from continuing operations for the year would have been \$107.6m. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2019.

## Prior year acquisition

On 1 October 2018, the Advice Licensees (ALs) formerly owned by ANZ joined the IOOF Group following the completion of a share sale agreement between IOOF and ANZ. The ALs provide services to clients including strategic financial advice and risk insurance solutions.

The IOOF Group acquired all of the ordinary shares in the parent entity of the ALs for a total cash consideration of \$25.1m.

In the period from acquisition to 30 June 2019, the ALs contributed revenue of \$158.8m and a loss of \$16.1m to the IOOF Group's UNPAT results. This excludes integration preparation costs of \$20.8m in relation to the acquisition of the ALs and scheduled acquisition of the ANZ P&I business.

If the acquisition had occurred on 1 July 2018, management estimates that the consolidated revenue from continuing operations for the Group would have been \$1,116.2m and consolidated loss from continuing operations for the year would have been \$47.2m. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 July 2018.

# Notes to the financial statements

For the year ended 30 June 2020

The following summarises the major classes of consideration transferred, and the recognised amounts of assets acquired and liabilities assumed at the acquisition date for current and prior year acquisitions:

|  | 2020           | 2019       |
|--|----------------|------------|
|  | \$'000         | \$'000     |
| <b>Consideration transferred</b>           |                |            |
| Cash                                       | 810,209        | 23,000     |
| Deferred consideration                     | –              | 2,128      |
| Total consideration                        | 810,209        | 25,128     |
| Cash balances acquired                     | (214,048)      | (24,240)   |
| <b>Consideration, net of cash acquired</b> | <b>596,161</b> | <b>888</b> |

The impact on cash flows for the IOOF Group for the year was an outflow of \$596.2m (pcp \$0.9m).

## Acquisition-related costs

The IOOF Group has incurred acquisition-related costs of \$31.0m (pcp: \$23.7m) in the financial year, on acquisition advisory, integration preparation and finance costs in relation to the acquisition of the ANZ P&I businesses (pcp: acquisition of the ANZ ALs). These costs have been included in the Other Expenses in note 2-4.

## Identifiable assets acquired and liabilities assumed

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition.

|   | 2020           | 2019          |
|---|----------------|---------------|
|   | \$'000         | \$'000        |
| Cash  | 214,048        | 24,240        |
| Receivables                                       | 48,390         | 3,744         |
| Prepayments                                       | –              | 579           |
| Investments accounted for using the equity method | –              | 368           |
| Other financial assets                            | 974,023        | –             |
| Property and equipment                            | –              | 1,600         |
| Deferred tax assets                               | 64,133         | 1,033         |
| Payables  | (938,687)      | (2,103)       |
| Borrowings  | –              | (618)         |
| Current tax liabilities                           | –              | 242           |
| Provisions  | (211,440)      | (3,493)       |
| Non-controlling interest                          | –              | (544)         |
| <b>Total identifiable net assets acquired</b>     | <b>150,467</b> | <b>25,048</b> |

\* The \$168.1m customer remediation provision acquired with the ex-ANZ ALs is wholly offset by the indemnity receivable under the sale agreement.

## Goodwill and intangibles

Goodwill and intangibles have been recognised as a result of the acquisition as follows:

|  | 2020            | 2019      |
|--|-----------------|-----------|
|  | \$'000          | \$'000    |
| Total consideration                      | 810,209         | 25,128    |
| Fair value of assets assumed             | (150,467)       | (25,048)  |
| <b>Goodwill and intangibles acquired</b> | <b>659,742*</b> | <b>80</b> |

\* Purchase price allocation has not been completed for the acquisition of the ex-ANZ P&I businesses. The net asset adjustment is still being negotiated in connection with this acquisition.

## 6-5 Remuneration of auditors

Auditors' remuneration paid or payable by members of the IOOF Group to the auditors of the corporate entities in relation to audit services of the corporate entities and products operated by the IOOF Group during the year and for the prior year:

|   | 2020             | 2019             |
|---|------------------|------------------|
|   | \$               | \$               |
| <b>Audit services</b>                           |                  |                  |
| Auditors of the Company – <i>KPMG Australia</i> |                  |                  |
| Audit and review of financial reports           | 4,460,243        | 3,147,729        |
| Other regulatory audit services                 | 1,759,440        | 1,016,270        |
|   | 6,219,683        | 4,163,999        |
| <b>Other services</b>                           |                  |                  |
| Auditors of the Company – <i>KPMG Australia</i> |                  |                  |
| Taxation services                               | 336,232          | 82,551           |
| Transaction advisory services                   | 590,948          | 567,189          |
| Risk and compliance review                      | 204,930          | –                |
| Other services                                  | 344,155*         | 29,040           |
|   | 1,476,265        | 678,780          |
|   | <b>7,695,948</b> | <b>4,842,779</b> |

\* Other non-audit services includes remuneration advisory services and debt advisory services, as well as minor other non-audit services provided during 2020.

All amounts payable to the Auditors of the Company were paid by an IOOF Group subsidiary.

## 6-6 Key management personnel

The key management personnel compensation comprised:

|                              | 2020             | 2019             |
|------------------------------|------------------|------------------|
|                              | \$               | \$               |
| Short-term employee benefits | 4,804,751        | 4,662,992        |
| Post-employment benefits     | 201,070          | 200,385          |
| Share-based payments         | 704,279          | 1,279,181        |
| Termination benefits         | 967,689          | 1,268,129        |
|                              | <b>6,677,789</b> | <b>7,410,687</b> |

Key management personnel compensation reconciles to disclosures in the remuneration report as follows:

|                                    | 2020             | 2019             |
|------------------------------------|------------------|------------------|
|                                    | \$               | \$               |
| Executive key management personnel | 5,580,543        | 6,406,756        |
| Non-executive Directors            | 1,097,246        | 1,003,931        |
| <b>Total</b>                       | <b>6,677,789</b> | <b>7,410,687</b> |

## Individual Directors and executives compensation disclosures

Information regarding individual Directors' and executives' compensation and some equity instruments disclosures as required by Corporations Regulation 2M.3.03 is provided in the remuneration report section of the Directors' Report.

No Director has entered into a material contract with the IOOF Group since the end of the prior financial year and there were no material contracts involving directors' interests existing at year-end.

# Notes to the financial statements

For the year ended 30 June 2020

## 6-7 Related party transactions

### (a) Ultimate parent entity

IOOF Holdings Ltd is the ultimate parent entity in the IOOF Group.

### (b) Loans to Directors and executives of associates and subsidiaries

|                                    | Financial year | Opening balance<br>1 July 2019 | Closing balance<br>30 June 2020 | Interest paid/<br>payable<br>during year | Highest<br>balance<br>during year |
|------------------------------------|----------------|--------------------------------|---------------------------------|--|-----------------------------------|
|                                    |                | \$                             | \$                              | \$                                       | \$                                |
| <b>Interest free loans</b>         |                |                                |                                 |  |                                   |
| Perennial Value Management Limited | 2020           | 1,944,381                      | –                               | –  | 1,944,381                         |
|                                    | 2019           | 2,286,717                      | 1,944,381                       | –  | 2,286,717                         |
| <b>Interest bearing loans</b>      |                |                                |                                 |  |                                   |
| Perennial Value Management Limited | 2020           | 5,794,350                      | –                               | 69,442                                   | 5,836,966                         |
|                                    | 2019           | 6,402,062                      | 5,794,350                       | 228,939                                  | 6,505,622                         |

The amounts above were advanced by Perennial Investment Partners Pty Ltd and I.O.O.F. Investment Management Limited for the specific purpose of assisting executives to acquire an equity interest in subsidiaries and associates of the Company. Secured interest bearing loans made on commercial terms and conditions and unsecured interest free loans were repaid during the year.

### (c) Investment in related entities

Through one of its subsidiaries, the IOOF Group (excluding benefit funds) holds investments in managed investment schemes that meet the definition of related parties.

|                                     | 2020    | 2019    |
|-------------------------------------|---------|---------|
|                                     | \$      | \$      |
| Investment in related party schemes | 263,583 | 279,662 |

### (d) Transactions with key management personnel

#### (i) Key management personnel compensation

Details of key management personnel compensation are disclosed in section 6–6 to the financial statements and in the Remuneration Report.

#### (ii) Loans to key management personnel

There are no loans between the IOOF Group and key management personnel.

#### (iii) Other transactions with key management personnel of the IOOF Group

There were no other transactions with key management personnel of the IOOF Group during the 2020 and 2019 financial years.

## Section 7 – Basis of preparation

This section sets out the IOOF Group's accounting policies that relate to the financial statements as a whole. Where an accounting policy is specific to a single note, the policy is described in the note to which it relates. This section also shows new accounting standards, amendments and interpretations, and whether they are effective in 2020 or later years. How these changes are expected to impact the financial position and performance of the IOOF Group is explained in this section.

### 7-1 Reporting entity

The Company is a public company listed on the Australian Stock Exchange (trading under the symbol 'IFL'), domiciled in Australia. The consolidated financial statements of the Company as at and for the year ended 30 June 2020 comprise the Company and its controlled entities and the IOOF Group's interests in associates.

The IOOF Group is a for-profit entity and is primarily involved in the provision of wealth management services.

The Company's registered office and its principal place of business are Level 6, 161 Collins Street, Melbourne.

### 7-2 Basis of preparation

#### (a) Statement of compliance

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

The annual financial report was approved by the Board of Directors on 31 August 2020.

#### (b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- financial instruments at fair value through profit or loss are measured at fair value;
- equity investments at fair value through other comprehensive income are measured at fair value; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

The statement of financial position is presented in order of liquidity.

#### (c) Functional and presentation currency

These consolidated financial statements are presented in Australian dollars, which is the Company's functional currency. All amounts have been rounded to the nearest thousand unless otherwise stated.

#### (d) Rounding of amounts

The Company is a company of the kind referred to in ASIC Corporations Instrument 2016/191, dated 24 March 2016, and in accordance with that Instrument amounts in the financial report are rounded off to the nearest thousand dollars, narrative disclosures are expressed in whole dollars or as otherwise indicated.

#### (e) Use of estimates and judgements

To conform with AASBs management is required to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimates are revised and in any future years affected.

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- section 1–1 – Contingent consideration;
- section 4–2 – Intangible assets (other than goodwill);
- section 4–3 – Goodwill; and
- section 6–2 – Share-based payments.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are included in the following notes:

- note 4–2 & 4–3 – key assumptions used in discounted cash flow projections;
- note 3–4 & 4–4 – contingencies and provisions; and
- note 6–4 acquisition of subsidiary.

# Notes to the financial statements

For the year ended 30 June 2020

## 7-3 Other significant accounting policies

Significant accounting policies have been included in the relevant notes to which the policies relate. Other significant accounting policies are listed below.

Certain comparative amounts have been reclassified to conform with the current year's presentation.

### (a) Changes in accounting policies

The IOOF Group has consistently applied the accounting policies to all years presented in these consolidated financial statements, except as identified at note 7-4.

### (b) Basis of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of the Company as at 30 June 2020 and the results of all controlled subsidiaries for the year then ended. This includes the benefit funds of its subsidiary, IOOF Ltd, and any controlled trusts.

The benefit funds, and any trusts controlled by those funds, are treated as statutory funds in accordance with the Life Insurance Act 1995. These statutory funds, in addition to the statutory funds of the life insurance business conducted by the IOOF Group, are shown separately from shareholder funds in the notes to the financial statements.

Refer to Note 1-1 Assets and liabilities relating to statutory funds for information in relation to the different accounting treatment of investment contracts with discretionary participating features.

#### (i) Business combinations

The IOOF Group accounts for business combinations using the acquisition method when control is transferred. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

When share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards) and relate to past services, then all or a portion of the amount of the acquiree's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based value of the replacement awards compared with the market-based value of the acquiree's awards and the extent to which the replacement awards relate to past and/or future service.

#### (ii) Non-controlling interests (NCI)

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date. Changes in the IOOF Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

#### (iii) Subsidiaries

Subsidiaries are entities controlled by the IOOF Group. The IOOF Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

#### (iv) Loss of control

When the IOOF Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### (v) IOOF Equity Plans Trust (the "Trust")

The IOOF Group has formed a trust to administer the IOOF Group's employee share schemes. The Trust is consolidated, as the substance of the relationship is that the Trust is controlled by the IOOF Group. Shares held by the Trust are disclosed as treasury shares and are deducted from share capital.

#### (vi) Transactions eliminated on consolidation

Intra-IOOF Group balances and transactions, and any unrealised income and expenses arising from intra-IOOF Group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the IOOF Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Dividends paid to the Trust are also eliminated.

## (c) Foreign currency

### Foreign currency transactions

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to Australian dollars at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

### Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to Australian dollars at foreign exchange rates ruling at the balance sheet date. The revenue and expenses of foreign operations are translated to Australian dollars at rates approximating the foreign exchange rates ruling at the dates of the transactions.

Foreign currency differences are recognised directly in equity in the foreign currency translation reserve.

## (d) Impairment

### (i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the IOOF Group on terms that the IOOF Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, adverse changes in the payment status of borrowers or issuers in the IOOF Group, economic conditions that correlate with defaults or the disappearance of an active market of a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is considered objective evidence of impairment.

## Financial assets and liabilities at fair value through OCI

Impairment losses on equity investments at fair value through OCI are recognised by reclassifying the losses accumulated in the investment revaluation reserve to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss.

Changes in impairment provisions attributable to application of the effective interest method are reflected as a component of interest income. If, in a subsequent year, the fair value of an impaired debt investment at fair value through OCI increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired debt investment at fair value through OCI is recognised in other comprehensive income.

### Associates

An impairment loss in respect of an associate is measured by comparing the recoverable amount of the investment with its carrying amount. Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

### (i) Non-financial assets

The carrying amounts of the IOOF Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

An impairment loss is recognised if the carrying amount of an asset or its related cash-generating unit (CGU) exceeds its estimated recoverable amount.

# Notes to the financial statements

For the year ended 30 June 2020

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

## (e) Goods and service tax (GST)

Revenues, expenses and assets (excluding receivables) are recorded net of GST. GST input tax credits are initially recorded as an asset and GST collected as a liability. These balances are offset as at the reporting date and recognised as either an amount receivable or payable to the Australian Taxation Office. The GST portion relating to financial supplies and non-deductible expenditure, for which an input tax credit cannot be claimed, is expensed or is recognised as part of the cost of acquisition of an asset.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included with other receivables or payables in the statement of financial position.

Cash flows are presented in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to, the Australian Taxation Office are presented as operating cash flows.

## (f) Leases

The following policy applies to the year ended 30 June 2019.

Leases in terms of which the IOOF Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each year during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Other leases are operating leases and are not recognised on the IOOF Group's statement of financial position.

## (g) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales for such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the IOOF Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.



## 7-4 Adoption of new and revised Standards

### New and amended Standards that are effective for the current year

The IOOF Group has adopted the following new or amended standards in preparing these consolidated financial statements.

#### Impact of initial application of AASB 16 Leases

The Group has applied AASB 16 for the first time for the financial reporting period commencing 1 July 2019. The impact of the initial application of AASB 16 has been detailed at section 4-6 Leases.

### New and revised Standards in issue but not yet effective

At the date of authorisation of these financial statements, the IOOF Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

|   |   |
|---|---|
| AASB 17<br>Annual Improvements to IFRS Standards 2015–2017 Cycle    | <i>Insurance Contracts<br/>Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs</i> |
| AASB 10 Consolidated Financial Statements and AASB 128 (amendments) | <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i>  |
| AASB 3  | <i>Definition of a Business (Amendments to IFRS 3)</i>  |
| AASB 101 and AASB 108   | <i>Definition of Material (Amendments to IAS 1 and IAS 8)</i>   |

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the IOOF Group in future periods, except as noted below:

#### AASB 17 Insurance Contracts

AASB 17 replaces AASB 4 Insurance Contracts and similarly applies to insurance contracts. The classification of insurance contracts is similar to AASB 4 Insurance Contracts however unbundling rule changes may mean some contract components now need to be measured under AASB 17.

The new standard contains a lower level of aggregation/ smaller portfolios, changes to contract boundaries and valuation approaches, the application of Contractual Service Margins to policies valued under certain methodologies, changes in treatment to reinsurance and an ability to use Other Comprehensive Income for changes in asset values.

The IOOF Group is in the process of assessing the potential impact of its consolidated financial statements and the impact has not yet been determined, however will be relevant for IOOF Ltd. The IOOF Group plans to adopt AASB 17 in the consolidated financial statements for the year ended 30 June 2023.

## 7-5 Subsequent events

The Directors have declared the payment of a final dividend of 11.5 cents per ordinary share franked to 100% based on tax paid at 30%, to be paid on 22 September 2020.

On 31 August 2020 the IOOF Group announced that it has entered into transaction agreements with National Australia Bank (NAB) to acquire 100% of NAB's wealth management business (MLC) for \$1,440 million, (subject to completion adjustments) and upfront integration and transaction costs (approximately \$90 million). The acquisition is expected to be completed before 30 June 2021 and is subject to a number of conditions precedent including regulatory approvals from APRA and ACCC. This acquisition will be funded through a combination of:

- \$1,040 million fully underwritten institutional placement and accelerated non-renounceable entitlement offer, launched on 31 August 2020;
- \$250 million of incremental senior debt via an underwritten syndicated debt facility;
- \$200 million in a subordinated loan note issued to NAB; and
- \$40 million of existing IOOF cash.

The existing \$670 million syndicated facility is expected to remain in place and IOOF will seek consent from its lender group in relation to the acquisition. As part of the transaction, IOOF will expand its total debt facilities by \$250 million in total facility limits. IOOF is confident of receiving lender group support for this transaction. To ensure funding certainty, IOOF has engaged Citi and NAB to underwrite \$920 million of total debt facilities as a backstop to the syndicated facility.

# Notes to the financial statements

For the year ended 30 June 2020

The \$200 million of subordinated loan note issued to NAB has the following key components:

- Coupon of 1% per annum. Steps up to 4% pa if the subordinated loan note is not redeemed prior to 42 months post completion
- Five year maturity date with an early redemption start period of the later of three years from Completion and 30 September 2024
- Redemption amount equal to principal plus accrued interest plus additional amount equal to any uplift in notional securities over a reference price (being a 15% premium to the theoretical ex-rights price for the Equity Offer) and subject to adjustment
- Structurally subordinated to senior secured creditors

On 7 August 2020, the IOOF Group sold approximately 14.2 million shares of its total minority holding of 19.7 million shares in Australian Ethical Investment Ltd (ASX:AEF) for total cash consideration of \$74.5 million (purchase cost \$5.2 million). This sale has reduced IOOF's stake to approximately 5.5 million shares (4.9%) of AEF. The proceeds from the divestment will be used to reduce debt and provide strategic flexibility for growth opportunities. The impact on underlying net profit after tax is immaterial.

Subsequent to the end of the financial year, the IOOF Group has renegotiated the terms of its borrowings. This has extended the repayment term of its 3 year facility to be a 4 year repayment term from 27 September 2018, which is the SFA effective date.

On 21 August 2020, ASIC commenced proceedings against RI Advice Group Pty Limited (RI Advice), a wholly-owned subsidiary of IOOF. ASIC makes complaints relating to RI Advice's management of cybersecurity and cyber resilience risk, some of which relate back to events from 2016. No provision has been recorded at this point as ultimately the quantum of penalty (if any) is not reliably estimable at this point.

As part of the Advice 2.0 strategy, it is estimated that the Group will acquire practices through Buyer of Last Resort agreements due to the conversion of Bridges to a fully salaried network. The estimated spend is \$15 million to \$20 million for the 2021 financial year. In addition, on 28 August 2020, the Board approved the 100% acquisition of Wealth Central for \$30 million, an online client engagement tool that creates a better and more transparent advice experience as well as delivering practitioners a more streamlined exchange of client data.

IOOF evaluates potential opportunities for investments or divestments on a regular basis. IOOF has received an approach from a third party (who has commenced due diligence), relating to the potential divestment of its professional trustee services business, Australian Executor Trustees Limited. While discussions are on-going, there is no assurance that any divestment will occur, or if so, on what terms.

The existence of COVID-19 was confirmed in early 2020 and in March 2020 was declared a pandemic by the World Health Organisation. This has resulted in significant volatility in global and domestic financial markets. Refer to Note 1–1 for the sensitivity analysis of risks.

At the date of signing of the financial statements, there is still significant uncertainty on the likely duration and the ultimate impact COVID-19 will have on world economies. Given the high degree of estimation uncertainty, management cannot reasonably assess or quantify the potential short or longer term financial impact on the Company.

The Directors are not aware of any other matter or circumstance not otherwise dealt with in this report, or the accompanying financial statements and notes thereto, that has arisen since 30 June 2020 that has significantly affected, or may significantly affect:

- the IOOF Group's operations in future financial years; or
- the results of those operations in future financial years; or
- the IOOF Group's state of affairs in future financial years.

# Shareholder information

## Share Capital

IOOF has on issue 649,324,356 fully paid ordinary shares held by 58,808 holders as at 30 September 2020.

## Voting Rights

IOOF's fully paid ordinary shares carry voting rights of one vote per share.

## Twenty largest shareholders as at 30 September 2020

The following table sets out the top 20 registered holders of shares.

| Rank | Holder Name  | Balance as at 30 Sept 2020 | % of issued capital |
|------|--|----------------------------|---------------------|
| 1    | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED                          | 142,078,160                | 21.88%              |
| 2    | CITICORP NOMINEES PTY LIMITED                                      | 108,719,618                | 16.74%              |
| 3    | J P MORGAN NOMINEES AUSTRALIA PTY LIMITED                          | 70,234,391                 | 10.82%              |
| 4    | THE TRUST COMPANY (AUSTRALIA) LIMITED <MR BRUCE WILLIAM NEILL A/C> | 24,414,295                 | 3.76%               |
| 5    | NATIONAL NOMINEES LIMITED  | 23,525,027                 | 3.62%               |
| 6    | BNP PARIBAS NOMS PTY LTD <DRP>                                     | 20,232,536                 | 3.12%               |
| 7    | BNP PARIBAS NOMINEES PTY LTD <AGENCY LENDING DRP A/C>              | 15,146,319                 | 2.33%               |
| 8    | CS THIRD NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 13 A/C>        | 9,276,793                  | 1.43%               |
| 9    | AIGLE ROYAL SUPERANNUATION PTY LTD <A POLI SUPER FUND A/C>         | 7,000,000                  | 1.08%               |
| 10   | HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2                  | 6,357,403                  | 0.98%               |
| 11   | HSBC CUSTODY NOMINEES  | 5,479,136                  | 0.84%               |
| 12   | CS FOURTH NOMINEES PTY LIMITED <HSBC CUST NOM AU LTD 11 A/C>       | 4,312,171                  | 0.66%               |
| 13   | CITICORP NOMINEES PTY LIMITED <COLONIAL FIRST STATE INV A/C>       | 4,236,455                  | 0.65%               |
| 14   | MILTON CORPORATION LIMITED   | 3,303,924                  | 0.51%               |
| 15   | WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED                    | 2,700,000                  | 0.42%               |
| 16   | SAM GANNON PTY LTD <THE J B GANNON FAMILY A/C>                     | 2,265,506                  | 0.35%               |
| 17   | MR BRUCE WILLIAM NEILL   | 2,101,428                  | 0.32%               |
| 18   | MRS SALLY KELAHER  | 1,928,518                  | 0.30%               |
| 19   | THANECORP AUSTRALIA PTY LTD <THANECORP INVESTMENT A/C>             | 1,759,942                  | 0.27%               |
| 20   | MR IAN GREGORY GRIFFITHS   | 1,750,419                  | 0.27%               |
|      | Total Securities of Top 20 Holdings                                | 456,822,041                | 70.4%               |
|      | <b>Total of Securities</b>   | <b>649,324,356</b>         |                     |

# Shareholder information

## Distribution of members and their holdings

The following table summarises the distribution of our listed shares as at 30 September 2020.

| Range                 | No of Holders | No of Units        | % Issued Capital |
|-----------------------|---------------|--------------------|------------------|
| 1-1,000               | 32,793        | 12,824,190         | 1.98%            |
| 1,001-5,000           | 19,234        | 46,040,541         | 7.09%            |
| 5,001-10,000          | 4,046         | 29,680,100         | 4.57%            |
| 10,001-100,000        | 2,575         | 58,162,449         | 8.96%            |
| 100,001-9,999,999,999 | 160           | 502,617,076        | 77.41%           |
| <b>Totals</b>         | <b>58,808</b> | <b>649,324,356</b> | <b>100.00%</b>   |

There were 7,191 shareholders holding less than a marketable parcel of shares based on a market price of \$3.09 at the close of trading on 30 September 2020 and there were 19 per cent of shareholders with registered addresses outside Australia.

## Substantial Shareholdings

Substantial shareholders as at 30 September 2020 are shown below, with the date of their last notice lodged in accordance with section 671B of the Corporations Act:

| Holder name   | Date of last notice | No of Ord Shares | % of Issued Share Capital as at date of last notice |
|---|---------------------|------------------|---|
| Sumitomo Mitsui Trust Holdings, Inc (SMTH) and its Subsidiaries | 23/9/20             | 55,739,417       | 8.58%   |
| Franklin Resources, Inc. and its affiliates                     | 31/7/20             | 31,892,554       | 9.08%   |

## Share register and other enquiries

If you have any questions in relation to your shareholding, share transfers or dividends, please contact our share registry:

### Boardroom Pty Limited

ABN: 14 003 209 836

Level 7, 411 Collins Street

Melbourne VIC 3000

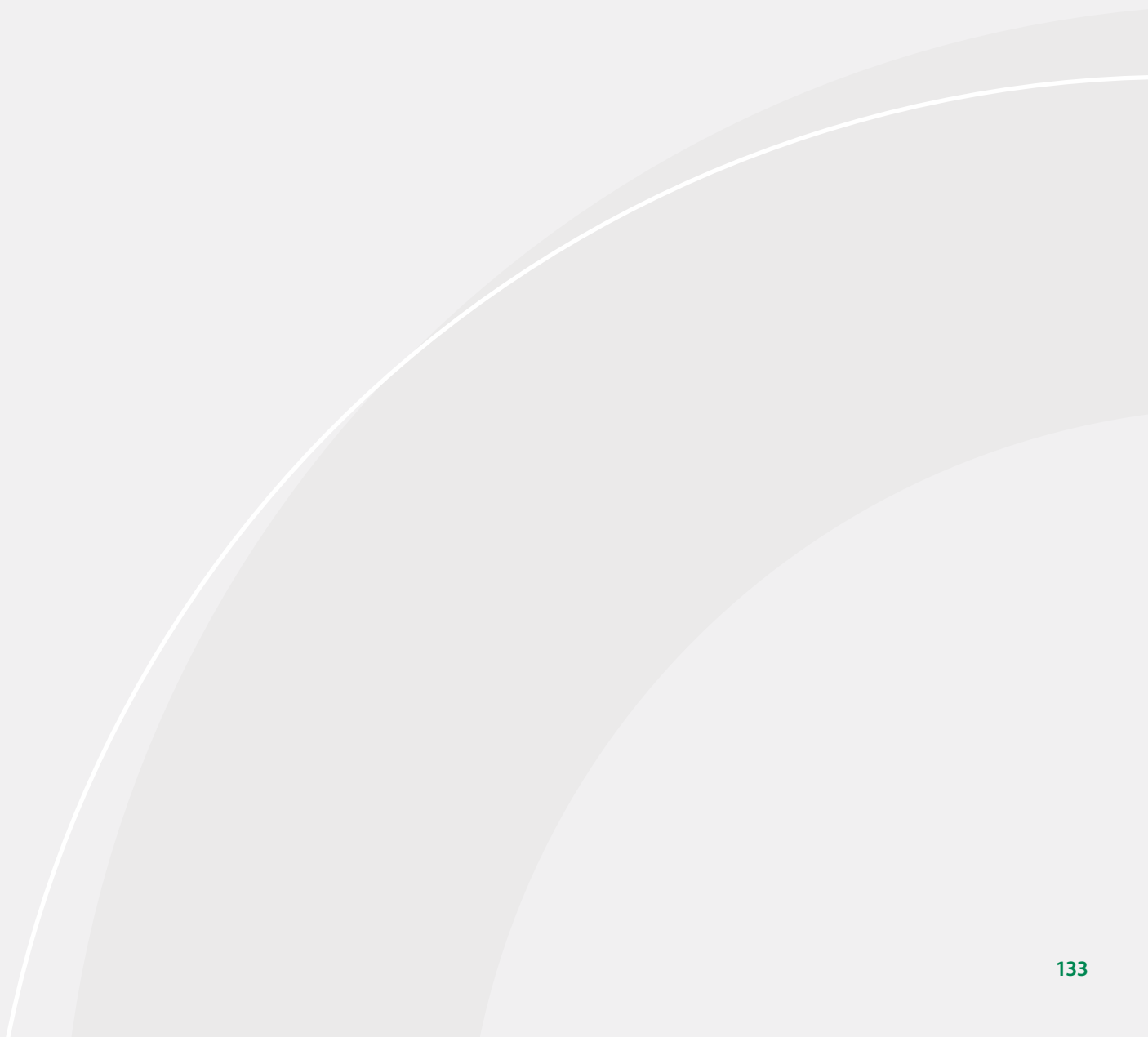
Phone: 1300 737 760 (Australia only)

Phone: +61 3 9492 9204

Fax: +61 2 9279 0664

Website: [www.boardroomlimited.com.au](http://www.boardroomlimited.com.au)

Please include your shareholder reference number (SRN) or holder identification number (HIN) in all correspondence to the share registry.





# Corporate directory

(as at 30 September 2020)

## Directors

### Mr Allan Griffiths

B.Bus, DipLi  
Chairman

### Mr Renato Mota

B.Com (Hons), B.Bus  
CEO

### Mr Andrew Bloore

### Ms Elizabeth Flynn

LLB, Grad Dip App Corp Gov, FAICD, FFin, FGIA, FCG

### Mr John Selak

Dip Acc, FCA, FAICD

### Ms Michelle Somerville

B.Bus (Accounting), MApp Finance, FCA, GAICD

## Company Secretary

### Ms Adrianna Bisogni

B.A LL.B (Hons) GAICD

## Notice of Annual General Meeting

In light of the current restrictions on public gatherings, and in line with temporary amendments to the Corporations Act in response to the coronavirus pandemic, this year's Annual General Meeting will be conducted as a virtual meeting on Wednesday, 25 November 2020 at 9:30am (AEDT).

Further information and guidance on how shareholders may participate in this year's virtual AGM will be available with the Notice of Meeting and on IOOF's website: [www.ioof.com.au/agm](http://www.ioof.com.au/agm)

A formal notice of meeting is available on our website and has been sent to shareholders.

## Principal registered office in Australia

Level 6, 161 Collins Street  
Melbourne, VIC 3000

(03) 8614 4400

## Share registry

Boardroom Pty Limited  
Level 12, 225 George Street  
Sydney NSW 2000

## Auditor

KPMG  
Tower Two, Collins Square, 727 Collins Street  
Docklands VIC 3008

## Securities exchange listing

IOOF Holdings Ltd shares are listed on the Australian Securities Exchange

(ASX: IFL)

## Website address

[www.ioof.com.au](http://www.ioof.com.au)

